SAFTOWER 蜀塔电缆

中國蜀塔國際控股集團有限公司
China Saftower International Holding Group Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 8623

SHARE OFFER

Sole Sponsor

Alliance Capital Partners Limited
同 人 融 資 有 限 公 司

Joint Bookrunners and Joint Lead Managers

中佳證券有限公司 Zhong Jia Securities Limited

Alliance Capital Partners Limited 同 人 融 資 有 限 公 司

富運證券有限公司 Ferran Securities Limited

結好證券有限公司 GET NICE SECURITIES LIMITED

Joint Lead Managers

德林證券 DL SECURITIES

First Fidelity Capital 首信資本集團

一盈證券有限公司 I WIN SECURITIES LTD.

利弗莫尔证券 Livermore Holdings Limited

漢 英 證 券 RED EAGLE SECURITIES

uSMART 友信证券

***IMPORTANT:** If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.*

China Saftower International Holding Group Limited
中國蜀塔國際控股集團有限公司

(incorporated in the Cayman Islands with limited liability)

LISTING ON GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED BY WAY OF SHARE OFFER

Number of Offer Shares	:	**200,000,000 Shares (subject to the Offer Size Adjustment Option)**
Number of Public Offer Shares	:	**20,000,000 Shares (subject to reallocation)**
Number of Placing Shares	:	**180,000,000 Shares (subject to reallocation and the Offer Size Adjustment Option)**
Offer Price	:	**Not more than HK$0.40 per Offer Share and not less than HK$0.25 per Offer Share, plus brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)**
Nominal value	:	**HK$0.01 per Share**
Stock code	:	**8623**

Sole Sponsor

Alliance Capital Partners Limited
同人融資有限公司

Joint Bookrunners and Joint Lead Managers

中佳證券有限公司 Zhong Jia Securities Limited

Alliance Capital Partners Limited 同人融資有限公司

富運證券有限公司 Ferran Securities Limited

結好證券有限公司 GET NICE SECURITIES LIMITED

Joint Lead Managers

德林證券 DL SECURITIES

First Fidelity Capital 首信資本集團

一盈證券有限公司 I WIN SECURITIES LTD.

利弗莫尔证券 Livermore Holdings Limited

漢英證券 RED EAGLE SECURITIES

uSMART 友信证券

Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the paragraph headed "Documents Delivered to the Registrar of Companies in Hong Kong" in Appendix VI to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any other documents referred to above.

The Offer Price is expected to be fixed by agreement between the Joint Bookrunners (for themselves and on behalf of the Underwriters) and our Company on the Price Determination Date. The Price Determination Date is expected to be on or around Thursday, 2 July 2020 or such later time as may be agreed by our Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters) and, in any event, not later than Friday, 3 July 2020. The Offer Price will be not more than HK$0.40 per Offer Share and is currently expected to be not less than HK$0.25 per Offer Share, unless otherwise announced. Investors applying for Offer Shares must pay, on application, the maximum indicative Offer Price of HK$0.40 for each Offer Share together with brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price is lower than HK$0.40 per Offer Share.

The Joint Bookrunners (for themselves and on behalf of the Underwriters) may, with the consent of our Company, reduce the indicative Offer Price range and/or the number of Offer Shares below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Public Offer. In such a case, an announcement of the reduction in the number of Offer Shares and/or the indicative Offer Price range will be made on our Company's website at ***www.saftower.cn*** **and the website of the Stock Exchange at** ***www.hkexnews.hk*** **not later than the morning of the day which is the last day for lodging applications under the Public Offer.**

If, for any reason, the Offer Price is not agreed between our Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters) on or before Friday, 3 July 2020, the Share Offer will not proceed and will lapse.

Pursuant to certain provisions contained in the Public Offer Underwriting Agreement in respect of the Public Offer, the Joint Bookrunners (for themselves and on behalf of the Underwriters) have the right, in certain circumstances, subject to their sole and absolute opinion, to terminate their obligations under the Public Offer Underwriting Agreement at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date (which is expected to be on Friday, 10 July 2020. Such circumstances are set out in the section headed "Underwriting — Underwriting Arrangements and Expenses — Public Offer — Grounds for termination" in this prospectus.

Prior to making an investment decision, prospective investors should consider carefully all the information set out in this prospectus, including the risk factors set out in the section headed "Risk Factors" in this prospectus.

No information on any website forms part of this prospectus.

24 June 2020

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

The application for the Public Offer Shares will commence on Wednesday, 24 June 2020 through Thursday, 2 July 2020. Such time period is longer than the normal market practice of four days. The application monies (including brokerage, SFC transaction levy and Stock Exchange trading fee) will be held by the receiving bank on behalf of our Company and the refund monies, if any, will be returned to the applicant(s) without interest on Thursday, 9 July 2020. Investors should be aware that the dealings in Shares on the Stock Exchange are expected to commence on Friday, 10 July 2020.

If there is any change in the following expected timetable, our Company will issue an announcement on the respective websites of our Company at ***www.saftower.cn*** and the Stock Exchange at ***www.hkexnews.hk***.

	Date(1)
Public Offer commences and **WHITE** and **YELLOW** **Application Forms** available from	09:00 a.m. on Wednesday, 24 June 2020
Latest time for completing electronic applications under **HK eIPO White Form** service through one of the below ways(2):	
(1) the **IPO APP**, which can be downloaded by searching "**IPO APP**" in App Store or Google Play or downloaded at ***www.hkeipo.hk/IPOApp*** or ***www.tricorglobal.com/IPOApp***	11:30 a.m. on Thursday, 2 July 2020
(2) the designated website at ***www.hkeipo.hk***	11:30 a.m. on Thursday, 2 July 2020
Application lists for the Public Offer open(3)	11:45 a.m. on Thursday, 2 July 2020
Latest time for lodging **WHITE** and **YELLOW** Application Forms and giving **electronic application instructions** to HKSCC(4)	12:00 noon on Thursday, 2 July 2020
Latest time to complete payment of **HK eIPO White Form** applications by effecting Internet banking transfer(s) or PPS payment transfer(s)	12:00 noon on Thursday, 2 July 2020
Application lists for the Public Offer close(3)	12:00 noon on Thursday, 2 July 2020

	Date[1]
Expected Price Determination Date[5]	on or around Thursday, 2 July 2020
Announcement of the final Offer Price, the level of indications of interest in the Placing, the level of applications of the Public Offer and the basis of allocation of the Public Offer Shares to be published on our Company's website at ***www.saftower.cn*** and the website of the Stock Exchange at ***www.hkexnews.hk*** on or before	Thursday, 9 July 2020
Results of allocations in the Public Offer (with successful applicants' identification document numbers, where applicable) will be available through a variety of channels in the section headed "How to apply for Public Offer Shares — 11. Publication of results" in this prospectus) on	Thursday, 9 July 2020
Results of allocations in the Public Offer will be available at the **IPO APP** or ***www.tricor.com.hk/ipo/result*** or ***www.hkeipo.hk/iporesult*** with a "search by ID Number/Business Registration Number" function from	Thursday, 9 July 2020
Despatch/Collection of share certificates or deposit of the share certificates into CCASS in respect of wholly or partially successful applications pursuant to the Public Offer[7]	on or before Thursday, 9 July 2020
Despatch/Collection of refund cheques in respect of wholly or partially successful applications if the Offer Price is less than the price payable on application (if applicable) and wholly or partially unsuccessful applications[6 and 7]	on or before Thursday, 9 July 2020
Despatch/collection of refund cheques or **HK eIPO White Form** e-Auto Refund payment instructions in respect of wholly or partially successful applications (if applicable) and wholly or partially unsuccessful applications pursuant to the Public Offer[6 and 7]	on or before Thursday, 9 July 2020
Dealings in Shares on GEM expected to commence	Friday, 10 July 2020

Notes:

(1) All times and dates refer to Hong Kong local time and dates unless otherwise stated. Details of the structure of the Share Offer, including its conditions, are set out in the section headed "Structure and Conditions of the Share Offer" in this prospectus.

(2) You will not be permitted to submit your application through the **IPO APP** or the designated website at ***www.hkeipo.hk*** after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained a payment reference number from the **IPO APP** or the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.

(3) If there is a "black" rainstorm warning or a tropical cyclone warning signal number eight or above or Extreme Conditions in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, 2 July 2020, the application lists will not open and close on that day. Further information is set out in the section headed "How to Apply for Public Offer Shares — 10. Effect of Bad Weather on the Opening of the Application Lists" in this prospectus.

(4) Applicants who apply by giving **electronic application instructions** to HKSCC should refer to the section headed "How to Apply for Public Offer Shares — 6. Applying by Giving **Electronic Application Instructions** to HKSCC via CCASS" in this prospectus.

(5) Please note that the Price Determination Date, being the date on which the final Offer Price is to be determined, is expected to be on or around Thursday, 2 July 2020 or such later time as may be agreed by our Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters), and, in any event, no later than Friday, 3 July 2020. If, for any reason, the Offer Price is not agreed between our Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters) on or before Friday, 3 July 2020, the Share Offer will not proceed and will lapse. Notwithstanding that the Offer Price may be fixed at below the maximum indicative Offer Price of HK$0.40 per Offer Share, applicants who apply for the Offer Shares must pay on application the maximum indicative Offer Price of HK$0.40 per Offer Share plus brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% but will be refunded the surplus application monies as provided in the section headed "How to Apply for Public Offer Shares — 13. Refund of Application Monies" in this prospectus.

(6) Refund cheques or e-Auto Refund payment instructions will be issued in respect of wholly or partially unsuccessful applications and in respect of successful applications if the Offer Price as finally determined is less than the price payable on application. If you apply through the **HK eIPO White Form** services by paying the application monies through a single bank account, you may have e-Auto Refund payment instructions (if any) despatched to your application payment bank account. If you apply through the **HK eIPO White Form** services by paying the application monies through multiple bank accounts, you may have refund cheque(s) sent to the address specified in your application instructions to the designated website (***www.hkeipo.hk***) by ordinary post and at your own risk. Refund by cheque(s) will be made out to you, or if you are joint applicants, to the first-named applicant on your Application Form. Part of your Hong Kong Identity Card number/passport number, or, if you are joint applicants, part of the Hong Kong Identity Card number/passport number of the first-named applicant provided by you may be printed on your refund cheque, if any. Such data may also be transferred to a third party for refund purposes. Your banker may require verification of your Hong Kong Identity Card/passport number before encashment of your refund cheque.

(7) For applicants who apply on **WHITE Application Forms** or through **HK eIPO White Form** service for 1,000,000 Shares or more under the Public Offer and have provided all information required by their Application Forms, they may collect their refund cheques and (where applicable) share certificates in person from the Hong Kong Branch Share Registrar, Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong from 9:00 a.m. to 1:00 p.m. on Thursday, 9 July 2020. Applicants being individuals who opt for personal collection must not authorise any other person to make collection on their behalf. Applicants being corporations who opt for personal collection must attend by their authorised representatives bearing a letter of authorisation from their corporation stamped with the corporation's chop. Both individuals and authorised representatives of corporations must produce, at the time of collection, identification and (where applicable) authorisation documents acceptable to the Hong Kong Branch Share Registrar.

For applicants who apply on **YELLOW Application Forms** for 1,000,000 Shares or more Public Offer Shares under the Public Offer and have provided all information required by Application Forms, they may collect their refund cheques (if any) but may not elect to collect their share certificates, which will be deposited into CCASS for credit to their designated CCASS Participants' stock accounts or CCASS Investor Participant stock accounts, as appropriate. The procedure for collection of refund cheques for applicants who apply on **YELLOW Application Forms** is the same as that for **WHITE Application Form** applicants.

Uncollected share certificates (if applicable) and refund cheques (if applicable) will be despatched by ordinary post (at the applicants' own risk) to the addresses specified in the relevant Application Forms shortly after the expiry of the time for collection at the date of despatch of refund cheque as described in the section headed "How to Apply for Public Offer Shares — 14. Despatch/Collection of Share Certificates and Refund Monies" in this prospectus.

Share certificates for the Offer Shares will only become valid certificates of title to which they relate at 8:00 a.m. (Hong Kong time) on the Listing Date provided that (i) the Share Offer has become unconditional in all respects; and (ii) the right of termination as described in the section headed "Underwriting — Underwriting Arrangements and Expenses — Public Offer — Grounds for termination" in this prospectus has not been exercised. Investors who trade our Shares on the basis of publicly available allocation details prior to the receipt of share certificates or prior to the share certificates becoming valid certificates of title do so entirely at their own risk.

IMPORTANT NOTICE TO INVESTORS

This prospectus is issued by our Company solely in connection with the Share Offer and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Offer Shares. This prospectus may not be used for the purpose of and does not constitute an offer to sell or a solicitation of an offer in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than in Hong Kong. The distribution of this prospectus and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions, and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom.

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. Our Company, the Sole Sponsor, the Joint Bookrunners and Joint Lead Managers have not authorised anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorised by our Company, the Sole Sponsor, the Joint Bookrunners and Joint Lead Managers, any of their respective directors, employees, agents or professional advisers or any other person or party involved in the Share Offer.

	Page
Characteristics of GEM	i
Expected Timetable	ii
Contents	vi
Summary	1
Definitions	19
Glossary of Technical Terms	35
Forward-Looking Statements	37
Risk Factors	39
Information about this Prospectus and the Share Offer	63
Directors and Parties involved in the Share Offer	66
Corporate Information	72
Industry Overview	75

	Page
Regulatory Overview	92
History, Development and Reorganisation	104
Guangyuan Tongchuang	133
Business	139
Directors and Senior Management	234
Relationship with our Controlling Shareholders	248
Substantial and Significant Shareholders	254
Share Capital	256
Financial Information of our Group	259
Pre-acquisition Financial Information of Guangyuan Tongchuang	325
Future Plans and Use of Proceeds	347
Underwriting	359
Structure and Conditions of the Share Offer	373
How to Apply for Public Offer Shares	381
Appendix I — Accountants' Report	I-1
Appendix II — Unaudited Pro Forma Financial Information	II-1
Appendix III — Property Valuation	III-1
Appendix IV — Summary of the Constitution of our Company and Cayman Islands Company Law	IV-1
Appendix V — Statutory and General Information	V-1
Appendix VI — Documents Delivered to the Registrar of Companies and Available for Inspection	VI-1

This summary aims to give you an overview of the information contained in this prospectus. Since this is a summary, it does not contain all the information that may be important to you. You should read the whole document before you decide to invest in the Offer Shares. There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in "Risk Factors" in this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

OVERVIEW

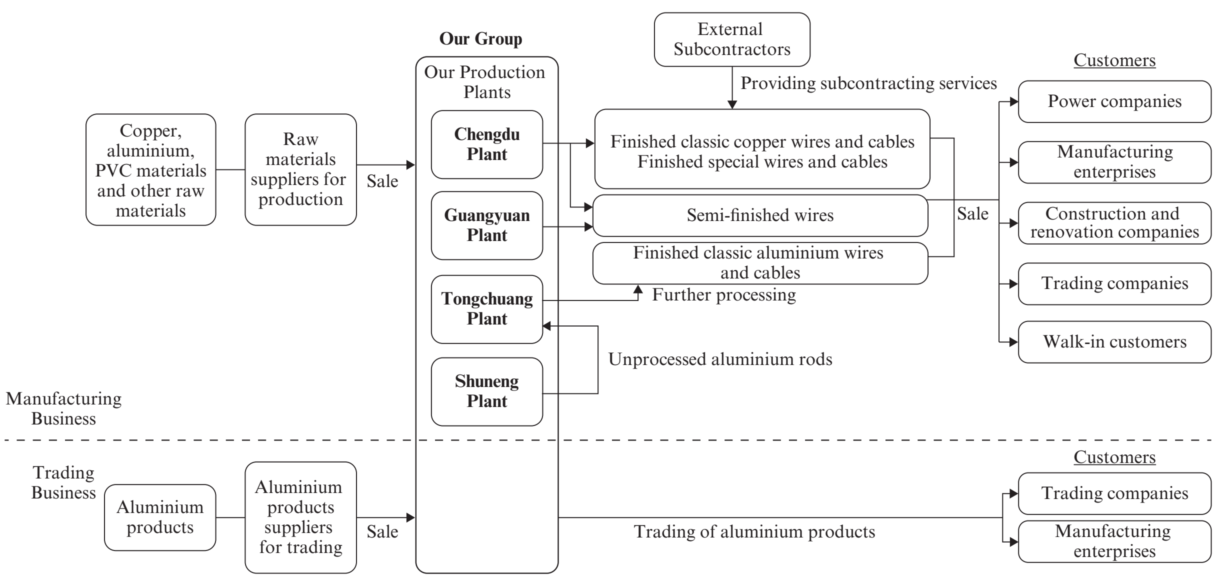
Founded in 2004, we are a regional manufacturer and supplier of wires and cables, with integrated production facilities situated in Chengdu and Guangyuan of Sichuan Province. According to the F&S Report, in 2019, (i) we ranked fourth in the wire and cable market in Sichuan Province in terms of revenue with a market share of 0.97%; and (ii) among approximately 18,000 players in the market, we ranked between 150 and 200 in the wire and cable market in China in terms of revenue with a market share of approximately 0.03%. Our brand ® was awarded "Chengdu City Well-known Trademark (成都市著名商標)" by Chengdu AIC in December 2013, and we were awarded "Sichuan Famous Brand Product Title" (四川名牌產品稱號) in March 2017, which recognise the reputation, competitiveness and branding of our Group in Sichuan Province.

Products sold by us can be broadly classified into four categories: (i) finished wires and cables; (ii) semi-finished wires; (iii) aluminium products; and (iv) others, which comprise cable accessories. In terms of revenue, wires and cables are our principal products, and their sales accounted for 93.8%, 72.4% and 93.3%, respectively, of our total revenue for FY2017, FY2018 and FY2019. The conductors of our wires and cables are mainly made of copper and aluminium. Our portfolio of finished wires and cables products comprises classic and special products, which consists of over 800 types in aggregate as differentiated by their respective technical specifications, voltage requirements, raw material components and properties in accordance with the requirements of our customers. Apart from finished wires and cables, we also produce semi-finished wires comprising aluminium rods and bare copper wires to maximise our market exposure and enlarge our market share. As at the Latest Practicable Date, we had obtained 12 registered trademarks in the PRC and Hong Kong, and 58 registered patents in the PRC which are material to our business and we had submitted 13 patent applications in the PRC with respect to the wires and cables product development and technology. Sichuan Saftower was awarded "High and New Technology Enterprise" (高新技術企業) in December 2016 and November 2019. For details, see "Business — Research and Development" in this prospectus.

Our history can be traced back to June 2004 when Mr. Dang Fei and Mr. Wang, set up Sichuan Saftower in Pidu District, Chengdu, Sichuan Province, the PRC to engage in the manufacture, processing and sale of wires. We, together with an Independent Third Party, established Guangyuan Saftower in February 2015 to expand the manufacture of aluminium wires and cables as well as aluminium products, and our Guangyuan Plant commenced production in April 2017. Upon completion of the Tongchuang Equity Acquisition in April 2019, our production capability is further enlarged by including the production facilities of Guangyuan Tongchuang, the financial results of which has been consolidated into our Group since 16 April 2019. For details, see "Guangyuan Tongchuang" in this prospectus.

BUSINESS MODEL

We derive revenue mainly from the manufacturing and sale of finished wires and cables, as well as semi-finished wires and, to a lesser extent, from the trading of aluminium products and sale of cable accessories. During the Track Record Period, we sold a large proportion of finished wires and cables under our own brand name, and, when requested, we also undertook the production and sale of aluminium cables on OEM basis. Such production orders were subcontracted to Guangyuan Tongchuang before Tongchuang Equity Acquisition and the OEM orders had been undertaken by Tongchuang Plant after Tongchuang Equity Acquisition. Set forth below is a simplified flowchart of our business model during the Track Record Period and up to the Latest Practicable Date:



For FY2017, FY2018 and FY2019, we engaged three, three and five subcontractors (including Guangyuan Tongchuang), respectively, to provide subcontracting services for us in respect of certain wires and cables and high voltage cables. Guangyuan Tongchuang was one of our subcontractors of OEM products including aluminium overhead power cables and steel reinforced aluminium bare cables during FY2017, FY2018 and FY2019. Our subcontracting cost paid to Guangyuan Tongchuang for FY2017, FY2018 and up to 15 April 2019 accounted for 12.1%, 15.8% and 4.6% of our total purchase, respectively. Our subcontracting cost paid to other external subcontractors (not including Guangyuan Tongchuang) for FY2017, FY2018 and FY2019 accounted for 1.5%, 1.4% and 1.9% of our total purchase, respectively.

OUR CUSTOMERS AND SUPPLIERS

We had over 350 customers for FY2019. Among these customers, we have been developing business relationship with state-owned or state-invested companies which have good credit profile and established business network. We have been actively seeking strategic cooperation with local state-owned players such as those in power system construction industry in Sichuan Province, which we believe could extend our business presence and generate more sales opportunities. We are also keen to develop business relationship with listed companies to enlarge our customer base and generate higher profits from selling premium products to them. See "Business — Sales and Marketing — Strategic cooperation with local state-owned players in the power system construction industry and listed companies" in this prospectus for details.

Our products are directly sold by us mainly to power companies, manufacturing enterprises, construction and renovation companies as well as trading companies which purchase products from us for onward sale on their own accounts. A very small proportion of our products are sold to walk-in customers. Our five largest customers for FY2017, FY2018 and FY2019 are all located in the PRC and revenue derived from our five largest customers in aggregate accounted for 53.1%, 39.5% and 39.4%, respectively, of our total revenue during the respective periods. Except for Chongqing Dexindi which was owned by Mr. Dang Jun (a Controlling Shareholder, a member of our senior management and the elder brother of Mr. Dang Fei) as to 51% until 19 April 2016 and subsequently by Ms. Yu Xuelin (mother of Mr. Dang Jun and Mr. Dang Fei) as to 51% until 8 November 2018, none of our Directors, their respective close associates or any Shareholders (who, to the best knowledge of our Directors, owned more than 5% of the issued share capital of our Company as at the Latest Practicable Date) had any interest in any of our five largest customers for FY2017, FY2018 and FY2019. Save for Chongqing Dexindi, our Directors have confirmed that our five largest customers for FY2017, FY2018 and FY2019 are Independent Third Parties.

For FY2017, FY2018 and FY2019, our major suppliers are corporate entities which are principally engaged in the production and/or sale of copper and aluminium materials or provision of subcontracting services for wires and cables in the PRC. Our major suppliers comprise suppliers of raw materials and subcontractors, and our purchase from our five largest suppliers for FY2017, FY2018 and FY2019 in aggregate accounted for 94.2%, 85.9% and 89.6%, respectively, of our total purchase during the respective periods. Save for Guangyuan Tongchuang, none of our Directors, their respective close associates or any Shareholder (who, to the best knowledge of our Directors, owns more than 5% of the issued share capital of our Company as at the Latest Practicable Date) had any interest in any of our five largest suppliers for FY2017, FY2018 and FY2019. Save for Guangyuan Tongchuang, all of our five largest suppliers for FY2017, FY2018 and FY2019 are Independent Third Parties.

For FY2017, FY2018 and FY2019, among our five largest suppliers and five largest customers, there were six entities which were both our major suppliers and customers (or vice versa) in one or more than one financial year for FY2017, FY2018 and FY2019. These entities are (i) Tianzhu; (ii) Guangyuan Tongchuang; (iii) Jinjin; (iv) Zhonglv; (v) Zirao;

and (vi) Guoda. See "Business — Overlapping Major Customers and Suppliers" in this prospectus for details of our sales to and purchases amount from these overlapping major customer-suppliers in FY2017, FY2018 and FY2019.

COMPETITIVE STRENGTHS

Our Directors believe that our success is attributable to our competitive strengths: (i) we are a reputable and reliable supplier of wires and cables with proven track record; (ii) we offer a wide array of high quality, reliable and safe wires and cables; (iii) we are strategically located in proximity to upstream aluminium resources such that we are well placed to capture business opportunities; (iv) we have integrated production facilities; (v) we are actively involved in product development; and (vi) we have a stable, experienced and dedicated management team with extensive industry experience.

BUSINESS STRATEGIES

Our key business objectives are to continue to grow our business to become the leading wire and cable supplier in Sichuan Province and a major player in Southwestern Region of the PRC, and further strengthen our position in the wire and cable and aluminium products industries in the PRC by implementing the following strategies: (i) expand our existing production facilities and production plant; (ii) repay part of our existing loan to improve our capital base; (iii) fund the upfront costs for the commercial production of the Shuneng Plant to enhance the vertical expansion of our production capacity; (iv) increase sales and marketing activities to promote our products and corporate profile; and (v) enhance corporate management efficiency.

OUR CONTROLLING SHAREHOLDERS AND PRE-IPO INVESTMENT

Immediately after completion of the Capitalisation Issue and the Share Offer (without taking into account any Share that may be allotted and issued upon the exercise of the Offer Size Adjustment Option and the options that may be granted under the Share Option Scheme), our Company will be owned as to 43.91% by Red Fly (a BVI company which is owned as to 80.79% by Mr. Dang Fei and 19.21% by Mr. Dang Jun). On the basis of (i) the Acting in Concert Undertaking; and (ii) that Mr. Dang Fei and Mr. Dang Jun hold their respective interests in our Company through a common investment holding company, i.e. Red Fly, which in turn will be entitled to exercise 30% or more of the voting power at general meetings of our Company, Mr. Dang Fei, Mr. Dang Jun and Red Fly are regarded as a group of Controlling Shareholders. For details, see "Relationship with our Controlling Shareholders — Our Controlling Shareholders" in this prospectus.

Ms. Zhao Qi, our Pre-IPO Investor, will hold 3% of the issued share capital of our Company immediately upon completion of the Capitalisation Issue and the Share Offer (without taking into account any Share which may be allotted and issued upon the exercise of the Offer Size Adjustment Option and the options which may be granted under the Share Option Scheme). For details, see "History, Development and Reorganisation — Pre-IPO Investment" in this prospectus.

SUMMARY OF HISTORICAL CONSOLIDATED FINANCIAL INFORMATION

The following tables summarise the consolidated financial information of our Group for FY2017, FY2018 and FY2019, which are extracted from the Accountants' Report set out in Appendix I to this prospectus. The summary financial data should be read in conjunction with the consolidated financial information set out in the Accountants' Report in Appendix I to this prospectus.

Consolidated Statements of Profit or Loss and Other Comprehensive Income

	FY2017	**FY2018**	**FY2019**
	RMB'000	*RMB'000*	*RMB'000*
Revenue	262,295	552,656	685,530
Cost of sales	(247,899)	(514,300)	(631,656)
Gross profit	14,396	38,356	53,874
Other income and gains	8,935	9,249	20,838
Selling and distribution expenses	(2,702)	(4,999)	(9,068)
Administrative and other expenses	(13,286)	(12,235)	(15,491)
Listing expenses	—	(3,851)	(8,920)
Finance costs	(4,257)	(6,515)	(7,877)
Share of profit a joint venture	88	1,548	538
Profit before income tax	3,174	21,553	33,894
Income tax expense	(997)	(4,157)	(4,141)
Profit and total comprehensive income for the year	2,177	17,396	29,753

We recorded a significant increase in revenue of RMB290.4 million, or 110.7%, from RMB262.3 million for FY2017 to RMB552.7 million for FY2018 after full operation of our Guangyuan Plant, which, among others, significantly increased our sale of aluminium products and semi-finished wires and enlarged our customer base. As a result, we recorded a significant increase in net profit of RMB15.2 million from RMB2.2 million for FY2017 to RMB17.4 million for FY2018. For FY2018 and FY2019, our revenue increased by RMB132.9 million or 24.0%, from RMB552.7 million to RMB685.5 million, and our net profit increased by RMB12.4 million from RMB17.4 million to RMB29.8 million. The increase in our revenue and net profit for FY2019 was mainly attributable to the Tongchuang Equity Acquisition as we consolidated Guangyuan Tongchuang's financial results since 16 April 2019.

Revenue, sales volume and average selling price

The following table sets forth the breakdown of our sales volume, average selling price and revenue by product type for the indicated periods:

	Unit (Note 2)	FY2017 Sales volume	FY2017 Average selling price (Note 1)	FY2017 Total sales	FY2018 Sales volume	FY2018 Average selling price (Note 1)	FY2018 Total sales	FY2019 Sales volume	FY2019 Average selling price (Note 1)	FY2019 Total sales
		km/tonne	*RMB per km/tonne*	*RMB'000*	*km/tonne*	*RMB per km/tonne*	*RMB'000*	*km/tonne*	*RMB per km/tonne*	*RMB'000*
1 Finished wires and cables										
Classic wires and cables										
Classic copper wires and cables										
— Copper power cables (銅製電力電纜)	*km*	646	54,243	35,041	1,045	58,479	61,100	628	73,693	46,279
— Copper wires for electrical equipment (銅製電氣裝備用電線)	*km*	34,374	1,422	48,886	22,298	1,723	38,426	18,575	1,640	30,468
Subtotal (classic copper wires and cables)				83,927			99,526			76,747
Classic aluminium wires and cables										
— Steel reinforced aluminium bare cables (鋁製鋼芯鋁絞線)	*tonne*	755	13,244	9,999	5,192	12,347	64,107	17,403	12,585	219,017
— Steel reinforced aluminium bare cables (鋁製鋼芯鋁絞線)	*km*	—	—	—	—	—	—	6	8,833	53
— Aluminium overhead power cables (鋁製架空電纜)	*km*	42	6,167	259	2,557	3,963	10,133	1,851	4,124	7,634
— Aluminium medium and low voltage power cables (鋁製中低壓電力電纜)	*km*	191	22,304	4,260	140	19,221	2,691	516	28,891	14,908
— Aluminium wires for electrical equipment (鋁製電氣裝備用電線)	*km*	7,377	1,816	13,398	2,732	1,526	4,168	1,291	1,604	2,071
— Aluminium wires for electrical equipment (鋁製電氣裝備用電線)	*tonne*	4,830	13,774	66,530	—	—	—	—	—	—
Subtotal (classic aluminium wires and cables)				94,446			81,099			243,683
Subtotal (classic wires and cables)				178,373			180,625			320,430
Special wires and cables										
Special copper wires and cables										
— Special copper power cables (銅製特種電力電纜)	*km*	—	—	—	56	41,429	2,320	263	92,205	24,250
— Special copper wires for electrical equipment (銅製特種電氣裝備用電線)	*km*	—	—	—	382	2,571	982	—	—	—
Subtotal (special copper wires and cables)				—			3,302			24,250
Special aluminium wires and cables										
— Special aluminium medium and low voltage power cables (鋁製特種中低壓電力電纜)	*km*	—	—	—	238	27,651	6,581	431	49,490	21,330
— Special aluminium wires for electrical equipment (鋁製特種電氣裝備用電線)	*km*	—	—	—	235	1,872	440	—	—	—
Subtotal (special aluminium wires and cables)				—			7,021			21,330
Subtotal (special wires and cables)				—			10,323			45,580
Subtotal (finished wires and cables)				**178,373**			**190,948**			**366,010**
2 Semi-finished wires										
Bare copper wires (銅絲)	*tonne*	0.25	44,000	11	598	43,940	26,276	1,192	42,912	51,151
Aluminium rods (電工圓鋁桿)	*tonne*	5,319	12,742	67,777	14,336	12,709	182,191	17,100	13,004	222,372
Subtotal (semi-finished wires)				**67,788**			**208,467**			**273,523**
3 Aluminium products										
Aluminium strips (鋁卷)	*tonne*	1,232	13,096	16,134	9,115	12,813	116,789	378	12,013	4,541
Aluminium ingots (鋁錠)	*tonne*	—	—	—	1,826	11,940	21,802	3,490	11,689	40,794
Subtotal (aluminium products)				**16,134**			**138,591**			**45,335**
4 Others										
Cable accessories (電纜配套設備)		N/A	N/A	—	N/A	N/A	14,650	N/A	N/A	662
Total revenue				**262,295**			**552,656**			**685,530**

Note:

1. Average selling price is derived from actual sales amount rounded to the nearest thousands divided by actual sales volume, while total sales is rounded to the nearest thousands.

2. Length (km) and weight (tonne) are two major measurements of units generally adopted by the market in accordance with the national standard. In general, products without coating of other materials would be measured in weight (tonne), whereas products coating with other materials would be measured in length (km). Cables accessories sold were in measurement of various units subject to the requirements from customers, therefore average selling price was not applicable.

For FY2017 and FY2018, our increase in revenue was mainly due to the increase in sales of semi-finished wires by RMB140.7 million and increase in sales of aluminium products by RMB122.5 million, as well as the rollout of special wires and cables with environmentally friendly features by Sichuan Saftower since August 2018 which contributed revenue of RMB10.3 million for FY2018. For FY2018 and FY2019, our increase in revenue was mainly due to the increase in sales of classic finished aluminium wires and cables by RMB162.6 million and the increase in sales of special wires and cables by RMB35.3 million for FY2019.

Gross profit and gross profit margin

The following table sets forth a breakdown of gross profit and gross profit margin by product types for the indicated periods:

	FY2017		FY2018		FY2019	
	Gross Profit	Gross profit margin	Gross Profit	Gross profit margin	Gross Profit	Gross profit margin
	(RMB'000)	*(%)*	*(RMB'000)*	*(%)*	*(RMB'000)*	*(%)*
Finished wires and cables	15,059	8.4	24,655	12.9	43,533	11.9
Semi-finished wires	(663)	N/A	6,541	3.1	9,035	3.3
Sub-total	14,396	5.5	31,196	7.8	52,568	8.2
Aluminium products	—	—	4,313	3.1	1,170	2.6
Others	—	—	2,847	19.4	136	20.5
Total	**14,396**	**5.5**	**38,356**	**6.9**	**53,874**	**7.9**

For further details, see "Financial Information of our Group — Description of Selected Items in Statements of Comprehensive Income — Gross profit and gross profit margin" in this prospectus.

Accumulated loss as at 1 January 2017 and 31 December 2017

Our Group recorded accumulated loss of RMB4.2 million and RMB2.4 million as at 31 December 2016 (i.e. 1 January 2017) and 31 December 2017 (i.e. 1 January 2018), respectively. Such accumulated loss mainly arose from the prior years' operating loss due to smaller scale of operation, and our Group recorded net profit from FY2017 and onwards.

For further details, see "Financial Information of our Group — Accumulated Loss as at 1 January 2017 and 31 December 2017" in this prospectus.

Selected consolidated statements of financial position

	As at 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Non-current assets	131,022	130,387	129,449
Current assets	60,777	138,192	204,838
Current liabilities	130,207	178,083	187,504
Net current (liabilities)/assets	(69,430)	(39,891)	17,334
Total assets less current liabilities	61,592	90,496	146,783
Net assets	57,965	87,361	139,401

As at 31 December 2017 and 2018, we had net current liabilities of RMB69.4 million and RMB39.9 million, respectively, of which RMB56.0 million and RMB91.6 million respectively, were borrowings which were mainly used for purchases of raw materials as at the relevant dates. We recorded net current assets of RMB17.3 million as at 31 December 2019. During the Track Record Period, none of our borrowings had been recalled by our banks before their respective maturity dates. Due to the business nature of manufacturing of wires and cables, we rely on our capital and external financings to support the purchase of inventories and have significant investment in capital expenditures to expand our production scale. When we achieved economies of scale of operation after the establishment of Guangyuan Plant and our consolidation of Guangyuan Tongchuang, our financial position improved with our enhanced profitability.

Selected consolidated statements of cash flows

	FY2017	FY2018	FY2019
	RMB'000	*RMB'000*	*RMB'000*
Operating profit before working capital changes	11,497	32,890	45,263
Changes in working capital	911	(54,486)	(22,490)
Income tax paid	—	(130)	(3,491)
Net cash from/(used in) operating activities	12,408	(21,726)	19,282
Net cash used in investing activities	(27,289)	(9,555)	(10,246)
Net cash from/(used in) financing activities	15,742	27,988	(7,924)
Net increase/(decrease) in cash and cash equivalents	861	(3,293)	1,112
Cash and cash equivalents at the beginning of the year	4,046	4,907	1,614
Cash and cash equivalents at end of year	4,907	1,614	2,726

Our operating profit before working capital changes increased in FY2018 due to increase in our business turnover. For FY2018, we recorded net cash used in operating activities mainly due to increase in trade and bill receivables and prepayments, deposits and other receivables. For FY2017, FY2018 and FY2019, we had net cash used in investing activities primarily because of purchase of property, plant and equipment; and our net cash from financing activities was mainly derived from proceeds from borrowings.

Key financial ratios

The following table sets out certain key financial ratios of our Group as at the dates or for the years indicated:

	FY2017	FY2018	FY2019
Gross profit margin (%)	5.5	6.9	7.9
Net profit margin (%)	0.8	3.1	4.3
Return on equity (%)	3.8	19.9	21.3
Return on total assets (%)	1.1	6.5	8.9
Interest coverage (times)	1.7	4.3	5.3

	As at 31 December		
	2017	2018	2019
Current ratio (times)	0.5	0.8	1.1
Quick ratio (times)	0.4	0.7	1.0
Gearing ratio (%) *(Note 1)*	123.5	107.7	71.5
Debt to equity ratio (%) *(Note 2)*	115.0	105.8	69.6

Note:

(1) Gearing ratio is calculated by dividing total debts by total equity as at the end of the respective year. Total debts include payables incurred not in the ordinary course of business.

(2) Debt to equity ratio is calculated by dividing net debts by total equity as at the end of the respective year. Net debts include all borrowings net of cash and cash equivalents.

For details, see "Financial Information of our Group — Key Financial Ratios" in this prospectus.

TONGCHUANG EQUITY ACQUISITION

On 15 April 2019, our Group acquired 16.67% of the equity interest (with the outstanding capital contribution payable by Mr. Li Zhanwei) of Guangyuan Tongchuang, the then joint venture of our Group, which was owned as to 40% by us prior to the Tongchuang Equity Acquisition, from Mr. Li Zhanwei, an Independent Third Party. Guangyuan Tongchuang is principally engaged in the manufacturing and sale of aluminium wires and cables, on OEM basis, for external customers and our Group. During FY2017 and FY2018, it also engages in the trading of aluminium strips and copper rods. The acquisition was made with the aim to expand our Group's existing scale of operation and enlarge our Group's market presence.

Since Mr. Li Zhanwei did not pay up any capital of Guangyuan Tongchuang and it was recognised as an amount due from owner on Guangyuan Tongchuang's financial statement before the Tongchuang Equity Acquisition, we did not need to pay Mr. Li Zhanwei pursuant to the equity transfer agreement but to pay up the unpaid capital of RMB10.0 million to Guangyuan Tongchuang. On 26 September 2019, the registered capital of Guangyuan Tongchuang was fully paid by Guangyuan Saftower.

The acquisition was completed on 15 April 2019. In accordance with HKFRSs, our Group continued to share the results of Guangyuan Tongchuang using equity method of accounting during the period from 1 January 2017 to 15 April 2019. As a result of the completion of the acquisition, our Company indirectly holds 56.67% equity interest of Guangyuan Tongchuang and consolidates our accounts with the accounts of Guangyuan Tongchuang, since 16 April 2019. For details, see "Guangyuan Tongchuang" in this prospectus. As one or more of the applicable percentage ratios as defined in the GEM Listing Rules in respect of the Tongchuang Equity Acquisition exceed 25%, the Tongchuang Equity Acquisition, if made by us upon Listing, would constitute a major transaction of our Company based on the consolidated financial statements of our Group for FY2018. For stand-alone pre-acquisition financial information of Guangyuan Tongchuang and management discussion and analysis, see Note 37 to Appendix I to this prospectus and "Pre-acquisition Financial Information of Guangyuan Tongchuang" in this prospectus.

PRIOR NEEQ LISTING AND DELISTING

In June 2015, in preparation for the listing on the NEEQ, Sichuan Saftower was converted from a limited liability company into a company limited by shares. In October 2015, the shares in Sichuan Saftower became listed on the NEEQ with a stock code of 833940. On 14 May 2018, all the shareholders of Sichuan Saftower resolved to voluntarily delist Sichuan Saftower's shares from the NEEQ and the NEEQ Company approved the NEEQ Delisting on 5 June 2018. The shares of Sichuan Saftower ceased to be listed on the NEEQ on 7 June 2018. For details, see "History, Development and Reorganisation — Prior Listing on the NEEQ and the Delisting" in this prospectus.

AGENCY SERVICE ARRANGEMENT

For FY2018 and FY2019, we recorded agency fee income of RMB3.3 million and RMB3.1 million, respectively, from our arrangement with (i) Aostar, being the ultimate purchaser of aluminium oxide (i.e. being the principle under such arrangement); and (ii) two raw material suppliers, in which we purchased, as an agent, aluminium oxide on behalf of and designated by Aostar, who in turn, agreed to reimburse the price of aluminium oxide paid by us plus an agency fee. Our Group ceased the Agency Service Arrangements in December 2019 upon the expiration of the terms of the aluminium oxide purchase agreement. During the Track Record Period, we financed the purchase of aluminium oxide on behalf of Aostar by the borrowing of RMB10.0 million from Tongsheng Guochuang and we fully repaid the borrowing on 13 May 2020. For details, see "Business — Agency Service Arrangements" in this prospectus. As at 31 December 2018 and 2019, there was a balance of other receivables due from Aostar of RMB14.7 million and RMB10.0 million, respectively, under the Agency Service Arrangements which represented the outstanding balance in relation to the gross purchase amount of aluminium oxide and the related agency fee. Aostar fully settled such amount of other receivables by the end of April 2020. Subsequent to the Track Record Period and in March 2020, a designated supplier, namely Guizhou Galuminium, filed a civil claim against us in relation to the alleged failure to fulfill in full the total target purchase amount for 2019. For details, see "Recent Developments and No Material Adverse Change — Potential Litigation" in this section and "Business — Compliance and Litigation — litigation" in this prospectus.

RECENT DEVELOPMENTS AND NO MATERIAL ADVERSE CHANGE

Subsequent to the Track Record Period and up to the date of this prospectus, we have the following recent developments:

Key performance indicators — Key performance indicators (including the costs of raw materials such as copper and aluminium) were stable for the period after the Track Record Period and up to the Latest Practicable Date.

Gross profit margin — We expect our cost of raw materials as a percentage of our revenue to remain relatively stable in comparison with the Track Record Period, and hence our gross profit margin is expected to remain relatively stable.

New purchase order and tender contracts — In March 2020, we entered into a framework agreement with Changhong Group for the supply of special wires and cables with a total contract sum of RMB55.0 million for FY2020. Since March 2020, we have been receiving orders placed by Changhong Group under the framework agreement for the supply of special wires and cables. In May 2020, we received a purchase order of steel reinforced aluminium bare cables from a subsidiary of a company listed on the Shanghai Stock Exchange, which is mainly engaged in the sales of wires and cables and electronic products, with a total contract sum of RMB39.5 million for FY2020.

New external debt financing — In March 2020, we have drawn down a new borrowing of RMB3.0 million at 6.8% interest per annum for one year. In May 2020, after the full repayment of Current Tongsheng Loan, we have drawn down a new borrowing of RMB19.5 million at 7.5% interest per annum for one year which was secured by the same amount of trade receivables due from a subsidiary of Customer A, for the purpose of general working capital. As at the Latest Practicable Date, our Group have available unutilised facilities in the amount of up to RMB11.5 million.

Impact of COVID-19 — There has been an outbreak of a highly contagious respiratory disease (COVID-19) in China in late 2019. On 23 January 2020, the PRC government announced the lock-down of Wuhan City in an attempt to quarantine the city. Since then, draconian measures including travel restrictions have been imposed in other major cities in the PRC, as well as other countries and territories, in an effort to contain the COVID-19 outbreak. On 30 January 2020, the World Health Organization ("**WHO**") declared the outbreak of COVID-19 a Public Health Emergency of International Concern (PHEIC), and on 11 March 2020, WHO characterized COVID-19 as a pandemic. As at the Latest Practicable Date, the virus had spread across the PRC and globally and death toll and number of infected cases continued to rise. Various countries and territories have also imposed travel restrictions, such as denial of entry and mandatory quarantine for people entering the borders. As a result of the COVID-19 and the corresponding measures taken by the PRC government, the operation of our Group was suspended from the Lunar New Year holiday to 2 March 2020.

The continuous spread of COVID-19 is likely to have an adverse impact on the livelihood of the people in and the economy of the PRC. The wires and cables industry may be adversely affected due to the postponed resumption of productions and transportation, and therefore our business operation and our financial performance may be adversely affected. Notwithstanding this, given the market trend for construction and power transmission in the long run and relatively stable demand of wires and cables due to their wide range of downstream applications, Frost & Sullivan is of the view that, once the outbreak is effectively controlled, the impact on the wires and cables manufacturing industry in the PRC is expected to be temporary.

Our Directors believe that, based on information up to the date of this prospectus, the outbreak of COVID-19 would not result in a pro-longed disruption to our production and business operations due to (i) our major customers are not from Wuhan City or other cities in Hubei Province during the Track Record Period, and we did not generate any revenue from sales to customers located in Hubei Province; (ii) our major raw materials are primarily copper and aluminium materials which are produced and readily available from suppliers in various regions of the PRC, and we are generally able to source alternative supplies if any of our current suppliers are affected by disruption caused by the spread of the disease; (iii) the majority of our employees are local residents in Chengdu and Guangyuan who are able to report to duty at our production plants, and to the best of our Directors' knowledge, as at the Latest Practicable Date, there had been no confirmed cases of COVID-19 infection of our staff; (iv) up to the date of this prospectus, none of our production facilities are located in cities or regions affected by the lockdowns which would cause material operational disruption; (v) according to the notices announced by the local government, the Lunar New Year holiday was extended to 2 February 2020, and our production and sales activities have been resumed since 2 March 2020 after obtaining official approval from local government; (vi) less new cases are being reported recently and more cities and regions in the PRC gradually resume their commercial activities; (vii) as at the Latest Practicable Date, none of our customers who had placed orders with us before the outbreak of COVID-19 had cancelled their orders and we had been able to perform our contracts with our customers after resumption of production; (viii) since 1 January 2020 and up to the Latest Practicable Date, there were short delays in the delivery of two orders of steel reinforced aluminium bare cables in February 2020. Such orders which amounted to RMB4.5 million and RMB3.9 million were placed in December 2019 and January 2020, respectively, and were subsequently delivered and accepted by the relevant customer in late March 2020 and mid-April 2020, respectively; and (ix) generally the first quarter of a year is our low season due to the Lunar New Year holiday.

To prevent any widespread of COVID-19 in our production facilities and office, we have established an epidemic prevention and control working group led by our executive Directors to undertake various precautionary measures such as (i) enhancing the environmental hygiene of our Chengdu Plant, Guangyuan Plant and our office by cleaning and sanitising areas including office, production plants, laboratories, cafeteria and washrooms regularly; (ii) requiring all of our employees to undergo mandatory temperature checks on a daily basis before and after work; (iii) minimising in-person meetings to the extent possible; and (iv) requesting our employees to wear masks at all time during work and report to us promptly whenever they feel unwell. For the four months ended 30 April 2020, our Group's overall utilisation rate of production facilities achieved approximately 53.9%.

As at the Latest Practicable Date, the local government had issued certain supporting policies for enterprises' development during the period of outbreak of COVID-19, such as (i) relaxing the requirement on social insurance and housing provident fund payment; (ii) reducing the financing costs including lower the interest rate and guarantee fee rates; and (iii) offering subsidy for utilities and purchase of equipment and machinery. It is expected that our Group will be benefited from these policies to save cost and expenditures of approximately RMB1.5 million for FY2020. In addition, since the outbreak of COVID-19, our Directors have closely monitored the gradual resumption of manpower phase by phase complying with local government authorities' guidelines to manage the return of employees in an orderly manner. During such period due to the delayed resumption of operation, our Group has taken cost control measures on staff costs which is expected to save staff costs of approximately RMB0.5 million for the first quarter of 2020.

According to our unaudited management accounts for the two months ended 29 February 2020, our revenue decreased by 81.2% as compared to that of the same period of 2019 because we maintained minimal operation in response to the outbreak of COVID-19 which resulted in net loss. As our operation resumed in March 2020 and receiving new orders from major customers, in particular we have signed a new framework agreement with Changhong Group in total contract sum of RMB55.0 million to be delivered within FY2020, our Directors are of the view that no material adverse effect on our overall operations and financial performance for FY2020 is expected to result from the recent COVID-19 outbreak. For the two months ended 30 April 2020, we recorded a revenue decrease of 19.7% compared to that of the same period of 2019 according to our unaudited management accounts. Our Directors believe that the significant recovery of our monthly revenue is a solid proof that our Group has resumed normal operation after the COVID-19 outbreak.

In the unlikely event that we are forced to reduce or suspend part of our business operations, whether due to government policy or any other reasons beyond our control, due to the COVID-19 outbreak, we estimate our existing financial resources (including cash and bank balances and available facilities) as at the Latest Practicable Date could satisfy our necessary costs for over 12 months. Our key assumptions of the worst case scenario where our business is forced to be suspended due to the impact of COVID-19 include: (i) we will not generate any income due to the suspension of business and we will cease the operation and will not incur any purchases and production costs; (ii) all of our staff, including operational and administrative staff, are paid minimal salaries and allowances according to local government policy and are encouraged to take unpaid leave under mutual consent or dismissed upon proper notice in accordance with the employment contract and no significant compensation is incurred; (iii) the rental related payments including rentals, management fees and other miscellaneous charges that are paid monthly; (iv) minimal operating and administrative expenses will be incurred to maintain our operations at a minimum level (including basic head office maintenance cost, utilities expenses, fees to be incurred as a listed company such as annual listing fee, annual audit fee, financial reports and compliance adviser fee); (v) the expansion plan is delayed under such condition; (vi) there will be no further internal or external financing from Shareholders or financial institutions; and (vii) no dividend will be declared and paid under such situation. The abovementioned extreme situation may or may not occur. The abovementioned analysis is for illustrative purpose only and our Directors currently assess that the likelihood of such situation is remote. The actual impact caused by the outbreak of COVID-19 will depend on its subsequent development; therefore there is a possibility that such impact to our Group may be out of our Director's control and beyond our estimation and assessment.

Based on the parameters above but assuming that our Group is able to obtain the proceeds from the Share Offer and carry out the future plans as set out in the section headed "Future Plans and Use of Proceeds", our Directors estimate that by utilising 10% of the net proceeds from the Share Offer which currently is allocated for general working capital purpose, our Group will be able to maintain financial viability for at least 14 months upon the Listing.

Potential litigation — In March 2020, Guizhou Galuminium, the designated supplier from whom we purchased aluminium oxide for Aostar under the Agency Service Arrangements, filed a civil claim against Guangyuan Saftower, in which Guangyuan Saftower was alleged to have breached the contract for the failure to fulfil in full the total target purchase for 2019 under the supply agreement dated 14 December 2018 (as supplemented by the supplemental supply agreement dated 1 April 2019) entered into between Guangyuan Saftower and Guizhou Galuminium (for details of these supply agreements, see "Business — Agency Service Arrangements" in this prospectus) and Guizhou Galuminium claimed for damages in the sum of RMB6.4 million, which represented the alleged shortfall of the total target purchase for 2019. As at the Latest Practicable Date, we were in the process of negotiation with Guizhou Galuminium. Despite the risk that we will be ultimately held liable in respect of the claim is remote, to safeguard our Group's interest from such potential litigation for any legal consequences (if any) in respect of the claim, we had requested Aostar, the principal to the Agency Service Arrangement, to arrange for an indemnity to cover such legal consequences (if any). On 25 May 2020, Hong Sheng (acting on behalf of Aostar) pledged its aluminium products in favour of Guangyuan Saftower at the value of RMB6.4 million and agreed to indemnify Guangyuan Saftower for any shortfall where the value of such pledged assets would be insufficient to cover such liabilities (if any). For details see "Business — Compliance and Litigation — Litigation" in this prospectus.

We have obtained a legal opinion from an independent litigation counsel in the PRC which supports the Director's view that it is less than probable that the case will result in any material outflow of economic interest from our Group. Having considered the facts and circumstances of the claim and the opinion of the litigation counsel, our Directors determined that no provision for the claim by Guizhou Galuminium is required to be made in our financial statements.

Our Directors expect a decrease in our net profit for FY2020 as compared to that of FY2019, taking into account of (i) the impact of COVID-19 as mentioned above; (ii) the non-recurring government grants of RMB10.1 million which was recorded in FY2019; (iii) the estimated Listing expenses of RMB7.9 million to be recorded in FY2020; and (iv) an increase in administration and compliance cost after the Listing. Our Directors confirm that, save for the expenses in connection with the Listing and the analysis of the impact of COVID-19 as mentioned above, up to the date of this prospectus, there has been no material adverse change in our financial or trading position since 31 December 2019 (being the date to which the latest audited consolidated financial information was prepared which was set out to the Accountants' Report in Appendix I to this prospectus) to the date of this prospectus.

OFFERING STATISTICS

The following table sets forth the statistics under the Share Offer:

	Based on the minimum Offer Price of HK$0.25 per Offer Share	**Based on the maximum Offer Price of HK$0.40 per Offer Share**
Market capitalisation *(Note 1)*	HK$200,000,000	HK$320,000,000
Unaudited pro forma adjusted consolidated net tangible assets per Share *(Note 2)*	HK$0.19	HK$0.23

Notes:

(1) The calculation of our market capitalisation is based on 800,000,000 Shares which will be in issue immediately following completion of the Share Offer (assuming the Offer Size Adjustment Option is not exercised) and without taking into account any Share that may be allotted and issued upon the exercise of any options that may be granted under the Share Option Scheme or any Share that may be allotted and issued or repurchased by our Company pursuant to the general mandates granted to our Directors to issue or repurchase Shares as described in the section headed "Share Capital" in this prospectus.

(2) The unaudited pro forma adjusted combined net tangible assets per Share has been prepared with reference to certain estimation and adjustment. Please refer to Appendix II to this prospectus for further details.

FUTURE PLANS AND USE OF PROCEEDS

Assuming an Offer Price of HK$0.325 per Share (being the mid-point of the Offer Price range of HK$0.25 to HK$0.40 per Share), the net proceeds from the Share Offer, after deducting the underwriting fees and estimated expenses borne by us in connection with the Share Offer, are estimated to be approximately HK$28.0 million. We intend to use the net proceeds of the Share Offer for the following purposes:

- HK$15.4 million or 55.0% will be used for expanding our existing production facilities and production plant;
- HK$7.0 million or 25.0% will be used for repaying part of our existing loan;
- HK$2.8 million or 10.0% will be used for funding the upfront costs for the commercial production of the Shuneng Plant; and
- HK$2.8 million or 10.0% will be used for general working capital of our Group.

For further details, see "Business — Business Strategies" and "Future Plans and Use of Proceeds" in this prospectus.

LISTING EXPENSES

The total Listing expenses, which are non-recurring in nature and primarily consist of the fees paid or payable to professional parties and underwriting commission, are estimated to be HK$37.0 million or 56.9% of the gross proceeds (equivalent to RMB32.6 million, based on HK$0.325 per Offer Share, being the mid-point of the indicative Offer Price range stated in this prospectus and assuming no exercise of the Offer Size Adjustment Option). For the Listing expenses, (i) HK$13.5 million (equivalent to RMB11.9 million) is directly attributable to the issue of the Offer Shares which are to be accounted for as a deduction from equity; (ii) HK$4.4 million and HK$10.1 million (equivalent to RMB3.9 million and RMB8.9 million respectively) have been charged to profit or loss of our Group for FY2018 and FY2019 respectively; and (iii) HK$9.0 million (equivalent to RMB7.9 million) will be further charged to profit or loss of our Group for FY2020 upon the Listing.

DIVIDENDS

During FY2019, a final dividend of approximately RMB4.9 million was declared by Guangyuan Tongchuang for its financial results for FY2018 to its shareholders, namely Guangyuan Saftower and Tongsheng Guochuang. As at 31 December 2019, the balance of the dividend payable was fully settled. The declaration and payment of future dividends will be subject to the decision of our Board having regard to various factors such as our results of operations, cash flows, financial conditions, future prospects and regulatory restrictions on the payment of dividends by us or our operating subsidiaries. The historical dividend payments may not be indicative of future dividend trends. We do not have any predetermined dividend payout ratio. For details, see "Financial Information of our Group — Dividend" in this prospectus.

LEGAL COMPLIANCE

Except for the litigation disclosed in the paragraph headed "Business — Compliance and Litigation — Litigation", as at the Latest Practicable Date, as advised by our PRC Legal Advisers, there was no pending or threatened litigation, arbitration or administrative proceeding against us or any of our subsidiaries which could have a material adverse effect on our business or financial position. Our Directors confirmed that, and as advised by our PRC Legal Advisers, save as the two incidents of non-compliance with the Rules for Information Disclosures by Companies Admitted to the NEEQ, there was no material non-compliance of our Group with the applicable laws and regulations during the Track Record Period and up to the Latest Practicable Date. See "Business — Compliance and Litigation — Regulatory compliance" and "History, Development and Reorganisation — Non-compliance incidents with the Rules for Information Disclosures by Companies Admitted to the NEEQ 《全國中小企業股份轉讓系統掛牌公司信息披露細則》" in this prospectus.

HIGHLIGHTS OF RISK FACTORS

There are a number of risks involved in our operations and in connection with the Share Offer, many of which are beyond our control. These risks can be categorised into (i) risks relating to our business; (ii) risks relating to our industry; (iii) risks relating to doing business in the PRC; and (iv) risks relating to the Share Offer. We believe that the following are some of the major risks that may have a material adverse effect on us:

- Our operations could be materially affected by the volatility in the prices of our major raw materials and we may not be able to secure our principal raw materials on commercially acceptable terms, or at all.
- Our revenue is mainly derived from sales to customers without long-term contracts, and the demand for our products is significantly dependent on our customers' business and the performance of their respective industry or market.
- We recorded net current liabilities as at 31 December 2017 and 2018 and relatively high gearing ratio as at 31 December 2017, 2018 and 2019.
- We had net operating cash outflows for FY2018.
- Our business operations may be affected by the outbreak of COVID-19.
- The PRC preferential tax treatment and government subsidies we currently enjoy may be unfavourably changed or discontinued.
- We are exposed to the credit risk of our customers and operate in a relatively thin margin.

In this prospectus, unless the context otherwise requires, the following terms shall have the meanings set out below.

"Acting in Concert Undertaking"	an agreement entered into between Mr. Dang Fei and Mr. Dang Jun dated 4 July 2019. For details, see "History, Development and Reorganisation — Acting in Concert Undertaking" and "Relationship with our Controlling Shareholders" in this prospectus
"Alliance Capital Partners" or "Sole Sponsor"	Alliance Capital Partners Limited, the sole sponsor to our Company for the Listing, a corporation licensed to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
"aluminium products"	for the purpose of this prospectus, comprising aluminium strips and ingots traded by our Group
"Aostar"	Sichuan Guangyuan Aostar Aluminium Materials Company Limited* (四川廣元啟明星鋁業有限責任公司), a company established in the PRC with limited liability on 9 June 2000 with principal activities of manufacturing and sale of electrolytic aluminium ingots and alloy ingots (電解鋁錠及合金錠), a customer and a business partner of our Group during the Track Record Period and an Independent Third Party. For details, see "Business — Agency Service Arrangements" in this prospectus
"Application Form(s)"	**WHITE** Application Form(s), **YELLOW** Application Form(s) and **GREEN** Application Form(s) individually or collectively, as where the context so requires, any of them
"Articles of Association" or "Articles"	the amended and restated articles of association of our Company adopted on 10 June 2020, a summary of which is set out in Appendix IV to this prospectus, as amended from time to time
"associate(s)" or "close associate(s)"	has the meanings ascribed thereto under the GEM Listing Rules
"Bida Investment"	Bida Investment Limited, a company incorporated in BVI with limited liability on 5 November 2018 and a direct wholly-owned subsidiary of our Company
"Bigroad Investment"	Bigroad Investment Limited, a company incorporated in BVI with limited liability on 21 January 2019 and one of our Shareholders, which is wholly-owned by Mr. Deng Daosong (鄧道松)
"Board"	the board of Directors

"Bonyer Investment"	Bonyer Investment Limited, a company incorporated in BVI with limited liability on 21 January 2019 and one of our Shareholders, which is wholly-owned by Mr. Tan Bangyao (譚邦要)
"Business Day(s)"	a day(s) (excluding Saturday, Sunday or public or statutory holiday in Hong Kong and any day on which a tropical cyclone warning No. 8 or above is hoisted or remains hoisted between 9:00 a.m. and 12:00 noon and is not lowered at or before 12:00 noon or on which a "black" rainstorm warning signal is hoisted or remains in effect between 9:00 a.m. and 12:00 noon and is not discontinued at or before 12:00 noon) on which licensed banks in Hong Kong are generally open for business in Hong Kong throughout their normal business hours
"BVI"	the British Virgin Islands
"CAGR"	compound annual growth rate
"Capitalisation Issue"	the issue of 599,990,000 Shares to be made upon capitalisation of the sum of HK$5,999,900 standing to the credit of the share premium account of our Company as referred to in the paragraph headed "A. Further Information about our Group — 6. Written resolutions of our Shareholders" in Appendix V to this prospectus
"Cayman Companies Law" or "Companies Law" or "Cayman Islands Company Law"	the Companies Law (as revised) of the Cayman Islands as amended, supplemented or otherwise modified from time to time
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"CCASS Clearing Participant(s)"	a person(s) permitted to participate in CCASS as a direct clearing participant(s) or general clearing participant(s)
"CCASS Custodian Participant(s)"	a person(s) permitted to participate in CCASS as a custodian participant(s)
"CCASS Investor Participant(s)"	a person(s) admitted to participate in CCASS as an investor participant(s) who may be an individual(s) or joint individual(s) or a corporation(s)
"CCASS Participants"	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
"CCC"	China Compulsory Certification

"Changhong"	Sichuan Changhong Electrical Appliance Company Limited* (四川長虹電器股份有限公司), a company listed on the Shanghai Stock Exchange (Stock Code: 600839), which is principally engaged in the electrical appliance business
"Changhong Group"	collectively refers to Changhong and its largest shareholder, which is a state-owned group principally engaging in the investment and electrical appliance business, one of our five largest customers during the Track Record Period and an Independent Third Party
"Chengdu AIC"	Chengdu Administration for Industry and Commerce
"Chengdu Gaopeng"	Chengdu Gaopeng Enterprise Management Partnership (Limited Partnership)* (成都高鵬企業管理合夥企業(有限合夥)), a limited partnership established in the PRC on 21 January 2015 with Mr. Dang Fei as the general partner, which held 25% of the equity interest of Sichuan Saftower immediately before the Reorganisation
"Chengdu Plant"	our production plant located at No. 88 Qingma Road, Modern Industrial Park (South Area), Pidu District, Chengdu, Sichuan Province, the PRC since 2009 and our site located at No. 10 Nan Street, Xin Min Chang Town, Pidu District, Chengdu, Sichuan Province, the PRC which was previously used for production between 2004 and 2009
"China" or "PRC"	the People's Republic of China and, for the purpose of this prospectus and for geographical reference only, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"Chongqing Dexindi"	Chongqing Dexindi Trading Co., Ltd.* (重慶德信迪貿易有限公司), one of our five largest customers during FY2017. Chongqing Dexindi was established in the PRC in April 2015 and 51% equity interest of which was owned by Mr. Dang Jun until April 2016, when Mr. Dang Jun transferred his equity interest to Ms. Yu Xuelin, mother of Mr. Dang Jun and Mr. Dang Fei. Ms. Yu Xuelin subsequently transferred her equity interest to an Independent Third Party in November 2018
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time

"Companies (Winding Up and Miscellaneous Provisions) Ordinance"	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
"Company" or "our Company"	China Saftower International Holding Group Limited (中國蜀塔國際控股集團有限公司), an exempted company incorporated in the Cayman Islands with limited liability on 9 October 2018 and registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on 5 June 2019
"connected person(s)" or "core connected person(s)"	has the meaning ascribed thereto under the GEM Listing Rules
"connected transaction(s)"	has the meaning ascribed thereto under the GEM Listing Rules
"Controlling Shareholder(s)"	has the meaning ascribed thereto under the GEM Listing Rules and in the context of this prospectus, refers to Mr. Dang Fei, Mr. Dang Jun and Red Fly or, where the context so requires, any one of them
"Corporate Governance Code"	the Corporate Governance Code as set out in Appendix 15 to the GEM Listing Rules
"CSRC"	China Securities Regulatory Commission (中國證券監督管理委員會)
"Customer A"	a state-owned company, one of our five largest customer during the Track Record Period and an Independent Third Party. It is principally engaged in investment, construction and operation of power grids
"Customer B"	a wholly-owned subsidiary of a company listed on the Main Board of the Stock Exchange and an Independent Third Party. It is principally engaged in the manufacturing of wires and cables and is located in Jiangsu Province
"Customer C"	a company listed on the Shanghai Stock Exchange, one of our five largest customers during FY2019 and an Independent Third Party. It is principally engaged in the manufacturing and sale of wires and cables and is located in Zhejiang Province

"Deed of Indemnity"	the deed of indemnity dated 12 June 2020 executed by the Controlling Shareholders (as indemnifiers) in favour of our Company (for ourselves and as trustee for each of our subsidiaries) regarding certain indemnities as more particularly set out in the paragraph headed "E. Other Information — 1. Tax and other indemnities" in Appendix V to this prospectus
"Deed of Non-competition"	the deed of non-competition dated 12 June 2020 executed by the Controlling Shareholders in favour of our Company (for ourselves and for the benefit of each of our subsidiaries) regarding certain non-competition undertakings as more particularly set out in the section headed "Relationship with our Controlling Shareholders" in this prospectus
"Dibell Investment"	Dibell Investment Limited, a company incorporated in BVI with limited liability on 21 January 2019 and one of our Shareholders, which is owned as to 90.91% by Ms. Ding Zhaoqun (丁昭群) and 9.09% by Ms. Hu Min (胡敏)
"Director(s)"	the director(s) of our Company
"EIT"	enterprise income tax
"EIT Law"	the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法) and the Regulations on the Implementation of the Enterprise Income Tax Law of the PRC, collectively
"electronic application instruction(s)"	instruction(s) given by a CCASS Participant electronically via CCASS to HKSCC, being one of the methods to apply for the Public Offer Shares
"Enlarged Group"	our Group as enlarged by Guangyuan Tongchuang as if Guangyuan Tongchuang had been our subsidiary since 1 January 2017
"Extreme Conditions"	the extreme conditions the government of Hong Kong may announce in the event of, for example, serious disruption of public transport services, extensive flooding, major landslides, or large-scale power outage caused by super typhoons according to the revised "Code of Practice in Times of Typhoons and Rainstorms" issued by the Hong Kong Labour Department
"Frost & Sullivan"	Frost & Sullivan International Limited, an Independent Third Party and an independent market research company
"F&S Report"	the industry report prepared by Frost & Sullivan and commissioned by our Company, the content of which is cited in this prospectus

"FY2017"	the financial year ended 31 December 2017
"FY2018"	the financial year ended 31 December 2018
"FY2019"	the financial year ended 31 December 2019
"FY2020"	the financial year ending 31 December 2020
"GEM"	GEM of the Stock Exchange
"GEM Listing Rules"	the Rules Governing the Listing of Securities on GEM, as amended, supplemented or otherwise modified from time to time
"**GREEN** Application Form(s)"	the application form(s) to be completed by **HK eIPO White Form** Service Provider
"Group", "our Group", "we", "our" or "us"	our Company and our subsidiaries at the relevant time or, where the context otherwise requires, in respect of the period before our Company becoming the holding company of our present subsidiaries, such subsidiaries and the businesses carried on by them or their predecessors (as the case may be)
"Guangyuan AMR" or "Guangyuan AIC"	Guangyuan Administration for Market and Regulation* (廣元市市場監督管理局), formerly known as Guangyuan Administration for Industry and Commerce* (廣元市工商行政管理局)
"Guangyuan Plant"	our production plant located at Sichuan-Zhejiang Park, Yuanjiaba Office, Guangyuan Economic Development Zone, Lizhou District, Guangyuan, Sichuan Province, the PRC
"Guangyuan Saftower"	Guangyuan Saftower Cable Company Limited* (廣元蜀塔電纜有限公司), a company established in the PRC with limited liability on 16 February 2015 and an indirect wholly-owned subsidiary of our Company
"Guangyuan Saftower Technology"	Guangyuan Saftower Technology Company Limited* (廣元蜀塔科技有限公司), a company established in the PRC with limited liability on 14 September 2018 and an indirect wholly-owned subsidiary of our Company
"Guangyuan Shuneng"	Guangyuan Shuneng Alloy Materials Company Limited* (廣元蜀能合金材料有限公司), a company established in the PRC with limited liability on 24 January 2018 and an indirect wholly-owned subsidiary of our Company

"Guangyuan Tongchuang"	Guangyuan Tongchuang New Materials Company Limited* (廣元同創新材料有限公司), a company established in the PRC with limited liability on 14 July 2017, and a non-wholly owned subsidiary of our Company as to 56.67% while the remaining 43.33% is owned by Tongsheng Guochuang, which is in turn owned as to 70% by Tongsheng Investment
"Guizhou Galuminium"	Guizhou Galuminium Aluminium-oxide Co., Ltd.* (貴州廣鋁氧化鋁有限公司), a company established in the PRC with limited liability on 7 December 2015 and the designated supplier from whom we purchased aluminium Oxide for Aostar during Track Record Period and an Independent Third Party. For details, see "Business — Agency Service Arrangements" in this prospectus
"Gun Wealth Investment"	Gun Wealth Investment Limited, a company incorporated in BVI with limited liability on 22 January 2019 and one of our Shareholders, which is wholly-owned by Ms. Guo Rong (郭蓉)
"Guoda"	Guangyuan Guoda Technology Co., Ltd. (廣元國大科技有限公司), a company established in the PRC with limited liability on 21 April 2015, a customer and supplier of our Group during FY2017, FY2018 and FY2019 and an Independent Third Party. It is a private company with principal activities of sale of aluminium rods and aluminium alloy rods
"Hard Underwriting Agreement"	the hard underwriting agreement dated 23 June 2020 entered into between our Company and Zhong Jia Securities Limited, pursuant to which Zhong Jia Securities Limited agreed to assume, on a fully underwritten basis, an underwriting commitment to subscribe, or procure subscribers to subscribe, 200,000,000 Offer Shares pursuant to the terms and subject to the conditions mentioned therein and in connection with the Share Offer
"Hisky Investment"	Hisky Investment Limited, a company incorporated in BVI with limited liability on 22 January 2019 and one of our Shareholders, which is owned as to 56.82% by Mr. Li Guojiang (李國江), 20.46% by Ms. Peng Zeling (彭澤玲), 11.36% by Mr. Tang Xiaojian (湯小建) and 11.36% by Ms. Yi Caixia (夷彩霞)
"HK$" or "Hong Kong dollars"	Hong Kong dollars, the lawful currency of Hong Kong
"HKAS(s)"	Hong Kong Accounting Standards

"**HK eIPO White Form**"	the application of Public Offer Shares to be issued in the applicant's own name by submitting applications online through the **IPO APP** or the designated website of the **HK eIPO White Form** Service Provider at ***www.hkeipo.hk***
"**HK eIPO White Form** Service Provider"	the **HK eIPO White Form** service provider designated by our Company, as specified in the **IPO APP** or on the designated website at ***www.hkeipo.hk***
"HKFRSs"	the Hong Kong Financial Reporting Standards, including the Hong Kong Accounting Standards and interpretation issued by the Hong Kong Institute of Certified Public Accountants
"HKICPA"	Hong Kong Institute of Certified Public Accountants
"HKSCC"	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
"HKSCC Nominees"	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Branch Share Registrar"	Tricor Investor Services Limited, our Hong Kong branch share registrar and transfer office
"Independent Third Party(ies)"	individual(s) or company(ies) who or which, as far as our Directors are aware after having made all reasonable enquiries, is or are not a connected person(s) of our Company within the meaning of the GEM Listing Rules
"Integrated Guangyuan Production Facilities"	the Guangyuan Plant, Tongchuang Plant and our planned additional production site
"**IPO APP**"	the mobile application for **HK eIPO White Form** Service, which can be downloaded by searching "**IPO APP**" in App Store or Google Play or downloaded at ***www.hkeipo.hk/IPOApp*** or ***www.tricorglobal.com/IPOApp***
"Jinjin"	Sichuan Jinjin Copper Industry Company Limited* (四川津津銅業有限公司), a company established in the PRC with limited liability on 23 November 2006, a customer and supplier of our Group during FY2017, FY2018 and FY2019 and an Independent Third Party. It is a private company with principal activities of processing and sale of copper

"Joint Bookrunners"	Zhong Jia Securities Limited, Alliance Capital Partners, Ferran Securities Limited and Get Nice Securities Limited
"Joint Lead Managers"	Zhong Jia Securities Limited, Alliance Capital Partners, Ferran Securities Limited, Get Nice Securities Limited, DL Securities (HK) Limited, First Fidelity Capital (International) Limited, I Win Securities Limited, Livermore Holdings Limited, Red Eagle Securities Limited and uSmart Securities Limited
"Latest Practicable Date"	14 June 2020, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining certain information contained in this prospectus
"Lhasa Saftower"	Lhasa Saftower Technology Development Company Limited* (拉薩蜀塔科技發展有限公司) (formerly known as Lhasa Saftower Cable Company Limited* (拉薩蜀塔電纜有限公司)), a company established in the PRC with limited liability on 14 January 2013 and an indirect wholly-owned subsidiary of our Company
"Listing"	listing of our Shares on GEM
"Listing Committee"	the listing committee of the Stock Exchange
"Listing Date"	the date, expected to be on or about Friday, 10 July 2020, on which our Shares are listed on GEM and from which dealings in our Shares are permitted to commence on GEM
"Litai Energy"	Sichuan Litai Energy Group Co., Ltd.* (四川利泰能源集團有限公司), a company established in the PRC with limited liability on 1 January 1992, a subsidiary of Customer A and an Independent Third Party
"Lockxy Investment"	Lockxy Investment Limited, a company incorporated in BVI with limited liability on 21 January 2019 and one of our Shareholders, which is owned as to 68% by Ms. Luo Xi (羅茜), 20% by Mr. Fu Chuanrong (付傳榮) and 12% by Mr. Wang Zhengwen (王正文)
"Memorandum" or "Memorandum of Association"	the amended and restated memorandum of association of our Company adopted on 10 June 2020, a summary of which is set out in Appendix IV to this prospectus, as amended from time to time
"Mr. Dang Fei"	Mr. Dang Fei (黨飛), our founder, an executive Director, chairman of our Board, chief executive officer of our Group, one of our Controlling Shareholders, the younger brother of Mr. Dang Jun

"Mr. Dang Jun"	Mr. Dang Jun (黨軍), one of our Controlling Shareholders and a member of our senior management, the elder brother of Mr. Dang Fei
"Mr. Wang"	Mr. Wang Xiaozhong (王小仲), an executive Director and a Substantial Shareholder
"NEEQ"	the National Equities Exchange and Quotations (全國中小企業股份轉讓系統)
"Offer Price"	the final price per Offer Share in Hong Kong dollars (exclusive of brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) at which the Offer Shares are to be subscribed for and issued pursuant to the Share Offer, which will not be more than HK$0.40 per Offer Share and expected to be not less than HK$0.25 per Offer Share, to be determined by our Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters) on or before the Price Determination Date
"Offer Shares"	the Public Offer Shares and the Placing Shares
"Offer Size Adjustment Option"	the option to be granted by our Company to the Placing Underwriters exercisable by the Joint Bookrunners (for themselves and on behalf of the Placing Underwriters), at their sole and absolute discretion, to require our Company to allot and issue up to an aggregate of 30,000,000 additional Shares, representing 15.0% of the number of the Offer Shares initially being offered under the Share Offer, at the Offer Price, to cover over-allocations in the Placing, if any, subject to the terms of the Placing Underwriting Agreement, as further described in the section headed "Structure and Conditions of the Share Offer" in this prospectus
"PBOC"	the People's Bank of China (中國人民銀行), the central bank of the PRC
"Placing"	the conditional placing of the Placing Shares at the Offer Price by the Placing Underwriters for and on behalf of our Company, subject to reallocation, together where relevant, with any additional Shares that may be allotted and issued pursuant to the exercise of the Offer Size Adjustment Option (if any), subject to the terms and conditions as described under the section headed "Structure and Conditions of the Share Offer" in this prospectus

"Placing Shares"	180,000,000 Shares initially offered by our Company for subscription at the Offer Price under the Placing, subject to reallocation, where relevant, with any additional Shares that may be allotted and issued pursuant to the exercise of the Offer Size Adjustment Option (if any), as described under the section headed "Structure and Conditions of the Share Offer" in this prospectus
"Placing Underwriter(s)"	the underwriter(s) of the Placing named in the section headed "Underwriting — Placing Underwriters" of this prospectus
"Placing Underwriting Agreement"	the conditional placing underwriting agreement relating to the Placing dated 23 June 2020 entered into amongst our Company, our Controlling Shareholders, our executive Directors, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Placing Underwriter(s), as further described under the section headed "Underwriting" of this prospectus
"PRC GAAP"	accounting principles generally accepted in the PRC
"PRC Government" or "State"	the central government of the PRC, including all governmental subdivisions (including provincial, municipal and other regional or local government entities) and instrumentalities thereof, or where the context requires, any of them
"PRC Legal Advisers"	Tahota Law Firm, a qualified PRC law firm and the legal advisers to our Company as to PRC law
"Pre-IPO Investment"	the acquisition of 4% of the equity interest of Guangyuan Saftower Technology by Ms. Zhao Qi as part of the Reorganisation steps as described in the paragraphs headed "Reorganisation" and "Pre-IPO Investment" under the section headed "History, Development and Reorganisation" in this Prospectus
"Pre-IPO Investor"	Ms. Zhao Qi (趙琦)
"Price Determination Agreement"	the agreement expected to be entered into by the Joint Bookrunners (for themselves and on behalf of the Underwriters) and our Company on or before the Price Determination Date to record and fix the final Offer Price
"Price Determination Date"	the date, expected to be on or around Thursday, 2 July 2020 but, in any event, no later than Friday, 3 July 2020, on which the final Offer Price will be determined for the purpose of the Share Offer

"Public Offer"	the issue and offer by our Company of the Public Offer Shares for subscription by the public in Hong Kong for cash at the Offer Price (subject to the terms and conditions described in this prospectus and the Application Forms)
"Public Offer Shares"	the 20,000,000 Shares (subject to reallocation) initially being offered by our Company for subscription at the Offer Price under the Public Offer, as described in the section headed "Structure and Conditions of the Share Offer" in this prospectus
"Public Offer Underwriter(s)"	the underwriter(s) of the Public Offer named in the section headed "Underwriting — Public Offer Underwriters" of this prospectus
"Public Offer Underwriting Agreement"	the conditional underwriting agreement dated 23 June 2020 relating to the Public Offer entered into among our Company, our Controlling Shareholders, our executive Directors, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Public Offer Underwriter(s), as further described under the section headed "Underwriting" of this prospectus
"Red Fly"	Red Fly Investment Limited, a company incorporated in BVI with limited liability on 21 September 2018, which is owned as to 80.79% by Mr. Dang Fei and 19.21% by Mr. Dang Jun. Red Fly is one of our Controlling Shareholders
"Reorganisation"	the corporate reorganisation of our Group in preparation for the Listing, details of which are set out in the section headed "History, Development and Reorganisation — Reorganisation" of this prospectus
"RMB"	Renminbi, the lawful currency of the PRC
"Rocky Base Investment"	Rocky Base Investment Limited, a company incorporated in BVI with limited liability on 21 January 2019 and one of our Shareholders, which is wholly owned by Mr. Luo Chuji (駱楚基)
"SAFE"	State Administration of Foreign Exchange of the PRC (中華人民共和國外匯管理局)
"Saftower International"	China Saftower International Limited (中國蜀塔國際有限公司) (formerly known as China Softower International Limited (中國蜀塔國際有限公司)), a company incorporated in Hong Kong with limited liability on 5 December 2018 and an indirect wholly-owned subsidiary of our Company

"Saftower Management"	Saftower Management (Guangyuan) Limited* (蜀塔企業管理(廣元)有限公司), a company established in the PRC with limited liability on 14 May 2019 and an indirect wholly-owned subsidiary of our Company
"SASAC"	State-owned Assets Supervision and Administration Commission (國資委)
"SFC"	the Securities and Futures Commission
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share Offer"	together, the Public Offer and the Placing
"Share Option Scheme"	the share option scheme conditionally adopted by our Company pursuant to a resolution passed by all Shareholders on 10 June 2020, the principal terms of which are summarised in the paragraph headed "D. Share Option Scheme" in Appendix V to this prospectus
"Share(s)"	ordinary shares of HK$0.01 each in the share capital of our Company
"Shareholder(s)"	holder(s) of the Share(s)
"Shuneng Plant"	a workshop located within the production plant of and operated by Guangyuan Shuneng
"Sichuan Liangdian"	Sichuan Liangdian Cable Technology Company Limited* (四川量電電纜科技有限公司) (formerly known as Deyang Saftower Cable Technology Company Limited* (德陽蜀塔電纜科技有限公司)), a company established in the PRC with limited liability on 19 March 2015 and an indirect wholly-owned subsidiary of our Company
"Sichuan Saftower"	Sichuan Saftower Industry Company Limited* (四川蜀塔實業有限公司) (formerly known as Pixian Sandian Cables Company Limited* (郫縣三電電纜有限責任公司) for the period from 24 June 2004 to 25 June 2015 and Sichuan Saftower Industry Inc.* (四川蜀塔實業股份有限公司) for the period from 26 June 2015 to 10 October 2018), a company established in the PRC with limited liability on 24 June 2004 and an indirect wholly-owned subsidiary of our Company
"sq.m."	square metre
"Stock Exchange"	The Stock Exchange of Hong Kong Limited

"subsidiary(ies)"	has the meaning ascribed thereto under the GEM Listing Rules
"Substantial Shareholder(s)"	has the meaning ascribed thereto under the GEM Listing Rules
"Supplier A"	a Hong Kong listed group of companies and is one of our five largest suppliers during FY2017. It is principally engaged in production and trading of copper
"Takeovers Code"	The Code on Takeovers and Mergers issued by the SFC, as amended, supplemented or otherwise modified from time to time
"Tianzhu"	Guangyuan Tianzhu Commercial Trading Company Limited* (廣元天築商貿有限責任公司), a company established in the PRC with limited liability on 14 October 2014, a customer and supplier of our Group during FY2017, FY2018 and FY2019 and an Independent Third Party. It is a state-owned company with 51.25% shareholding by State-owned Assets Supervision and Administration Commission of Guangyuan City (廣元市人民政府國有資產監督管理委員會) with principal activities of sale of construction materials, metals, machinery and wires and cables
"Tongchuang Equity Acquisition"	the acquisition of 16.67% of the equity interest in Guangyuan Tongchuang from Mr. Li Zhanwei (李占威), an Independent Third Party, by Guangyuan Saftower pursuant to an equity transfer agreement dated 15 April 2019 entered into between Mr. Li Zhanwei and Guangyuan Saftower
"Tongchuang Plant"	our production plant located at No. 9 Huaide Road, Sichuan-Zhejiang Cooperative Industrial Park, Economic Development Zone, Guangyuan, Sichuan Province, the PRC
"Tongsheng Guochuang"	Sichuan Tongsheng Guochuang Aluminium Industry Development Company Limited* (四川同聖國創鋁業發展有限公司), a company established in the PRC with limited liability on 7 June 2017, which is owned as to 70% by Tongsheng Investment and 30% by Guangyuan Guochuang Industrial Investment Company Limited* (廣元市國創產業投資有限公司), an investment platform of the Guangyuan City government, and a connected person of our Company at the subsidiary level under Rule 20.07(1) of the GEM Listing Rules

"Tongsheng Investment"	Sichuan Tongsheng Industrial Investment Company Limited* (四川同聖產業投資有限公司), a company established in the PRC with limited liability on 18 November 2016, which is a state-owned investment platform and is owned as to 40% by Guangyuan Investment Holdings (Group) Company Limited* (廣元市投資控股(集團)有限公司), 35% by Sichuan Jinding Chanrong Holdings Company Limited* (四川金鼎產融控股有限公司) and 25% by Sichuan Guang'an Aizhong Company Limited* (四川廣安愛眾股份有限公司)
"Track Record Period"	FY2018 and FY2019
"Underwriters"	together, the Public Offer Underwriter(s) and the Placing Underwriter(s)
"Underwriting Agreements"	together, the Public Offer Underwriting Agreement and the Placing Underwriting Agreement
"United States" or "U.S."	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
"US$"	United States dollars, the lawful currency of the United States
"VAT"	value-added tax
"Wechi Int'l"	Wechi Int'l Investment Limited (唯奇國際投資有限公司), a company incorporated in Hong Kong with limited liability on 27 December 2018 and an indirect wholly-owned subsidiary of our Company
"Weichi Investment"	Weichi Investment Limited, a company incorporated in BVI with limited liability on 15 November 2018 and an indirect wholly-owned subsidiary of our Company
"**WHITE** Application Form(s)"	the application form(s) for use by the public who require(s) such Public Offer Shares to be issued in the applicant's or applicants' own name(s)
"Xseven Investment"	Xseven Investment Limited, a company incorporated in BVI with limited liability on 21 September 2018 and one of our Substantial Shareholders, which is wholly-owned by Mr. Wang
"**YELLOW** Application Form(s)"	the application form(s) for use by the public who require(s) such Public Offer Shares to be deposited directly into CCASS

"ZH Fortune Investment"	ZH Fortune Investment Limited, a company incorporated in BVI with limited liability on 21 January 2019 and one of our Shareholders, which is owned as to 66.67% by Ms. Zhang Ping (張萍) and 33.33% by Ms. Zhang Hairong (張海蓉)
"Zhonglv"	Guangyuan Zhonglv Aluminium Industry Company Limited (廣元中鋁鋁業有限公司), a company established in the PRC with limited liability on 18 March 2014, a customer and supplier of our Group during FY2017, FY2018 and FY2019 and an Independent Third Party. It is a private company with principal activities of production of aluminium rods and aluminium alloy rods
"Zirao"	Guangyuan Zirao Trading Company Limited* (廣元紫饒貿易有限公司), a company established in the PRC with limited liability on 12 October 2016, a customer and supplier of our Group during FY2017, FY2018 and FY2019 and an Independent Third Party. It is a private company with principal activities of sale of metal materials, wires and cables and construction materials
"%"	per cent.

Unless otherwise stated, the conversion of HK$ into RMB in this prospectus is based on the approximate exchange rate of HK$1.00 to RMB0.88. Such conversions shall not be construed as representations that amounts in HK$ will be or may have been converted into RMB at such rates or any other exchange rates, or vice versa.

Any discrepancies in any table between the total shown and the sum of the amount (including the percentage) listed are due to rounding. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

If there is any inconsistency between the English names and their Chinese translations, the English names should prevail. The Chinese translation of the names in English or another language which are marked with "" are translations provided for identification purpose only.*

This glossary of technical terms contains explanation of certain terms used in this prospectus in connection with us and our business. These terms and their given meanings may not correspond to those standard meanings and usage adopted in the industry.

"annealing"	a heat treatment process to boost plasticity, eliminate hardness and preserve the optimum electrical characteristics and metallic performance of the copper
"armour"	a layer of galvanised steel wire or tape that is wrapped around a cable to provide a high level of protection against mechanical damage
"ACSR"	aluminium conductor steel-reinforced
"cabling"	a process whereby several insulated cores or other materials are wrapped together to form a cabled assembly
"conductors"	a wire or combination of wires not insulated from one another, suitable for carrying an electrical current
"core"	the portion of an insulated cable lying under the protective covering or coverings
"drawing"	a procedure that involves pulling the metal wire through a die or series of dies to reduce the size of the wire diameter
"insulation"	an outer coating for the conductor that helps resist the flow of electric charge
"ISO"	International Organisation of Standards, a world-wide federation of national standards bodies whose mission is to develop industrial standards that facilitate international trade
"km"	kilometre
"kV"	kilovolt
"LSZH"	low smoke zero halogen
"sq.m."	square millimetre
"OEM"	acronym for original equipment manufacturing, whereby products are manufactured in accordance with the customer's design and specifications and are marketed and sold under the customer's brand name

"PVC"	an abbreviation for polyvinyl chloride, a general purpose thermoplastic generally used as insulations and sheaths for low voltage wire and cable
"Semi-finished wires"	for the purpose of this prospectus, comprising processed aluminium rods and bare copper wires
"sheath"	a layer of material, usually being plastic or rubber, applied to a cable that protects the insulation from mechanical damage
"spot price"	the current price of a commodity at which it can be bought or sold at a particular place and time
"stranding"	small wires are twisted together to produce a larger conductor size
"wires and cables"	finished wires and cables and semi-finished wires
"XLPE"	an abbreviation for cross-linked polyethylene, a highgrade insulation material generally used for high voltage cables as it has good electrical performance and can endure higher temperatures of up to 90 degrees Celsius

This prospectus contains forward-looking statements. When used in this prospectus, the words "aim", "anticipate", "believe", "can", "could", "estimate", "expect", "going forward", "intend", "may", "might", "plan", "project", "propose", "seek", "should", "target", "will", "would" and the negative of these words and other similar expressions, as they relate to our Group or our management, are intended to identify forward-looking statements. These forward-looking statements include, without limitation, statements relating to:

- our business strategies and our operating and expansion plans;
- our objectives and expectations regarding our future operations, profitability, liquidity and capital resources;
- future events and developments, trends and conditions in the industry and markets in which we operate or plan to operate;
- our ability to control costs; and
- our ability to identify and successfully take advantage of new business development opportunities.

Such statements reflect the current views of our management with respect to future events, operations, profitability, liquidity and capital resources, some of which may not materialise or may change. Actual results may differ materially from information, implied or expressed, in the forward-looking statements as a result of a number of factors, including, without limitation, the risk factors set out in "Risk Factors" in this prospectus and the following:

- changes in the laws, rules and regulations applicable to us;
- general economic, market and business conditions in the PRC, including the sustainability of the economic growth in the PRC;
- changes or volatility in interest rates, foreign exchange rates, equity prices or other rates or prices;
- business opportunities and expansion that we may pursue;
- our ability to identify, measure, monitor and control risks in our business, including our ability to improve our overall risk profile and risk management practices; and
- other factors beyond our control.

Subject to the requirements of applicable laws, rules and regulations, we do not have any obligation to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect, or at all.

Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements contained in this prospectus are qualified by reference to the cautionary statements set forth in this section as well as the risk factors set out in "Risk Factors" in this prospectus.

In this prospectus, statements of or references to our intentions or those of any of our Directors are made as at the date of this prospectus. Any such intentions may change in light of future developments.

An investment in our Shares involves various risks. You should carefully consider all the information in this prospectus and, in particular, the risks and uncertainties described below before making an investment in our Shares.

The occurrence of any of the following events could materially and adversely affect our business, financial position or prospect. If any of these events occur, the trading price of our Shares could decline and you may lose all or part of your investment. You should seek professional advice from your relevant advisers regarding your prospective investment in the context of your particular circumstances.

RISKS RELATING TO OUR BUSINESS

Our operations could be materially affected by the volatility in the prices of our major raw materials and we may not be able to secure our principal raw materials on commercially acceptable terms, or at all

The major raw materials used in the production of our principal products include primarily copper materials (comprising mainly copper rods), aluminium materials (comprising mainly aluminium rods) and PVC materials. For FY2017, FY2018 and FY2019, our cost of raw materials for wires and cables accounted for 84.6%, 54.3% and 84.3%, respectively, of our cost of sales. We also purchased aluminium for trading and our cost of purchasing aluminium products accounted for 6.5%, 25.9% and 7.0% of our cost of sales for FY2017, FY2018 and FY2019, respectively. Copper and aluminium are susceptible to market volatility caused by various factors beyond our control. For example, fluctuations in market demands and the overall economic conditions could materially affect the demand and supply balance of these materials. See "Financial Information of our Group — Key Factors Affecting our Results of Operations — Availability and cost of raw materials" in this prospectus for further details. If we are unable to effectively manage the price fluctuations in copper and aluminium or pass the increased costs to our customers, any significant increase in the price of copper and/or aluminium would adversely impact our profit margin, thereby materially and adversely affect our financial position.

As disclosed in "Business — Procurement and Suppliers" in this prospectus, it is not our practice to enter into long-term contracts with our suppliers and we have not conducted any hedging activities. Therefore, we cannot assure you that our suppliers will not significantly increase the prices of raw materials or aluminium products in the future. In addition, although we have maintained a stable business relationship with our major suppliers, we cannot assure you that our major suppliers will continue the business relationship with us and deliver a sufficient quantity of raw materials to us in a timely manner, on commercially acceptable terms, or at all.

For FY2017, FY2018 and FY2019, purchases from our five largest suppliers in aggregate accounted for RMB225.2 million, RMB428.4 million and RMB547.5 million, respectively, accounting for 94.2%, 85.9% and 89.6%, respectively, of our total purchase for the same periods. In the event that we are unable to maintain business relationship with our major suppliers or to obtain a sufficient quantity of raw materials or aluminium products at a reasonable price or in a timely manner from them, or at all, or if the supply of raw materials or aluminium products by these suppliers are terminated, interrupted, or adversely modified, we cannot assure you that we are or will be able to secure alternative sources of raw materials or aluminium products with comparable prices or amounts on terms favourable to us. Any shortage in supply or loss of our major suppliers could result in delay of our production and/or increase in our cost of sales, thereby materially and adversely affecting our business, results of operations and profitability.

Our revenue is mainly derived from sales to customers without long-term contracts, and the demand for our products is significantly dependent on our customers' business and the performance of their respective industry or market

We principally engage in the manufacturing and sale of wires and cables and trading of aluminium products in the PRC. During the Track Record Period, our customers normally entered into contracts or placed purchase orders with us on a needed or project-by-project basis, which were not long term in nature. In most of the cases, we received quotation from potential customers before entering into any contractual relationship with them. On the other hand, some of the contracts entered into with customers (mainly those who operated in public sectors) were awarded through a competitive tendering process in which we were required to submit a bid, walk through the tendering process and enter into the supply contract only if the tendered projects are awarded to us. We submitted seven, 21 and 12 tenders for projects for FY2017, FY2018 and FY2019, respectively, and five, 13 and seven of such tendered projects were awarded to us. Our success rate for tenders submitted for FY2017, FY2018 and FY2019 were 71.4%, 61.9% and 58.3%, respectively. In addition, we may receive orders from a customer for highly customerised products, where we are able to negotiate for a higher selling price compared to other products. Further, most of our five largest customers for FY2017, FY2018 and FY2019 are relatively new, with business relationship with us for not more than three years. These five largest customers in aggregate accounted for 53.1%, 39.5% and 39.4%, respectively, of our total revenue for FY2017, FY2018 and FY2019. We cannot assure you that our customers are committed to continue to make the same or higher level of purchase with us, or at all, or that we are able to charge the same or higher prices for the products sold to a particular customer as each transaction is negotiated on a case-by-case basis, or that we will be able to secure new contracts, through tendering or any other means, from our existing or new customers in future, or that such customers will not engage our competitors for the supply of the same or similar products in the future.

In addition, the level of orders for our products placed by our customers could vary according to their respective financial or business performance and the industry in which they carry on their business. During the Track Record Period, our customers include power companies, manufacturing enterprises, construction and renovation companies, trading companies and walk-in customers. Factors which may impact their financial or business performance or the industry in which they carry on the business include market demand for their products or services, industrial cycle, the relevant PRC governmental regulations and policies, such as the capital expenditure budget for power generators and state grids and infrastructure developments and overall economic climate, which would affect the demand for our products and are beyond our control. If any event occurs which would materially and adversely affect the financial or business performance of our major customers or the respective industries in which they are operating, our financial position and prospect would be materially and adversely affected.

We recorded net current liabilities as at 31 December 2017 and 2018 and relatively high gearing ratio as at 31 December 2017, 2018 and 2019

Our business requires significant working capital for our day-to-day production activities and operations. In addition, our capital expenditures may increase as a result of our further acquisition or upgrade of production facilities and expansion of our operation scales, which may result in increases in our borrowing needs. Our working capital requirements may further increase if we are required to offer our customers more favourable payment terms in order to secure contracts or to compete successfully. For our trading of aluminium products, as we normally provide a credit period up to seven days to our customers and our suppliers generally require payment upon delivery, the resulting mismatch of credit terms requires us to maintain sufficient cash to meet our purchase requirement.

As at 31 December 2017 and 2018, we had net current liabilities of RMB69.4 million and RMB39.9 million respectively, of which RMB56.0 million and RMB91.6 million respectively, were secured interest-bearing borrowings which were mainly used for purchases of raw materials as at the relevant dates. We recorded net current assets of RMB17.3 million as at 31 December 2019. We had incurred significant indebtedness to finance our operations. To finance our expanding business, we incurred indebtedness in the amount of RMB71.6 million, RMB94.1 million, RMB99.7 million and RMB107.1 million, respectively, as at 31 December 2017, 2018, 2019 and 30 April 2020. Our gearing ratio was 123.5%, 107.7% and 71.5%, respectively, as at 31 December 2017, 2018 and 2019. For details, see "Financial Information of our Group — Key Financial Ratios" in this prospectus. Should our funding requirements exceed our available financial resources, we may be required to seek additional financing to fund our capital expenditures to support our business and/or refinance existing debt obligations.

We cannot assure you that we will not record net current liabilities again in the future. Having significant net current liabilities and indebtedness could expose us to liquidity risks, constrain our operational flexibility, increase our vulnerability to adverse developments in general economic or industry conditions, and adversely affect our ability to expand our business and fulfil our payment obligation under our borrowings. Our significant amount of external borrowing increased our exposure to finance cost. Our finance cost amounted to RMB4.3 million, RMB6.5 million and RMB7.9 million for FY2017, FY2018 and FY2019, respectively. If we do not generate sufficient cash flow from our operations to meet our present and future financial needs as anticipated as well as to fulfil our payment obligations, we may need to rely on additional external borrowings for funding. We cannot assure you that additional financing, either on a short-term or long-term basis, will be made available on terms favourable to us, or at all. If adequate funds are not available, whether on commercially acceptable terms, or at all, we will be subject to liquidity risk and be forced to liquidate our assets to pay off our debt and to delay or abandon our expansion plans, and our business, financial position and results of operations could be materially and adversely affected.

In addition, if we obtain additional financing through incurring debt obligations, we may be subject to various covenants under the relevant debt instruments which may restrict our ability to pay dividends or to obtain further funding. If we fail to comply with any such covenants or are in default of any such debt obligations, this may have an adverse impact on our liquidity and financial position, thereby materially and adversely affecting our business, financial position and prospects.

Our significant growth in revenue for FY2018 was partly contributed by our trading segment which may not be recurring in nature

For FY2018, our revenue from trading of aluminium products amounted to RMB138.6 million, representing an increase of RMB122.5 million from RMB16.1 million for FY2017. The significant growth in our trading segment was mainly because we commenced trading of aluminium products through Guangyuan Saftower since November 2017. Nonetheless, our Directors expect that we may not be able to record the same or higher level of revenue from this segment because (i) we plan to allocate more resources to our manufacturing segment for better utilisation of our working capital; and (ii) some trading income may not be recurring. For FY2018 and FY2019, our revenue from trading of aluminium products amounted to RMB138.6 million and RMB45.3 million, respectively.

We had net operating cash outflows for FY2018

For FY2018, we recorded negative cash flow from our operating activities of RMB21.7 million, which was largely due to cash outflow from change in working capital resulting from the aggregate effect of the increase in prepayments, deposits and other receivables and the increase in trade and bill receivables. For detailed discussion on our cash position, see "Financial Information of our Group — Liquidity and Capital Resources" in this prospectus.

We cannot assure you that we will not experience net operating cash outflow in the future. Our liquidity and financial position may be materially and adversely affected should our future operating cash flow remains negative. If we resort to other financing activities to generate additional cash, we will incur additional financing costs and we cannot guarantee that we will be able to obtain financing on terms acceptable to us or at all. Our working capital, our ability to make necessary capital expenditures and to fulfill our payment obligations may be constrained, and our business, financial position and results of operations could be materially and adversely affected.

Our business operations may be affected by the outbreak of COVID-19 originated from Wuhan City, Hubei Province, China

There has been an outbreak of a respiratory disease COVID-19 which first emerged in Wuhan City, Hubei Province, China in late 2019. The new strain of COVID-19 is considered highly contagious and may pose a serious public health threat. On 23 January 2020, the PRC government announced the lockdown of Wuhan City in an attempt to quarantine the city. Since then, draconian measures including travel restrictions had been imposed in other major cities in the PRC in an effort to contain the COVID-19 outbreak. The World Health Organization ("**WHO**") has been closely monitoring and evaluating the situation. On 30 January 2020, the WHO declared the outbreak of COVID-19 a Public Health Emergency of International Concern (PHEIC). As at the Latest Practicable Date, the virus had spread across the PRC where most deaths were in Hubei Province and globally, and death toll and number of infected cases continued to rise. Various countries and territories have also imposed travel restrictions, such as denial of entry and mandatory quarantine for people entering the boarders.

The continuous spread of COVID-19 is likely to have an adverse impact on the livelihood of the people in and the economy of the PRC. The wires and cables industry may be adversely affected due to the postponed resumption of productions and transportation, and therefore our business operation and our financial performance may be adversely affected.

We are uncertain as to when the outbreak of COVID-19 will be fully contained. If the outbreak of COVID-19 is not alleviated or is worsened unexpectedly in the foreseeable future, as with the other industries in the PRC, our business and financial condition may be materially and adversely affected as a result of the changes in the landscape of the wires and cables market, any slowdown in economic growth, negative business sentiment or other unanticipated factors. In addition, in case any of our employees contracted or is suspected to have contracted with COVID-19, they could be required to be quarantined and/or our production facilities to be disinfected, which could disrupt our business operation. Any prolonged disruption or suspension of our facilities will materially and adversely affect our business and financial performance.

The PRC preferential tax treatment and government subsidies we currently enjoy may be unfavourably changed or discontinued

For FY2017, FY2018 and FY2019, we received certain government grants and subsidies amounting to, in aggregate, RMB5.4 million, RMB3.9 million, and RMB15.0 million, respectively, in relation to the support of our Group's operations, purchase of plant and machinery, the reward (by preferential tax treatment and tax refund) of the employment of disabled people in the PRC, and the reward for our application for the Listing. These grants and subsidies were subject to the discretions of local governments.

Further, as at the Latest Practicable Date, our subsidiaries were entitled to enjoy various preferential tax treatment and tax refund. On 9 May 2016, we have been awarded Social Welfare Enterprise Certificate (社會福利企業證書) from Pidu District Civil Affair Bureau in the PRC. Under the relevant rules, such as Circular on Preferential Valued-Added Tax Policies for Promoting Employment of the Disabled People (關於促進殘疾人就業增值稅優惠政策的通知) (Cai Shui [2016] No.52), a social welfare enterprise is entitled to preferential tax treatment and tax refund. Further, Sichuan Saftower, our operating subsidiary in the PRC, was approved as High and New Technology Enterprise, and accordingly, such entity was subject to a preferential corporate income tax of 15% for FY2018 and FY2019. Guangyuan Tongchuang, our subsidiary since 16 April 2019, is subject to 15% income tax concession due to preferential tax policy of the development of the western region fulfilled in FY2019. According to "Circular on Issues Concerning Relevant Tax Policies in Deepening the Implementation of the Western Development Strategy" (《關於深入實施西部大開發戰略有關稅收政策問題的通知》) (Cai Shui [2011] No. 58) (財稅[2011]58號), from 1 January 2011 to 31 December 2020, the enterprise income tax imposed upon any enterprise established in western regions and included among the encouraged industries shall be collected at the reduced rate of 15%.

We cannot assure you that we will continue to receive such government grants, subsidies, preferential tax treatment and tax refund, and our financial position may be materially and adversely affected if we fail to obtain such government grant, subsidies and preferential tax treatments in the future. We also cannot assure you that our relevant subsidiaries can continue to enjoy the preferential tax treatment and tax refund to the status of a social welfare enterprise or High and New Technology Enterprise (as the case may be). If any of the above preferential policies previously applicable to us is changed unfavourably or discontinued or we are unable to successfully renew our entitlement to such policies, our net profit and hence our financial position would be materially and adversely affected.

We are exposed to the credit risk of our customers and operate in a relatively thin margin

Our financial condition and profitability are dependent on the creditworthiness of our customers. For FY2017, FY2018 and FY2019, our trade and bills receivables amounted to RMB27.9 million, RMB66.9 million and RMB148.0 million, respectively. Generally, for wires and cables, credit period of trade and bills receivables granted to our customers could be up to 90 days. For aluminium products, credit period granted to our customers could be up to seven days. Our trade receivables turnover days for FY2017, FY2018 and FY2019 were 34 days, 32 days and 57 days, respectively. The allowance for expected credit loss for FY2017, FY2018 and FY2019 was RMB2.7 million, RMB3.3 million and RMB2.2 million, respectively. Further, our gross profit margin was 5.5%, 6.9% and 7.9%, respectively, for FY2017, FY2018 and FY2019 as we operate in a relatively thin margin and rely on external financings to support our operation, any delay and/or failure of payment by our customers would expose us to liquidity issue and adversely affect our normal operation.

We cannot assure you that we will be able to recover our trade and bill receivables as well as other receivables fully from our customers or that our customers will settle our trade and bill receivables as well as other receivables in a timely manner. If our customers to whom credit terms are granted delay or default in their payments, we may incur impairment losses and our business operations may be significantly interrupted. Our business and financial position may be materially and adversely affected.

We are subject to a potential claim from Guizhou Galuminium relating to our purchase of aluminium oxide under the Agency Service Arrangements

On 14 December 2018, Guangyuan Saftower entered into a supply agreement with Guizhou Galuminium, the designated supplier from whom we purchased aluminium oxide for Aostar under the Agency Service Arrangements, under which the terms of supply contained, among others, the total target purchase amount of 60,000 tonnes per year by Guangyuan Saftower for 2019. In March 2020, Guizhou Galuminium filed a civil claim against Guangyuan Saftower, in which Guangyuan Saftower was alleged to have breached the contract for the failure to fulfil in full the total target purchase for 2019 under the supply agreement dated 14 December 2018 (as supplemented by the supplemental supply agreement dated 1 April 2019) entered into between Guangyuan Saftower and Guizhou Galuminium, and Guizhou Galuminium claimed for damages in the sum of RMB6.4 million, which represented the alleged shortfall of the total target purchase for 2019. For details, see "Business — Agency Service Arrangements" and "Business — Compliance and Litigation — Litigation" in this prospectus. As at the Latest Practicable Date, we had engaged legal advisers in connection with the claim and were in the process of negotiation with Guizhou Galuminium. Despite the risk that we will be ultimately held liable in respect of the claim is remote, to safeguard our Group's interest from such potential litigation for any legal consequences (if any) in respect of the claim, we had requested Aostar, the principal to the Agency Service Arrangement, to arrange for an indemnity to cover such legal consequences (if any). On 25 May 2020, Hong Sheng (acting on behalf of Aostar) pledged its aluminium products in favour of Guangyuan Saftower at the value of RMB6.4 million and agreed to indemnify Guangyuan Saftower for any shortfall where the value of such pledged assets would be insufficient to cover such liabilities (if any). For details see "Business — Compliance and Litigation — Litigation" in this prospectus.

As we were at the stage of negotiation with Guizhou Galuminium as at the Latest Practicable Date, we cannot assure you that we will be able to reach settlement with Guizhou Galuminium on favourable terms or at all, or if Guizhou Galuminium proceeds with the legal proceedings against us, we will obtain the judgement of the court in our favour. Any legal proceeding against us, regardless of its merits or eventual outcomes, could result in significant legal costs, diversion of our management's resources and reputational damage to us. In the event that the claim of Guizhou Galuminium is successful and we are held liable to compensate Guizhou Galuminium for significant amount, our business and financial position would be materially and adversely affected.

Our business activities are concentrated in Sichuan Province and we sell our products in the domestic market only. Therefore, we are exposed to any adverse economic or social conditions in the region

As at the Latest Practicable Date, our business activities were carried out mainly in Sichuan Province of the PRC. Our major suppliers and customers for the Track Record Period and our production facilities were concentrated in the same province or neighbouring regions. We are therefore exposed to any deterioration in the economic, social and/or political conditions as well as the outbreak of natural disasters, terrorist attacks, political or social unrests, strike, riot, civil disturbance or disobedience, epidemics, any unfavourable state or provincial policies applicable to this region or other events beyond our control in this region. For example, there were incidents of earthquake and aftershocks which hit Sichuan Province in 2008, 2017 and 2019, resulting in loss of life and injury, as well as destruction of infrastructure in the region. The occurrence of any such event could result in damage to our properties, production facilities, interruption in our business operations, shortage in the supply of raw materials as well as labour force for our business operations and adversely impact the demand for our products, which could have a material adverse effect on our business, financial position and prospects.

In addition, we derived all of our revenue from the PRC during the Track Record Period. We expect that the PRC will continue to be our major market. In the event that there is any material unfavourable change in the PRC market which in turn affects the demand for and prices of our principal products, we may not be able to respond promptly. In such event, our business, financial position and prospects could be materially and adversely affected.

We have business relationship with local players in the power system construction industry, the prospect of which may vary from time to time

During FY2017, FY2018 and FY2019, we sold products to 12 companies under Customer A which operated in the power system construction industry in the PRC. In recent years, we have been actively seeking strategic cooperation with players in the power system construction industry which we believe, could extend our business presence and generate potential sales opportunities. For example, in October 2018, we entered into a five-year framework cooperation agreement on power system construction and materials supply with Litai Energy, a subsidiary of Customer A, being a provincial state-owned power company. Our revenue derived from players of the power system construction industry accounted for 2.3%, 7.5% and 8.2% of our total revenue, respectively, for FY2017, FY2018 and FY2019. The development of the power system construction industry itself is affected by a number of factors, including but not limited to, the PRC government policy and the demand for electricity. Our customers in the power system construction industry are subject to various PRC governmental regulations and policies that are constantly reforming, and their businesses could be adversely affected by any such reform. Such uncertainty may adversely affect our business, financial position and results of operations, should there be any decline in the power system construction industry.

We are subject to risks relating to the operation of our production facilities

Our ability to efficiently produce our products is critical to our success. During the Track Record Period and up to the Latest Practicable Date, we produced wires and cables in our production plants situated in Chengdu and Guangyuan of Sichuan Province. For details, see "Business — Production Facilities" in this prospectus. Any damage or disruption to the operations of any of our production plants or production facilities could materially and adversely affect our business and prospects. Damage or disruption to the operations of our production plants may result from a number of factors which may be beyond our control, including:

(i) utility supply disturbances, power failure, machine breakdown or malfunction, major accidents, terrorism, strikes or other *force majeure* events, as well as other events which will lead to forced closing or suspension of our production facilities;

(ii) severe weather conditions;

(iii) interruption of our information technology systems that facilitate the management of our production/processing facilities; and

(iv) other limitations to production/processing capacity due to regulatory requirements, changes in the types of equipment produced or physical limitations that could impact continuous supply.

We cannot assure you that the events mentioned above will not happen in the future. If we fail to take adequate steps to mitigate the likelihood or potential impact of these events, or to effectively respond to these events if they occur, we may not be able to complete our customer's orders on time and may lose customer loyalty and confidence. In such event, our business and financial position could be materially and adversely affected.

We may be subject to liability in connection with industrial accidents happened during our production process

As our production activities inevitably involve the operation of tools, equipment and machinery, industrial accidents resulting in employee injuries or even deaths may occur. We cannot assure you that these industrial accidents, whether due to failure of our employees to follow the operational procedures, malfunctions of such tools, equipment or machinery or other reasons, will not occur in the future. In such event, we may be liable for personal injury or death and monetary losses suffered by our employees, fines or penalties or other legal liabilities arising from violation of applicable PRC laws and regulations. We may also be subject to business interruptions caused by equipment shutdowns for government investigations or implementation of production safety measures. Any enhanced safety measures imposed by the PRC government authorities from time to time in the future could have a material adverse effect on the manner in which we conduct our operations, thereby adversely impacting our business.

If any of our principal products fails to meet the business and technical needs of our customers, our business and financial position could be materially and adversely affected

Our principal products are wires and cables. Revenue derived from our sale of wires and cables in aggregate represented 93.8%, 72.4% and 93.3%, respectively, of our total revenue for FY2017, FY2018 and FY2019. For FY2017, FY2018 and FY2019, we had over 500, 500 and 350 customers, some of them were power companies, manufacturing enterprises, construction and renovation companies as well as trading companies who purchased products from onward sales. The industries in which our customers operate are subject to technological changes which may cause existing product obsolescence. Entities within the wire and cable industry are also continuously developing new products and new models with improved performance and functionality in order to stay competitive. Technological changes will lead to the introduction of new products or new models using technology or materials different from those offered by ours. We cannot assure you that there will not be any technology advancement which may result in our production techniques or products becoming obsolete, and our failure to anticipate such advancement and successfully respond and adapt to such change in a timely manner would materially and adversely affect our business, financial position and prospects.

In addition, although we have committed time, effort and resources to the research and development of new products to meet the changing market demands, rapid changes in market demand could render our efforts obsolete and we cannot assure you that the results of our research and development efforts will gain market acceptance or that such efforts will be commercially successful.

Some of our major customers are state-owned or state-invested companies. As a result, they have stringent requirements on supplier selection, technical competence, product quality and timing of delivery. There is no assurance that we will be successful in continuing to meet their selection criteria, fulfil the required technical standards, maintain our product quality to their satisfaction or to deliver our products in accordance with the agreed delivery schedule. Our competitors may develop production techniques which are better than ours in terms of costs, production lead time and product quality, and would render our products non-competitive. If any of these factors materialises, we may lose our customers and business opportunities, and our business, financial position and prospects would be materially and adversely affected.

We may not be able to successfully implement our business strategies and deliver the expected results

The successful implementation of our business strategies and future plans may be hindered by risks set out in this section and is subject to numerous factors, including:

- the availability of favourable government policies that foster our business as well as the development of wire and cable industry;
- our ability to maintain our major suppliers and major customers, and negotiate favourable terms with them;
- our ability to adapt to changing market and technological trends;
- our ability to hire and retain skilled personnel to manage and operate our business; and
- our ability to manage increase in costs of operation.

In addition to organic growth, we plan to implement various initiatives as disclosed in "Business — Business Strategies" in this prospectus. Such initiatives include: (i) expanding our production facilities and production plant; (ii) repaying part of our existing loan to improve our capital base; (iii) capital injection to Guangyuan Shuneng to enhance the vertical expansion of our production capacity; (iv) increasing sales and marketing activities to promote our products and corporate profile; and (v) enhancing corporate management efficiency. We cannot assure you that we will be able to successfully implement our business strategies or future plans or such strategies or plans will result in increase in revenue or profits as expected. In addition, our expansion plans may place substantial demands on our management and our operational, technological, financial and other resources. We cannot assure you that we will be able to manage any future growth effectively and efficiently, and our ability to capitalise on new business opportunities may be adversely affected if we fail to do so, which would in turn adversely affect our business, financial position and prospects.

We are subject to product liability risks that could damage our reputation and may cause us to incur substantial costs

Our business is inherent to the risk of product liability claims as our products are generally subject to prescribed industry technical standards and specifications. Although we have in place well-established quality control measures, we cannot assure you that our products will be defect-free. Any defect or malfunction in our products or any failure of our products to meet customers' specifications could result in damages or losses of customers. We may be subject to product liability claims for compensation and may have to incur a significant amount of resources and legal costs to defend the claims instituted against us regardless of the outcome of any such claim.

The quality of our products is highly dependent on the quality of the raw materials we obtain from our suppliers which is out of our control. We cannot assure you that our supply contracts will contain sufficient provisions such that we could be completely and adequately indemnified by third-party suppliers or could make a claim against them for any loss so incurred. In addition to monetary losses, defective products could also result in negative publicity, which may materially and adversely affect our brand name and reputations. Additional time, effort and expenditures may be required to rectify the problems and build up our customers' confidence and any successful product liability claim against us may have a material and adverse effect on our business, financial position and prospects.

Further, the industry standards and specifications we are required to adhere may change from time to time and we may need to incur additional costs and investments in upgrading our product, our production facilities and recruiting more experienced technical personnel for complying with these new standards.

Failure to manage our inventory levels could cause us to lose sales or face excessive inventory risks and holding costs

Our inventory comprises mainly raw materials, work-in-progress and finished goods. We are required to maintain a certain level of inventory of raw materials as well as finished goods in order to operate our business efficiently and to successfully meet our customers' demands and expectations. To maintain our inventory of raw materials at an appropriate level, we need to adjust our procurement activities from time to time based on our procurement and production plans, taking into account the lead time required for each type of raw materials and the actual or forecasted purchase orders that we receive. As at 31 December 2017, 2018 and 2019, our inventory amounted to RMB15.2 million, RMB8.5 million and RMB20.8 million respectively and our inventory turnover days were 23 days, nine days and nine days for the same periods.

As forecasts are subject to uncertainties or variations, our failure to effectively manage our inventory and/or production plan could result in under- or over-stocking of inventory. If the actual purchase orders are higher than the forecasted demands, we may not be able to maintain an adequate inventory level to fulfil customers' order in a timely manner and may lose sales and market share to our competitors. On the other hand, excessive inventory of raw materials or finished goods may also increase inventory risks as there will be risk of inventory obsolescence, decline in inventory values, and inventory write-downs or write-offs. Any of the above may adversely affect our business and financial position.

Our future performance depends on the continued service of our senior management and our ability to attract, train and retain skilled and experienced personnel

Our success depends largely on the continued service of our executive Directors, in particular, Mr. Dang Fei and Mr. Wang, and other senior management and technical staff. Any loss or interruption of the service of any of our executive Directors, members of our senior management or key personnel could significantly impair our ability to manage our operations or to meet our business objectives and strategies. We cannot assure you that we will be able to identify suitable replacements in a timely manner, at acceptable cost or at all. Recruitment and training of replacement personnel could take significant time and require additional expenses, which could further disrupt our business and growth.

Our business relies, to a certain extent, the availability of labour force. Higher staff cost and skilled labour shortage would reduce our competitiveness and profitability

Our operation, to a certain extent, relies on a stable supply of labour. The staff cost of our Group was RMB9.7 million, RMB7.7 million and RMB12.6 million, respectively, for FY2017, FY2018 and FY2019. However, we cannot assure you that our supply of labour and staff cost will continue to be stable. Any significant increase in staff cost could adversely affect our profitability and financial position. Furthermore, competitors may seek to hire away our employees. If we fail to retain our existing labour and/or recruit sufficient labour in a timely manner, we may not be able to cope with a sudden increase in demand for our products or our expansion plans.

We may not be able to protect our intellectual property rights and may be subject to infringement claims

Our ability to obtain and maintain our intellectual property rights and to defend ourselves against third-party infringement claims is critical to our success. As at the Latest Practicable Date, we had obtained 12 registered trademarks in the PRC and Hong Kong, and 58 registered patents in the PRC which were considered as material to our business. Furthermore, as at the Latest Practicable Date, we were in the process of applying for 13 patents in the PRC. See "Statutory and General Information — B. Further Information about the business of our Group — 2. Intellectual Property Rights" in Appendix V to this prospectus for further details.

We cannot assure you that the measures we currently adopt to protect our intellectual property rights are sufficient to prevent any unauthorised use of our intellectual property by third parties. Although we generally rely on trademark and copyright laws in the PRC and Hong Kong to protect our intellectual property rights, we cannot assure you that there will not be any third-party infringement. As the validity, enforceability and scope of protection of intellectual property rights could be uncertain, in the event that we need to resort to litigation or other proceedings to protect our intellectual property rights against third party infringers, this could result in substantial costs incurred, loss of time and diversion of resources. We cannot assure you that we can achieve a favourable outcome in any such litigation or proceeding. In addition, we cannot assure you that we have or will not inadvertently infringed the intellectual property rights of any other third parties where others may institute infringement claims against us.

In the event that we are unable to adequately safeguard our intellectual property rights, or to successfully defend ourselves from infringement claims, we may lose our competitive advantage and our reputation, business, financial position and prospects may be materially and adversely affected.

We may face increasingly stringent environmental protection requirements

Our business operations are subject to general PRC laws and regulations on environmental protection, such as the Environmental Protection Law of the People's Republic of China (中華人民共和國環境保護法), Law of the People's Republic of China on Prevention and Control of Water Pollution (中華人民共和國水污染防治法), Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution (中華人民共和國大氣污染防治法), Law of the People's Republic of China on Prevention and Control of Environmental Noise Pollution (中華人民共和國環境噪聲污染防治法) and Law of the People's Republic of China on Prevention and Control of Environmental Pollution by Solid Waste (中華人民共和國固體廢物污染環境防治法). Failure to comply with these laws and regulations may result in significant consequences to us, including administrative, civil and criminal penalties, liability for damages and negative publicity. If the breach is serious, the PRC government may suspend or close any operation failing to comply with such laws or regulations. For details, see "Regulatory Overview" and "Business — Environmental and Social Matters — Environmental" in this prospectus.

To comply with environmental protection laws and regulations, we will continue to incur costs to comply with environmental protection laws and regulations. In addition, new environmental issues could arise and lead to unanticipated investigations, assessments and associated costs. We cannot assure you that the PRC government will not amend existing environmental laws or regulations or impose additional or more stringent environmental laws or regulations, the compliance with which may require us to incur significant costs and capital expenditures and as a result materially and adversely affect our financial position.

We may encounter an increase in the depreciation expenses due to the future capital expenditure of our Group for the purchase of equipment and machinery

For FY2017, FY2018 and FY2019, the capital expenditure we incurred on the additions of property, plant and equipment amounted to RMB35.9 million, RMB1.4 million and RMB16.7 million, respectively. We plan to use 55.0% of the net proceeds from the Share Offer to be received by our Company to expand our existing production facilities and production plant after Listing. See "Future Plans and Use of Proceeds" in this prospectus for further details of our expansion plan. Acquisition of new equipment and machinery may increase the depreciation expenses and have a negative impact on the cash level, which may adversely affect our business, financial position and prospects.

We cannot assure you that our relationship with Tongsheng Guochuang will not change significantly in the future

As at the Latest Practicable Date, Tongsheng Guochuang was our joint-venture partner for one of our subsidiaries, namely Guangyuan Tongchuang (which was owned as to 56.7% by us and 43.3% by Tongsheng Guochuang). Further, we have been purchasing aluminium oxide for Aostar since January 2018 with the working capital provided by way of borrowing of RMB10.0 million from Tongsheng Guochuang, which was subsequently fully repaid on 13 May 2020. See "Business — Agency Service Arrangements" in this prospectus for details.

Although our Directors consider that our relationship with Tongsheng Guochuang has been good, we cannot assure you that our relationship with Tongsheng Guochuang, being the substantial shareholder in Guangyuan Tongchuang will continue in the future. If, for any reason, our relationship with Tongsheng Guochuang deteriorates in the future, the prospect and the development of our subsidiary, namely, Guangyuan Tongchuang, may be adversely affected.

We may be unable to detect, deter and prevent all instances of fraud or other misconduct committed by our employees or other third parties

We rely on our employees in handling daily operations and transactions with our suppliers and customers. We were not aware of any instances of fraud, theft and other misconduct involving employees, customers and other third parties that had any material adverse impact on our business and financial position during the Track Record Period and up to the Latest Practicable Date. However, we cannot assure you that there will not be any such instances in the future. We may not be able to prevent, detect or deter all instances of misconduct. Any misconduct committed against our interests, which may include past acts that have gone undetected or future acts, could subject us to financial losses, harm our reputation and may have a material and adverse effect on our business, financial position and prospects.

We had recorded accumulated losses as at 1 January 2017 and 31 December 2017 and our historical financial and operating results may not be indicative of future performance

Our revenue amounted to RMB262.3 million and RMB552.7 million, respectively, for FY2017 and FY2018, representing a year-to-year growth of 110.7%. For the same periods, our gross profit amounted to RMB14.4 million and RMB38.4 million, respectively, representing a year-to-year growth of 166.7%. Nevertheless, we recorded accumulated losses of RMB4.2 million and RMB2.4 million as at 1 January 2017 and 31 December 2017, respectively, arising from prior years' operating loss due to smaller scale of operation of our Group before FY2017. For the detailed discussion on the changes in our revenue and gross profits under each product segment for FY2017, FY2018 and FY2019, see "Financial Information of our Group — Description of Selected Items in Statements of Comprehensive Income" in this prospectus. Our Group's financial performance and result of operation for FY2020 is expected to be adversely affected by the Listing expenses.

We cannot assure you that we will achieve similar growth rate, or that we will be successful in mitigating any negative growth rate, in future. Our historical results, including the historical performance of each business segment, may not be indicative of our future performance. In particular, we cannot assure you that we are able to derive the same or higher level of profit from our sales of the same or similar products, the commercial term of which are negotiated on a case-by-case basis with our customers. Our financial and operating results may not meet the expectations of public market analysts or investors, which could cause the future price of our Shares to decline. Our revenues, expenses and operating results may vary from period to period in response to a variety of factors beyond our control, including general economic conditions, laws and regulations in the PRC and Hong Kong and our ability to control costs. You should not rely on our historical results to predict the future performance of our Shares.

Our insurance coverage may be inadequate to cover the risks related to our business and operations

We have purchased insurances for our buildings, production plants, equipment and machinery, inventory and vehicles. However, we have not taken any insurance on product liability or disruption of operations, which we believe is consistent with the general industry practice in the PRC. There may also be types of losses which we may incur but cannot be insured against or that we believe are not commercially reasonable to insure. We cannot assure you that we will be able to maintain sufficient insurance coverage to cover our potential liabilities, and that premiums will not increase substantially in the future. If we are held liable for uninsured losses, or for amounts exceeding the limits of our insurance coverage, our business and financial position may be adversely affected.

RISKS RELATING TO OUR INDUSTRY

We operate in a highly competitive industry, and we may fail to compete successfully against existing or new competitors

The wire and cable industry in the PRC has steadily developed over the last decades due to high economic growth across the PRC which has stimulated rapid industry expansion. We operate in a highly competitive environment, and our market position largely depends on our ability to compete with other wire and cable manufacturers in the marketplace and we cannot assure you that competition will not become intensified due to various reasons, including incumbents eagerness to gain market share, new entrants and vertical expansion by upstream and/or downstream players. According to the F&S Report, in terms of revenue, we ranked fourth in wire and cable market in Sichuan Province with a market share of 0.97% in 2019. We will face increasing competitive challenges from our competitors, including product variety, product quality and performance, product pricing, customer service, production capacity, timely delivery, marketing and brand recognition.

We cannot assure you that we will be able to compete successfully against current and future competitors, or that we will be able to address the challenges we face. In the event that we fail to maintain or improve our market position or properly respond to increase in competition, our market share, operating margins and brand recognition could be reduced, which may have a material and adverse effect on our business, financial position and prospects.

We may not be able to obtain or renew certain qualifications, licences or permits crucial to our business operations

We are required to obtain certain qualifications, licences or permits issued by the relevant government authorities to conduct our businesses such as national industrial production permit. See "Business — Compliance and Litigation — Certifications" in this prospectus on major qualifications, licences and permits obtained by us. We must comply with certain conditions and restrictions imposed by the relevant government authorities to maintain our qualifications, licences or permits. See "Regulatory Overview" in this prospectus for further details of the PRC laws and regulations regarding qualifications, licences and permits applicable to us.

As these qualifications, licences and permits are necessary for our business operation, obtaining and renewal of these qualifications, licences and permits are crucial to our ability to retain existing clients, attract new customers and maintain our competitiveness. We cannot assure you that we will continue to comply with any of the conditions required to obtain, maintain or renew the relevant qualifications, licences or permits. In the event that our qualifications, licences and permits are cancelled, revoked, or delayed in the renewal, our business and prospects may be materially and adversely affected.

We are operating in an industry which is subject to extensive and evolving laws and regulations, failure to comply with which could subject us to severe penalties

Our products are required to comply with extensive PRC laws, regulations, industrial technical standards and specifications required by our customers, which may change from time to time beyond our control. If any of such laws, regulations or industrial standards are modified or become more stringent beyond our existing technical capacities, we will be required to change our business plan, incur additional costs and resources to enhance our production facilities, upgrade our product design, provide training and recruit more technical personnel to comply with these new requirements and standards, which will increase our cost of production and may adversely affect our profitability. We cannot assure you that we will be able to comply fully with the current and future PRC laws, regulations, industrial technical standards and specifications required by our customers. Failing to meet these prescribed standards might subject ourselves to various penalties, including fines or suspension of our operations. Our business, financial position and prospects may be materially and adversely affected.

We are exposed to risks of general economic downturn and deteriorating market conditions in the PRC

As our business and operations are based in the PRC, our business growth is primarily dependent upon the positive environment of the PRC market as a whole. The market conditions are directly affected by, among other things, the global and local political and economic environments, such as uncertainties about the Sino-U.S. trade conflicts.

Any sudden downturn in the general economic environment or change in political environment in the PRC beyond our control may adversely affect the financial market sentiment in general. Severe fluctuations in market and economic sentiments may also lead to a prolonged period of sluggish market activities, which would in turn lead to a reduction in fund raising and corporate activities. As such, our revenue and profitability may fluctuate and we cannot assure you that we will be able to maintain our historical financial performance in times of difficult or unstable economic conditions.

RISKS RELATING TO DOING BUSINESS IN THE PRC

PRC economic, political and social conditions as well as government policies could affect our business

Our business and operations are located in the PRC. As a result, our business, financial position and prospects may be affected by the economic, political and social conditions as well as government policies in the PRC.

While the PRC government has been pursuing economic reforms to transform its economy from a planned economy to a market economy for more than three decades, a substantial part of the PRC economy is still being operated under various controls by the government. By imposing industrial policies and other economic measures, such as control of foreign exchange, taxation and foreign investment, which fell in negative list the PRC government exerts considerable direct and indirect influence on the development of the PRC economy. Many of the economic reforms carried out by the PRC government are unprecedented or experimental and are expected to be refined and improved over time. Other political, economic and social factors may also lead to further adjustments of the reform measures. This refining and adjustment process may materially and adversely impact our business, financial position and prospects.

The PRC legal system is in the process of continuous development and has inherent uncertainties that could limit the legal protection available to us in respect of our operations and to our Shareholders

The PRC legal system is based on written statutes and prior court decisions can only be cited as reference. The PRC is geographically large and divided into various provinces and municipalities and as such, different laws, rules, regulations and policies apply in different provinces and may have different and varying applications and interpretations in different parts of the PRC. Legislation or regulations, particularly for local applications, may be enacted without sufficient prior notice or announcement to the public on a timely basis. The PRC legal system is based in part on government policies and internal rules that may have a retroactive effect. As a result, we may not be aware of a violation of these policies and rules until sometime after the violation. There may be uncertainties regarding the interpretation and application of new laws, rules and regulations.

The interpretation and enforcement of certain PRC laws which govern a portion of our operations involve uncertainties, which could limit the legal protections available to us. For example, the interpretation and application of laws and regulations relating to social insurance and housing provident funds could vary greatly between the local governments and between local government and the central government, and we may be exposed to enforcement risk if the national government takes a different view on the status of our contributions to social insurance and housing provident funds. In particular, agreements which are governed under PRC laws may be more difficult to enforce by legal or arbitral proceedings in the PRC than in countries with more mature legal systems. Even if the agreements generally provide for arbitral proceedings for disputes arising out of the agreements to be in another jurisdiction, it may be difficult for us to obtain effective enforcement in the PRC of an arbitral award obtained in that jurisdiction.

Our Company is a holding company that relies on dividend payments from our subsidiaries for funding and payment of dividends from our PRC subsidiaries are subject to restrictions under PRC laws and PRC withholding tax

PRC laws require dividends to be paid out of net profit calculated according to PRC accounting principles, which, in many aspects, differ from the generally accepted accounting principles in other jurisdictions. Companies including foreign-invested enterprises, such as our PRC subsidiaries, are also required to set aside part of their net profits as statutory reserves, which are not available for distribution as cash dividends. In addition, such dividends are also subject to PRC withholding tax.

Our Company is a holding company registered in the Cayman Islands and our business and operations are conducted through our PRC subsidiaries. The availability of funds to pay distributions to Shareholders depends on dividends received from these subsidiaries. If our PRC subsidiaries incur any debts or losses or otherwise there are insufficient retained after-tax profits after deducting statutory reserves, the amount of dividends that our PRC subsidiaries can declare will be limited and as a result, our ability to pay dividends and other distributions to Shareholders will be restricted.

The PRC government's control over the conversion of foreign exchange and fluctuations in the value of RMB may affect our financial position and ability to pay dividends

Our operations are primarily conducted in the PRC and all of our revenue is denominated in RMB. The value of RMB against the U.S. dollar and other currencies fluctuates from time to time and is affected by a number of factors, such as changes in the political and economic conditions in the PRC as well as internationally and the fiscal and foreign exchange policies prescribed by the PRC government. There is no assurance that the value of RMB will remain at the current level against the U.S. dollar or any other foreign currency. Should RMB appreciate or depreciate against the U.S. dollar or any other foreign currency, it will have mixed effects on our business and there is no assurance that the overall effect on our business will be positive.

RMB is not currently a freely convertible currency. Conversion and remittance of foreign currencies are subject to PRC foreign exchange regulations. Pursuant to the existing foreign exchange regulations in the PRC, we are allowed to carry out current account foreign exchange transactions (including dividend payment) without submitting the relevant documentary evidence of such transactions to the SAFE for approval in advance as long as they are processed by banks designated for foreign exchange trading. However, foreign exchange transactions for capital account purposes may require the prior approval or registration with the SAFE. If we fail to obtain the SAFE's approval to convert RMB into foreign currencies for foreign exchange transactions or there are changes in the foreign exchange regulations or policies, our capital expenditure plans, business operations, financial position and our ability to pay dividends may be materially and adversely affected.

PRC regulation of loans and direct investment by offshore holding companies to PRC entities may delay or prevent us from using the proceeds of the Share Offer to make loans or additional capital contributions to our PRC subsidiaries

In utilising the proceeds from the Share Offer or any further offering, as an offshore holding company of our PRC subsidiaries, we may make loans to our PRC subsidiaries, or we may make additional capital injection to our PRC subsidiaries. Any loans to our PRC subsidiaries are subject to PRC regulations and approvals. For example, loans by us to our wholly owned PRC subsidiaries in the PRC to finance their activities cannot exceed statutory limits in respect of the balance between the loan and the registered capital of such PRC subsidiaries and must be registered with the SAFE or its local counterpart. We may also decide to finance our PRC subsidiaries through capital contributions. These capital contributions shall be filed through the Foreign Investment Comprehensive Management Information System of the Ministry of Commerce of the PRC (中華人民共和國商務部). We cannot assure you that we will be able to obtain these government registrations or filing document on a timely basis, if at all, with respect to future loans or capital injection by us to our subsidiaries or any of their respective subsidiaries. If we fail to receive such registrations or filing documents, our ability to use the proceeds of the Share Offer and to capitalise our PRC operations may be negatively affected, which may materially and adversely affect our liquidity and our ability to fund and expand our business in the PRC.

We may be treated as a resident enterprise for PRC tax purposes and be subject to PRC taxation on our worldwide income, which could result in unfavourable tax consequences to us and our non-PRC Shareholders

Under the EIT Law, an enterprise incorporated in a foreign country or region may be classified as either a "non-resident enterprise" or a "resident enterprise". If an enterprise incorporated in a foreign country or region has its "de facto management bodies" located within the PRC, such enterprise will be considered a PRC tax resident enterprise and will normally be subject to the enterprise income tax of 25% on its worldwide income. See "Regulatory Overview — Regulations on Taxation — Enterprise Income Tax" in this prospectus for further details.

It is unclear how the PRC tax authorities will determine whether an offshore entity is a non-PRC resident enterprise. We cannot assure you that PRC tax authorities will not consider us to be a "resident enterprise". If the PRC tax authorities subsequently determine that we or our offshore holding companies are deemed to be or should be classified as "resident enterprises", such entity or entities may be subject to enterprise income tax at a rate of 25% on their worldwide income, which may have an impact on our effective tax rate and materially and adversely affect our business, financial position and prospects.

In addition, under the EIT Law, to the extent dividends from earnings derived since 1 January 2008 are sourced within the PRC and if we were considered a "resident enterprise" in the PRC, PRC income tax at the rate of 10% (or a lower rate pursuant to an applicable tax treaty) may be required to be withheld from dividends on our Shares payable by us to investors that are "non-resident enterprises" so long as such "non-resident enterprise" investors do not have an establishment or place of business in the PRC or if, despite the existence of such establishment or place of business in the PRC, the relevant income is not effectively connected with such establishment or place of business in the PRC. Furthermore, any gains realised on the transfer of our Shares by such "non-resident enterprise" investors would be subject to PRC income tax at a rate of 10% if such gains were deemed income derived from sources within the PRC and if we were considered a "resident enterprise" in the PRC. It is unclear whether, if we are considered a PRC "resident enterprise", holders of our Shares may be able to claim the benefit of income tax treaties or agreements entered into between the PRC and other countries or areas. If we are required under the EIT Law or other related regulations to withhold PRC income tax on our dividends payable to foreign holders of our Shares which are "non-resident enterprises", or if our Shareholders are required to pay PRC income tax on the transfer of our Shares under PRC tax laws, the value of an investment in our Shares may be materially and adversely affected.

There are uncertainties with respect to indirect transfers of assets (including equity interests) of our PRC subsidiaries

In February 2015, the SAT issued the Announcement on Certain Issues Concerning Enterprise Income Tax for Indirect Transfer of Assets by Non-Resident Enterprises Enterprises* (《關於非居民企業間接轉讓財產企業所得稅若干問題的公告》) or Circular 7. Circular 7 was partly amended by the Announcement of the State Administration of Taxation on Issues Relating to Withholding at Source of Income Tax of Non-resident Enterprises (SAT Announcement [2017] No. 37)《關於非居民企業所得稅源泉扣繳有關問題的公告》(37號公告). The regulations stipulated above provides comprehensive guidelines relating to, and also heightens the PRC tax authorities' scrutiny over, indirect transfers by a non-resident enterprise of assets (including equity interests) of a PRC resident enterprise ("**PRC Taxable Assets**").

Circular 7 specifies that the PRC tax authorities are entitled to reclassify the nature of an indirect transfer of PRC Taxable Assets when a non-resident enterprise transfers PRC Taxable Assets indirectly by disposing of equity interests in an overseas holding company directly or indirectly holding such PRC Taxable Assets by disregarding the existence of such overseas holding company and considering the transaction to be a direct transfer of PRC Taxable Assets if such transfer is deemed to have been conducted for the purposes of avoiding PRC enterprise income taxes and without any other reasonable commercial purpose. Although Circular 7 contains certain exemptions, it remains unclear whether any exemption under Circular 7 will be applicable to the transfer of our Shares on a public market by our non-resident enterprise Shareholders or to any future acquisition by us outside of the PRC involving PRC Taxable Assets. As a result, the PRC tax authorities may deem any transfer of our Shares by our Shareholders that are non-resident enterprises, or any future acquisition by us outside of the PRC involving PRC Taxable Assets to be subject to the foregoing regulations, which may subject our Shareholders or us to additional PRC tax reporting obligations or tax liabilities.

It may be difficult to effect service of process, enforce foreign judgments and arbitral awards or bring original actions in the PRC against us or our Directors and senior management

Our Company is registered under the laws of the Cayman Islands, but a substantial portion of our operations and assets and most of our Directors and senior management are located in the PRC. It may be difficult or impossible for investors to effect service of process on us or those persons in the PRC. Moreover, the PRC does not have treaties with most of the other jurisdictions that provide for the reciprocal recognition and enforcement of judicial rulings and awards. As a result, recognition and enforcement in the PRC of the judgment of a non-PRC court in relation to any matter not subject to a binding arbitration provision may be difficult or impossible. Final judgments for civil and commercial cases and arbitral awards obtained in a recognised Hong Kong court or Hong Kong arbitral tribunal may be enforced in the PRC, provided that certain conditions are satisfied. However, there are uncertainties as to the outcome of any applications to recognise and enforce such judgments and arbitral awards in the PRC.

Furthermore, an original action may be brought in the PRC against us or our Directors and senior management only if the actions are not required to be arbitrated by PRC law and upon satisfaction of the conditions for commencing a cause of action pursuant to the PRC civil procedure law. As a result of the conditions set forth in the PRC civil procedure law and the discretion of the PRC courts to determine whether the conditions are satisfied and whether to accept the action for adjudication, it is uncertain whether investors will be able to bring an original action in the PRC in this manner.

RISKS RELATING TO THE SHARE OFFER

There is no existing public market for our Shares and their liquidity and market price may fluctuate

Prior to the Share Offer, there has not been a public market for our Shares. We have applied for the listing of and dealing in our Shares on GEM. However, even if approved, we cannot assure you that an active and liquid public trading market for our Shares will develop following the Share Offer, or, if it does develop, it will be sustained. The financial market in Hong Kong and other countries have in the past experienced significant price and volume fluctuations. Volatility in the price of our Shares may be caused by factors outside our control and may be unrelated or disproportionate to our operating results. Accordingly, we cannot assure you that the liquidity and market price of our Shares will not fluctuate.

The Offer Price range for our Shares and the final Offer Price will be the result of the negotiations among us and the Joint Bookrunners on behalf of the Underwriters and may not be indicative of prices that will prevail in the trading market after the Share Offer. Therefore, our Shareholders may not be able to sell their Shares at prices equal to or greater than the price paid for their Shares purchased in the Share Offer.

Our Controlling Shareholders may exert substantial influence over our operation and their interests may not be aligned with those of our other Shareholders

Immediately following the Share Offer, Mr Dang Fei, Mr Dang Jun and Red Fly, our Controlling Shareholders, will be entitled to exercise and control 43.91% of our issued share capital, without taking into account of the Shares which may be allotted and issued upon the exercise of the Offer Size Adjustment Option or any option that may be granted under the Share Option Scheme. Therefore, they will be able to exercise significant influence over all matters requiring Shareholders' approval, including the election of directors and the approval of significant corporate transactions. They will also have veto power with respect to any shareholder action or approval requiring a majority vote except where they are required by the relevant rules to abstain from voting. Such concentration of ownership may also have the effect of delaying, preventing or deterring a change in control of our Group that would otherwise benefit our Shareholders such as offering the opportunities to receive premiums for your Shares. The interests of our Controlling Shareholders may not always align with our Company or your best interests. If the interests of our Controlling Shareholders conflict with the interests of our Company or our other Shareholders, or if our Controlling Shareholders chooses to cause our business to pursue strategic objectives that conflict with the interests of our Company or other Shareholders, our Company or those other Shareholders, including you, may be left in a disadvantaged position.

Future sales or issuances or perceived sales or issuances of our Shares could have a material adverse effect on the prevailing market price of our Shares and our ability to raise additional capital

The market price of our Shares could decline as a result of future sales or issuances of a substantial number of our Shares or other securities in the public market, or the perception that such sales or issuances may occur. Moreover, such future sales or issuances or perceived sales or issuances may also adversely affect the prevailing market price of our Shares and our ability to raise capital in the future at a favourable time and price.

Our Shares held by our Controlling Shareholders are subject to lock-up from the date on which trading in our Shares commences on GEM. Further, Xseven Investment, Bonyer Investment, Rocky Base Investment, Bigroad Investment, Hisky Investment, Dibell Investment, Gun Wealth Investment, ZH Fortune Investment, Lockxy Investment, and Ms. Zhao Qi (the "**Other Shareholders**") have voluntarily undertaken to each of our Company, the Sole Sponsor, the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters) that certain Shares held by them (the "**Lock-up Shares**") will be subject to lock-up for a certain period after the Listing. Such voluntary lock-up undertaking may be waived by the prior written consent of the Sole Sponsor, the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters), and our Company. Please refer to the section headed "Underwriting — Underwriting Arrangements and Expenses — Undertakings by our existing Shareholders other than our Controlling Shareholders (the "Other Shareholders")" in this prospectus for details. If such voluntary lock-up undertaking is waived by the Sole Sponsor, the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters) and our Company (for which we are not required to obtain the recommendation or approval of our independent non-executive

Directors or the independent Shareholders in such regard), the Lock-up Shares held by the Other Shareholders will be tradable in the market. There is no assurance that our Controlling Shareholders and the Other Shareholders will not dispose of the Shares held by them following the expiration of their respective lock-up periods. We cannot predict the effect, if any, of any future sales of our Shares by any of the Other Shareholders, or the availability of our Shares for sale by any of the Other Shareholders may have on the market price of our Shares. Any major disposal of our Shares by any of such Controlling Shareholders upon expiry of the relevant lock-up periods (or the perception that such disposals may occur) may cause the prevailing market price of our Shares to fall, which could negatively impact our ability to raise equity capital in the future.

There can be no assurance if and when we will pay dividends in the future

Distribution of dividends shall be formulated by our Board and will be subject to Shareholders' approval. A decision to declare or to pay any dividends and the amount of any dividends will depend on various factors, including but not limited to any other factors determined by our Board from time to time to be relevant to the declaration or suspension of dividend payments. As a result, there can be no assurance whether, when and in what form we will pay dividends in the future. See "Financial Information of our Group — Dividend" in this prospectus for further details.

You should read the entire prospectus and we strongly caution you not to place any reliance on any information contained in the press articles, other media and/or research analyst reports regarding us, our business, our industry and the Share Offer

There may be, subsequent to the date of this prospectus but prior to the completion of the Share Offer, press, media, and/or research analyst coverage regarding us, our business, our industry and the Share Offer. You should rely solely upon the information contained in this prospectus in making your investment decisions regarding our Shares and we do not accept any responsibility for the accuracy or completeness of the information contained in such press articles, other media and/or research analyst reports nor the fairness or the appropriateness of any forecasts, views or opinions expressed by the press, other media and/or research analyst regarding the Shares, the Share Offer, our business, our industry or us. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information, forecasts, views or opinions expressed or any such publications. To the extent that such information, forecasts, views or opinions are inconsistent or in conflict with the information contained in this prospectus, we disclaim them. Accordingly, prospective investors are cautioned to make their investment decisions on the basis of information contained in this prospectus only and should not rely on any other information.

We cannot assure you the accuracy of certain facts and statistics contained in this prospectus

Certain facts and statistics in this prospectus have been derived from various official government and other publications generally believed to be reliable. We believe that the sources of such information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading in any material respect or that any fact has been omitted that would render such information false or misleading in any material respect. Such information has not been independently verified by us or any of the Joint Bookrunners, Sole Sponsor, the Underwriters or any of our or their respective directors, officers, advisers or representatives or any other person involved in the Share Offer (which, for the purpose of the section headed "Industry Overview", excludes Frost & Sullivan) and no representation is given as to its accuracy. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice, the facts and statistics in this prospectus may be inaccurate or may not be comparable to facts and statistics produced with respect to other economies. Further, we cannot assure you that they are stated or compiled on the same basis or with the same degree of accuracy (as the case may be) in other jurisdictions. As a result, you should not unduly rely upon such facts and statistics contained in this prospectus.

Forward-looking statements contained in this prospectus are subject to risks and uncertainties

This prospectus contains certain statements which are "forward-looking" and use forward looking terminology such as "anticipate", "estimate", "believe", "expect", "may", "plan", "consider", "ought to", "should", "would", and "will". These statements include the discussion of our growth strategy and the expectations of our future operation, liquidity and capital resources. Purchasers of our Offer Shares are cautioned that reliance on any forward-looking statement involves risks and uncertainties and that, any or all of those assumptions could prove to be inaccurate and as a result, the forward-looking statements based on those assumptions could be incorrect. The uncertainties in this regard include those identified in the risk factors discussed above.

In light of these and other uncertainties, the inclusion of forward-looking statements in this prospectus should not be regarded as representations or warranties by us that our plans and objectives will be achieved and these forward-looking statements should be considered in light of various important factors, including those set forth in this section. We do not intend to update these forward-looking statements in addition to our on-going disclosure obligations pursuant to the GEM Listing Rules or other requirements of the Stock Exchange. Investors should not place undue reliance on such forward-looking information.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus includes particulars given in compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the GEM Listing Rules for the purpose of giving information to the public with regard to our Group. Our Directors collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make this prospectus or any statement herein misleading.

THIS PUBLIC OFFER AND THE PROSPECTUS

This prospectus is published solely in connection with the Public Offer, which forms part of the Share Offer. For applicants under the Public Offer, this prospectus and the Application Forms set out the terms and conditions of the Public Offer. See "How to Apply for Public Offer Shares" in this prospectus and the Application Forms for details of the procedures for applying for the Public Offer Shares.

The Public Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and conditions set out herein and therein. No person has been authorised to give any information or make any representations other than those contained in this prospectus and the Application Forms and, if given or made, such information or representations must not be relied on as having been authorised by us, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our or their affiliates or any of their respective directors, officers, employees or agents or any other person or party involved in the Share Offer. Neither the delivery of this prospectus nor any offering, sale or delivery made in connection with our Shares shall, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in our affairs since the date of this prospectus or imply that the information in this prospectus is correct as of any subsequent time.

STRUCTURE OF THE SHARE OFFER AND UNDERWRITING

See "Structure and Conditions of the Share Offer" in this prospectus for details of the structure of the Share Offer, including its conditions and the arrangements relating to the Offer Size Adjustment Option.

The Listing is sponsored by the Alliance Capital Partners. The Public Offer is fully underwritten by the Public Offer Underwriters pursuant to the Public Offer Underwriting Agreement. The Placing is fully underwritten by the Placing Underwriters pursuant to the Placing Underwriting Agreement. The Share Offer is managed by the Joint Bookrunners. If, for any reason, the Offer Price is not agreed, the Share Offer will not proceed and will lapse. See "Underwriting" in this prospectus for details of the Underwriters and the underwriting arrangements.

RESTRICTIONS ON OFFER OF THE OFFER SHARES

Each person acquiring the Public Offer Shares under the Public Offer will be required to confirm, and is deemed by his acquisition of Public Offer Shares to have confirmed, that he/she is aware of the restrictions on offers of the Offer Shares described in this prospectus and that he/she is not acquiring, and has not been offered, any Offer Shares in circumstances that contravene any such restrictions.

No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, without limitation to the following, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the securities laws of such jurisdiction pursuant to registration with or an authorisation by the relevant securities regulatory authorities or an exemption therefrom. In particular, the Offer Shares have not been publicly offered and sold, and will not be offered or sold, directly or indirectly in the PRC or the United States.

APPLICATION FOR LISTING ON GEM

Our Company has applied to the Stock Exchange for the granting of the listing of and permission to deal in the Shares in issue and to be issued pursuant to the Share Offer (including any additional Share which may be allotted and issued pursuant to the exercise of the Offer Size Adjustment Option and the options that may be granted under the Share Option Scheme). Dealings in the Shares on GEM are expected to commence on Friday, 10 July 2020.

Save as disclosed in this prospectus, no part of our share capital or loan capital is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the Stock Exchange granting the listing of, and permission to deal in, our Shares on GEM and we complying with the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as determined by HKSCC.

Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day. All necessary arrangements have been made for the Shares to be admitted into CCASS. All activities under CCASS are subject to the general rules of CCASS and CCASS Operational Procedures in effect from time to time. You should seek the advice of your stockbroker or other professional adviser for details of those settlement arrangements as such arrangements will affect your rights and interests.

HONG KONG BRANCH SHARE REGISTER AND STAMP DUTY

All Shares issued by us pursuant to applications made in the Public Offer will be registered on our register of members to be maintained by our Hong Kong Branch Share Registrar, Tricor Investor Services Limited, in Hong Kong. Our principal register of members will be maintained by our principal registrar, Appleby Global Services (Cayman) Limited, in the Cayman Islands.

No stamp duty is payable by applicants in the Share Offer.

Dealings in the Shares registered on our register of members in Hong Kong will be subject to Hong Kong stamp duty.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Share Offer are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding, disposing of, dealing in or exercising any rights in relation to, the Shares. None of us, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our or their affiliates or any of their respective directors, officers, employees or agents or any other person or party involved in the Share Offer accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription for, purchase, holding, disposition of, dealing in, or exercising any rights in relation to, the Shares.

EXCHANGE RATE CONVERSION

Solely for your convenience, this prospectus contains translations of certain RMB amounts into Hong Kong dollars at a specified rate. Unless we indicate otherwise, the translations of Hong Kong dollars into RMB and vice versa have been made at the rate of HK$1.00 to RMB0.88 in this prospectus.

No representation is made that any amount in RMB or Hong Kong dollars can be or could be, or have been, converted at the above rate or any other rate or at all.

LANGUAGE

If there is any inconsistency between this prospectus and its Chinese translation, this prospectus shall prevail. For ease of reference, the names of Chinese laws and regulations, governmental authorities, institutions, natural persons or other entities (including certain of our subsidiaries) have been included in this prospectus in both the Chinese and English languages and in the event of any inconsistency, the Chinese versions shall prevail.

ROUNDING

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

DIRECTORS

Name	Residential address	Nationality
Executive Directors		
Mr. Dang Fei (黨飛先生)	No. 1302, 13th Floor, Unit 4 Dong 4, No. 98 Lanan Street West District, High-tech Zone Chengdu, Sichuan PRC	Chinese
Mr. Wang Xiaozhong (王小仲先生)	No. 17, Building 9, Unit 2 Dong 1, No. 99 Ruixing Road Qingyang District, Chengdu PRC	Chinese
Ms. Luo Xi (羅茜女士)	No. 3, Unit 1, Building 1 Hehuachi, Daan District Zigong City, Sichuan Province PRC	Chinese
Mr. Luo Qiang (羅強先生)	No. 5, Unit 2, Dong 21 No.123 Shunyuanhuan Street Gaoxin District, Chengdu PRC	Chinese
Non-executive Director		
Mr. Wang Haichen (王海臣先生)	Flat 1, 1st Floor, Unit 3 Dong 10, No. 86 Guyan Road Dongba Sub-District Office Lizhou District Guangyuan, Sichuan Province PRC	Chinese
Independent non-executive Directors		
Dr. Zuo Xinzhang (左新章博士)	Room 601, Unit 4, Building 44 Xinyuan Community Dianzi Three Road Yanta District Xi'an, Shaanxi PRC	Chinese

Mr. Chan Oi Fat (陳愛發先生)	Flat SA, 10th Floor, Block 1 Phase 3, Festival City Tai Wai, New Territories Hong Kong	Chinese
Ms. Hu Xiaomin (胡曉敏女士)	No. 80, Shenghua South Road Tianfu Second Street High-tech Zone Chengdu, Sichuan PRC	Chinese

For details of our Directors and senior management, please refer to the section headed "Directors and Senior Management" in this prospectus.

PARTIES INVOLVED IN THE SHARE OFFER

Sole Sponsor	**Alliance Capital Partners Limited** *a licensed corporation to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO* Room 1502–1503A, Wing On House 71 Des Voeux Road Central Central, Hong Kong
Joint Bookrunners	**Zhong Jia Securities Limited** *a licensed corporation to carry on Type 1 (dealing in securities) regulated activity under the SFO* Room 9, 8/F., One Island South 2 Heung Yip Street Hong Kong
	Alliance Capital Partners Limited *a licensed corporation to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO* Room 1502–1503A, Wing On House 71 Des Voeux Road Central Central, Hong Kong
	Ferran Securities Limited *a licensed corporation to carry on Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities under the SFO* 1201, OTB Building 259–265 Des Voeux Road Central, Hong Kong

Get Nice Securities Limited
a licensed corporation to carry on Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO
10/F., Cosco Tower, Grand Millennium Plaza
183 Queen's Road Central
Hong Kong

Joint Lead Managers

Zhong Jia Securities Limited
a licensed corporation to carry on Type 1 (dealing in securities) regulated activity under the SFO
Room 9, 8/F., One Island South
2 Heung Yip Street
Hong Kong

Alliance Capital Partners Limited
a licensed corporation to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
Room 1502–1503A, Wing On House
71 Des Voeux Road Central
Central, Hong Kong

Ferran Securities Limited
a licensed corporation to carry on Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities under the SFO
1201, OTB Building
259–265 Des Voeux Road
Central, Hong Kong

Get Nice Securities Limited
a licensed corporation to carry on Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO
10/F., Cosco Tower, Grand Millennium Plaza
183 Queen's Road Central
Hong Kong

DL Securities (HK) Limited
a licensed corporation to carry on Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
Flat 01, 28/F., Vertical Square
28 Heung Yip Road
Wong Chuk Hang, Hong Kong

First Fidelity Capital (International) Limited
a licensed corporation to carry on Type 1 (dealing in securities), Type 4 (advising on securities) and Type 9 (asset management) regulated activities under the SFO
Unit 1405, Allied Kajima Building
138 Gloucester Road
Wanchai, Hong Kong

I Win Securities Limited
a licensed corporation to carry on Type 1 (dealing in securities) regulated activity under the SFO
Room 1916, Hong Kong Plaza
188 Connaught Road West
Sai Wan, Hong Kong

Livermore Holdings Limited
a licensed corporation to carry on Type 1 (dealing in securities) regulated activity under the SFO
Unit 1214A, 12/F, Tower II
Cheung Sha Wan Plaza
833 Cheung Sha Wan Road
Kowloon, Hong Kong

Red Eagle Securities Limited
a licensed corporation to carry on Type 1 (dealing in securities) regulated activity under the SFO
Unit 1107, 11/F., Cosco Tower
Grand Millennium Plaza
183 Queen's Road
Central, Hong Kong

uSmart Securities Limited
a licensed corporation to carry on Type 1 (dealing in securities), Type 4 (advising on securities) and Type 9 (asset management) regulated activities under the SFO
Unit 2606, 26/F, FWD Financial Centre
308 Des Voeux Road Central
Hong Kong

Legal advisers to our Company	*As to Hong Kong law* **ONC Lawyers** 19th Floor, Three Exchange Square 8 Connaught Place, Central Hong Kong
	As to PRC law **Tahota Law Firm** 16th Floor, Palm Springs International Centre No. 199, Middle of Tianfu Avenue High-tech District, Chengdu (610041) PRC
	As to Cayman Islands law **Appleby** 2206–19 Jardine House 1 Connaught Place, Central Hong Kong
Legal advisers to the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Underwriters	*As to Hong Kong law* **Kwok Yih & Chan** Suites 2103–05, 21st Floor 9 Queen's Road Central Hong Kong
	As to PRC laws **Commerce & Finance Law Offices** 10/F Jing An Kerry Centre Tower 1 1515 Nanjing West Road Shanghai PRC
Auditor and reporting accountants	**BDO Limited** 25th Floor, Wing On Centre 111 Connaught Road Central Hong Kong
Industry consultant	**Frost & Sullivan International Limited** 1706, One Exchange Square 8 Connaught Place Central, Hong Kong

Compliance adviser	**Alliance Capital Partners Limited** *a licensed corporation under the SFC to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO* Room 1502–1503A, Wing On House 71 Des Voeux Road Central Central, Hong Kong
Property Valuer	**Royson Valuation Advisory Limited** Unit 1503, 15th Floor, The L. Plaza 367–375 Queen's Road Central Hong Kong
Receiving bank	**Bank of China (Hong Kong) Limited** 1 Garden Road Hong Kong

Registered office in the Cayman Islands	4th Floor, Harbour Place 103 South Church Street P.O. Box 10240 Grand Cayman KY1-1002 Cayman Islands
Headquarters and principal place of business in the PRC	No. 88 Qingma Road Modern Industrial Port (South Area) Pidu District, Chengdu Sichuan Province PRC
Principal place of business in Hong Kong registered under Part 16 of the Companies Ordinance	Unit 901, 9th Floor Belgian Bank Building 721-725 Nathan Road Mongkok, Kowloon Hong Kong
Company's website	***www.saftower.cn*** *(Note: the information contained in this website does not form part of this prospectus)*
Company secretary	Mr. Woo Yuen Ping *(Certified Public Accountant)* Flat F, 9th Floor Block M2, Yoho Midtown 9 Yuen Lung Street Yuen Long, New Territories Hong Kong
Authorised representatives ***(for the purposes of the GEM Listing Rules)***	Mr. Woo Yuen Ping Flat F, 9th Floor Block M2, Yoho Midtown 9 Yuen Lung Street Yuen Long, New Territories Hong Kong Mr. Dang Fei No. 1302, 13th Floor, Unit 4 Dong 4, No. 98 Lanan Street West District, High-tech Zone Chengdu, Sichuan PRC

Compliance officer	Mr. Wang Xiaozhong
Audit committee	Mr. Chan Oi Fat *(Chairperson)*
	Dr. Zuo Xinzhang
	Ms. Hu Xiaomin
Remuneration committee	Ms. Hu Xiaomin *(Chairperson)*
	Dr. Zuo Xinzhang
	Mr. Chan Oi Fat
Nomination committee	Mr. Dang Fei *(Chairperson)*
	Dr. Zuo Xinzhang
	Mr. Chan Oi Fat
	Ms. Hu Xiaomin
Principal share registrar and transfer office in the Cayman Islands	**Appleby Global Services (Cayman) Limited** 71 Fort Street, PO Box 500 George Town Grand Cayman KY1-1106 Cayman Islands
Hong Kong branch share registrar and transfer office	**Tricor Investor Services Limited** Level 54, Hopewell Centre 183 Queen's Road East Hong Kong

Principal banks	**Bank of Communications Company Limited** **Chengdu Pidu Branch** No. 178–188, Kehua Second Road, Pitong Town Pidu District, Chengdu Sichuan Province PRC **Bank of China Limited** **Pidu Branch** No. 2 South Street Pidu District, Chengdu Sichuan Province PRC **Chengdu Rural Commercial Bank Company Limited** **Pidu Hongxing Branch** No. 198 Wangcong East Road, Pitong Town Pidu District, Chengdu Sichuan Province PRC

The information that appears in this section has been prepared by Frost & Sullivan and reflects estimates of market conditions based on publicly available sources and is prepared primarily as a market research tool. References to Frost & Sullivan should not be considered as the opinion of Frost & Sullivan as to the value of any security or the advisability of investing in us. Our Directors believe that the sources of information contained in this section are appropriate sources for such information and have taken reasonable care in reproducing such information. Our Directors have no reason to believe that such information is false or misleading or that any material fact has been omitted that would render such information false or misleading. The information prepared by Frost & Sullivan and set out in this section has not been independently verified by us, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriter(s) or any other party or affiliate involved in the Share Offer (which, for the purpose of this paragraph, excludes Frost & Sullivan) and neither they give any representations as to its accuracy and the information should not be relied upon in making, or refraining from making, any investment decision. Our Directors confirm that, after taking reasonable care, there is no adverse change in the market information since the date of the Industry Report which may qualify, contradict or have an impact on the information in this section.

SOURCE AND RELIABILITY OF INFORMATION

We have commissioned Frost & Sullivan, an Independent Third Party, to conduct a study of China's wire and cable market and aluminium material market. We agreed to pay Frost & Sullivan a fee of HKD652,000 for the preparation of the Industry Report, and our Directors consider that such fee reflects market rates and are of the view that the payment of the fee does not affect the fairness of conclusions drawn in the Industry Report. Founded in 1961, Frost & Sullivan has over 40 global offices with more than 2,000 industry consultants, market research analysts, technology analysts and economists.

RESEARCH METHODOLOGY

The methodology used by Frost & Sullivan in gathering the relevant market data in compiling the Industry Report included primary interviews and secondary research. Primary interviews are conducted with relevant institutions to obtain objective and factual data and prospective predictions. Secondary research involves information integration of data and publication from publicly available resources, including official data and announcements from PRC government departments, and market research on industry and enterprise player information issued by our chief competitors.

BASIS AND ASSUMPTION

The Industry Report was compiled based on the following assumptions: (i) China's economy is likely to maintain steady growth in the next decade; (ii) China's social, economic, and political environment is likely to remain stable from 2019 to 2024 ("**Forecast Period**"); (iii) Stable GDP growth of the PRC, the increasing purchasing power of Chinese residents, stable development of China's wire and cable market, increasing demand from downstream applications, government support, as well as rich upstream resources are likely to drive the future growth of the industry.

Our Directors are of the view that the sources of information used in this section are reliable as the information was extracted from the Industry Report. Our Directors believe the Industry Report is reliable and not misleading as Frost & Sullivan is an independent professional research agency with extensive experience in its profession.

CHINA'S WIRE AND CABLE MARKET ANALYSIS

Overview of Wire and Cable Market

Wire and cable products mainly include wires and cables and semi-finished products used for manufacturing wires and cables. Wires and cables refer to electrical products that are used to transmit electrical or magnetic energy, deliver signal information and achieve electromagnetic energy conversion. Semi-finished products refer to semi-finished materials such as aluminium rods and copper wires used to manufacture finished wires and cables.

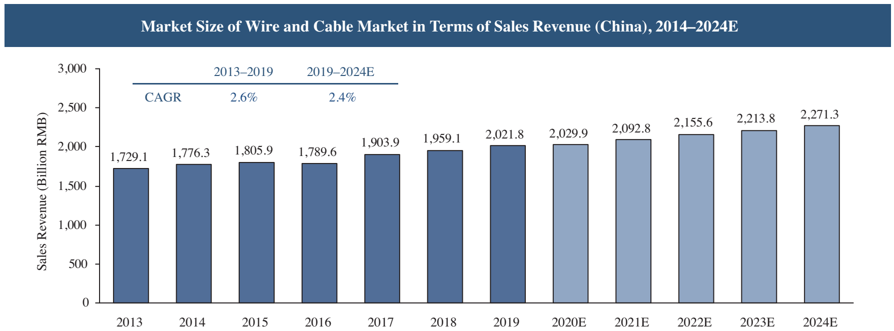
At this moment, the PRC is the largest wire and cable manufacturing country in the world. The wire and cable market is also the largest supporting industry in the PRC, providing strong support to various industries like power generation and construction, as well as fueling the growth of national economies.

In terms of product type, wires and cables can be divided into six major categories: power cable, wire and cable for electrical equipment, communication cable, winding wire, bare wire and semi-finished products.

Market Size of China's Wire and Cable Market

Along with the steady growth of macro economy in the PRC, the wire and cable market in the PRC has witnessed a stable growth over the past five years. The sales revenue in the PRC has increased from RMB1,729.1 billion in 2013 to RMB2,021.8 billion in 2019, representing a CAGR of 2.6%. The sales revenue of China's wire and cable market slightly dropped in 2016 as a result of the implementation of diminishing the industrial capacity starting in late 2015. A large number of low-end wire and cable manufacturers are facing overcapacity problems. The market then gradually recovered and restored growth in 2017 and 2018. Special cables are special wire and cable products that are different from classic wires and cables in terms of application, use environment, performance and structure. Special cables are developed on the basis of classic wires and cables by using new materials or processing techniques, and they are used in special environment or for special purpose. In 2019, the sales revenue of special cables in China took approximately 15% of the sales revenue in China's wire and cable market.

Going forward, China's wire and cable market is facing development opportunities mainly driven by strong demand from downstream industries and government supporting policies. The sales revenue of China's wire and cable market is expected grow at a CAGR of 2.4%, reaching RMB2,271.3 billion in 2024.



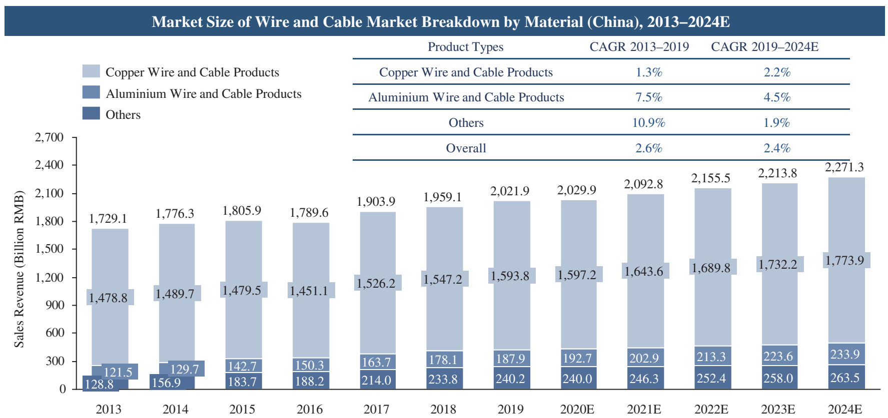
Source: National Bureau of Statistics; Frost & Sullivan

In terms of the conductor type, wires and cables can be divided into copper wires and cables, aluminium wires and cables and others (mainly including optical fibre cables). The comparison of copper wires and cables and aluminium wires and cables is set out below:

	Copper Wires and Cables	Aluminium Wires and Cables
Raw Material Cost	• Expensive • Average spot price of copper in 2019 was RMB47,768.1/tonne	• Cheap • Average spot price of aluminium in 2019 was RMB13,943.4/tonne
Weight	• Heavier in comparable volume	• Lighter in comparable volume
Electrical Resistivity	• Low electrical resistivity	• Approximately 1.68 times higher than that of copper wires and cables
Construction Requirement	• Easier to crimp for workers	• Require special tools to crimp • Higher requirements for workers
Reserves of Raw Materials	• Proved reserve of copper mine in 2017: China: 1.0 billion tonnes Sichuan: 2.6 million tonnes Guangyuan: not available	• Proved reserve of bauxite in 2017: China: 5.1 billion tonnes Sichuan: approximately 40.0 million tonnes Guangyuan: approximately 6.0 million tonnes

Note: 2017 data is the most latest available information of reserves of raw materials.

Copper wire and cable products are the largest product type in terms of material in China's wire and cable market, taking approximately 79% of total sales revenue of wire and cable products in the market. The market share of copper wire and cable products is expected to slightly decrease due to the application of aluminium and other wire and cable products. Aluminium wire and cable products have witnessed an upward trend from 2013 to 2019. This was mainly due to its cheaper price, abundant reserves and universal applications advocated by the government.



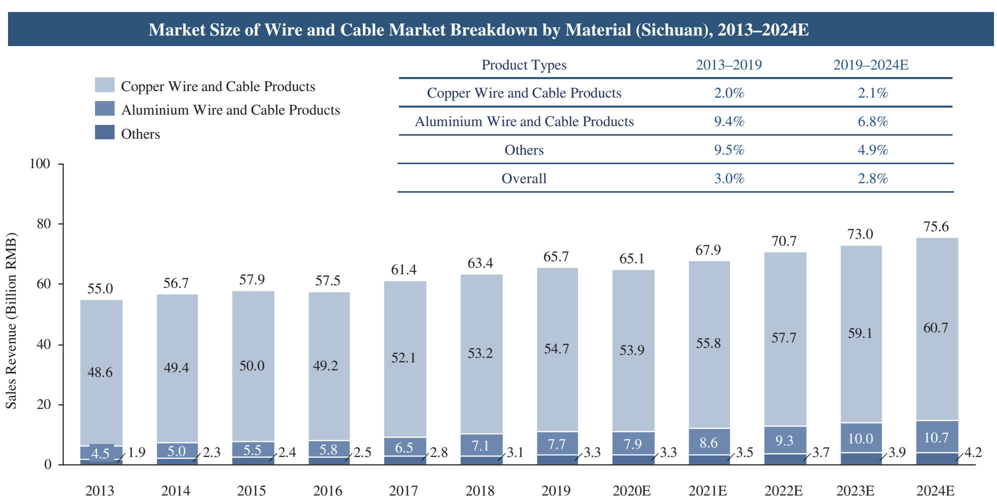
Source: Frost & Sullivan

Market Size of Sichuan's Wire and Cable Market

The wire and cable market in Southwest China is relatively less developed than regions like East China, North China, and Central South China. In terms of sales revenue, Southwest China took 7.5% share in China's wire and cable market as of 2019. Sichuan is one of the major components of Southwest China's wire and cable market, contributing 43.4% of sales revenue in Southwest China in 2019. Sichuan's market has experienced a faster growth rate as more manufacturers emerged, especially in late 2000s and early 2010s. From 2013 to 2019, the sales revenue of Sichuan's wire and cable market has increased from RMB55.0 billion to RMB65.6 billion. Sichuan takes 3% of total sales revenue in China's wire and cable market. The sales revenue of Sichuan market also slightly dropped in 2016 due to overcapacity. The market then gradually recovered and restored growth pace in 2017 and 2018. In 2019, the sales revenue of special cables in Sichuan took approximately 10% of the sales revenue in Sichuan's wire and cable market. Going forward, the sales revenue of Sichuan's wire and cable market is expected to reach RMB75.6 billion in 2024, growing at a CAGR of 2.8%. The market is expected to be driven by government's supporting policies such as the Implementation Opinion of Promoting Electric Energy Replacement in Sichuan Province, which will further stimulate the demand for wires and cables in the power industry.

Beneficial from the Western Development Strategy (《西部大開發戰略》), Sichuan Province has long been acting as an important role in the economy development of Southwest China. The development of multiple industries such as power generation, infrastructure construction, communication and petrochemical has created strong demand for wire and cable products. In particular, the power industry in Sichuan is rather developed in terms of power generation and power consumption, which makes Sichuan a good place for wire and cable manufacturers. In the meantime, Chinese government has officially started the planning and construction of Sichuan-Tibet Railway with a total investment of approximately RMB270 billion in October 2018. The expected construction of Sichuan-Tibet Railway project starting in the second half of 2019 is likely to further drive the development of Sichuan's wire and cable market in the following years.

Copper wire and cable products are also the largest product type in terms of material in Sichuan's wire and cable market, taking approximately 83% of total sales revenue of wire and cable products in 2019. The sales revenue of copper wire and cable products is expected to remain as the largest segment in the next five years. The sales revenue of aluminium wire and cable products have witnessed an upward trend from 2013 to 2019, increasing from RMB4.5 billion to RMB7.7 billion with a CAGR of 9.4%. Going forward, the sales revenue is expected to reach RMB10.7 billion in 2024 with a CAGR of 6.8%.



Source: Frost & Sullivan

Market Drivers of China's Wire and Cable Market

On-going Development of Power Industry in China: Along with the stable economic development, on-going urbanisation process and improving living standard of Chinese residents, both the power consumption and generation in China showed steady growth from 2013 to 2019, representing CAGRs of 5.3% and 5.2%, respectively. Meanwhile, in order to meet the growing electricity demand, the cumulative installed power generation capacity in China also demonstrated rapid growth from 1,259.3GW in 2013 to 2,010.7GW in 2019, representing a CAGR of 8.1%. The ever-increasing power consumption demand and power generation capacity in China directly drive the demand on wire and cable products and is estimated to continuously ensure the development of the wire and cable market in China.

Massive Promotion of Renewable Energy: Along with the massive promotion of renewable energy from the PRC central government under the call for building a sustainable energy structure, the cumulative installed power generation capacity of photovoltaic power, wind power and hydro power in China realised CAGRs of 50.7%, 18.3% and 4.1%, respectively from 2013 to 2019. Also, the share of renewable energy in power generation capacity increased from 29.7% in 2013 to 38.4% in 2019.

Substantial Investment into Rail Transit Construction: The PRC government puts significant effort into the construction of nationwide railway network and invests a lot annually into the construction of rail transit system of both national operated railway network and urban rail transit. The national railway operating mileage in China reached 139.0 thousand kilometres in 2019, representing a CAGR of 5.1% from 2013 to 2019. Meanwhile, the electrified railway mileage among the total railway operating mileage increased from 56.0 thousand km in 2013 to 100.6 thousand km in 2019 with a CAGR of 10.3%. The urban rail transit operating mileage also showed significant growth from 2013 to 2019, representing a CAGR of 17.0%. Along with the rapid process of urbanisation in China, the demand for inter-city railways and urban rail transit are estimated to be further generated, which is also expected to bring constant demand on the wire and cable products and further drive the development of China's wire and cable market.

Sustained Growth of Telecommunication Industry in China: Along with the promotion and application of 5G network, the investment in telecommunication industry is forecasted to have a rebound since 2019, reaching RMB450 billion in 2024 with a CAGR of 2.4% from 2019 to 2024. Moreover, the construction of base stations for mobile communication in China showed a substantial growth in the five years from only 2.4 million base stations in 2013 to 7.5 million base stations in 2019, mainly driven by the nationwide promotion of 4G networks during that period. The number of base stations in China is estimated to be further increased to 12.6 million units in 2024 along with the new round deployment of 5G base stations after 2019. The telecommunication industry in China is expected to have a sustained growth, thereby also creating more demand on telecommunication cable products.

Rapid Growth of Aluminium Wire and Cable Market: Compared to traditional copper wires and cables, aluminium wires and cables are relatively cheaper and is actively promoted by government policy such as the issuance of "the Suggestions on Expanding the Application of Aluminium Alloy Cables in the Power Industry" (《關於擴大鋁合金電纜在電力行業應用的建議》) in 2014. The sales revenue of aluminium wire and cable products have witnessed an upward trend from 2013 to 2019, representing a CAGR of 7.5%, which is much higher than the sales revenue of copper wire and cable products during the same period. The aluminium wire and cable market is likely to maintain stable growth trend with a CAGR of 4.5% from 2019 to 2024.

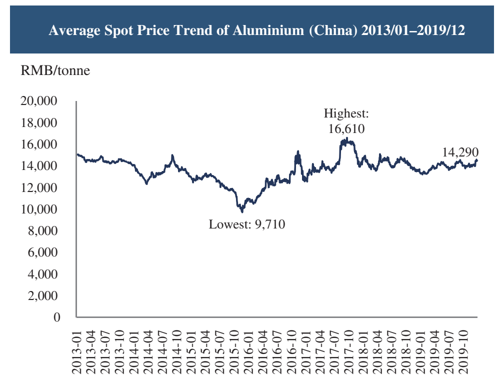
Foreseeable Increase in Domestic Demand of Wire and Cable Products Due to the Trade War Between the U.S. and China: The Trade War between the U.S. and China since 2018 is likely to be another potential increase in domestic demand of wire and cable products in China. The PRC government is estimated to boost infrastructure investment in the following years in order to bolster the economic growth and offset tensions and impact caused by the trade war between the U.S. and China. The foreseeable infrastructure investment of PRC government is also expected to stimulate the demand of wire and cable products for infrastructure construction, which is likely to be another growth driver of China's wire and cable market.

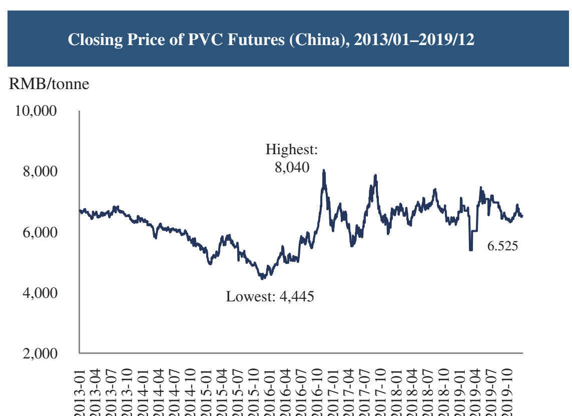
Continuous Investment and Development Policy Support in West China: Since the PRC government launched "China Western Development" (西部大開發) strategy in 2000, the PRC government offers strong policy support and massive investment to facilitate the development in West China. According to the Report of the State Council on 2019 (2019年國務院政府工作報告), the supportive policy such as income tax preferential policy for the enterprises in West China will continue to execute after expiration. New policy measures focus on the development and opening up of West China will be further formulated and issued in the following years. According to the 13th Five-year-plan (2016 to 2020) of China Western Development (西部大開發「十三五」規劃) issued by the NDRC in 2017, infrastructure network such as transportation, water conservancy, energy and telecommunication will be further invested and constructed during the 13th Five-year-plan period (2016 to 2020). As a result, continuous investment and development policy support in West China are anticipated to stimulate the demand for wire and cable products in West China and thereby further sustain the development of wire and cable market.

Raw Material Price Analysis of China's Wire and Cable Market

In the wire and cable market, the costs of raw materials usually account for a large proportion of the total production costs. Major raw materials such as copper and aluminium generally takes over 80% of total production costs of wires and cables. In such case, the market is highly sensitive to the price change of raw material prices. The fluctuations of raw material prices may directly affect the economic profits of wire and cable manufacturers. The rise of average spot price of copper in 2017 was mainly due to the issuance of the ban on importing seven kinds of wastes including waste copper. The sharp increase of average spot price of aluminium in 2017 was mainly caused by the sanction of Russian aluminium by the U.S., which decreased the global supply of aluminium. Recently, the average spot price of copper and aluminium is displaying a downward trend due to the weak demand in downstream industries.

The prices of major raw materials of the wire and cable market are highly volatile over the past five years. By the end of December 2019, the spot price of copper and aluminium were RMB49,090/tonnes and RMB14,530/tonnes respectively. By the end of December 2019, the latest closing price of PVC futures was around RMB6,525/tonnes.





Source: Yangtze Non-ferrous Metal, Dalian Commodity Exchange, Frost & Sullivan

Competitive Landscape of China's Wire and Cable Market

As of 2019, China's wire and cable market is highly fragmented with approximately 18,000 players in the market. From 2013 to 2019, the number of companies has displayed an upward trend with fluctuation. The number of companies decreased in 2016 due to overcapacity but gradually increased in the following years. Going forward, the number of companies is expected to maintain at relatively stable level with an increasing concentration rate in the next five years. In 2019, our Company only took 0.03% share in China's wire and cable market.

Revenue of Top Five Players in Wire and Cable Market (China), 2019

Ranking	Company Name	Revenue (Billion RMB)	Market Share
1	Company I	33.3	1.6%
2	Company J	26.9	1.3%
3	Company K	24.0	1.2%
4	Company L	20.5	1.0%
5	Company M	15.9	0.8%
Top 5		120.6	5.9%
Others		1,901.2	94.1%

Market Size of China Wire and Cable Market: RMB2,021.8 Billion

Notes:

(1) Company I, established in 2000 and headquartered in Yangzhou, is a company listed on Shanghai Stock Exchange that mainly manufactures power cables, wires and cables for electrical equipment, bare wires, etc.

(2) Company J was established in 1991 in Suzhou. It is a company listed on Shanghai Stock Exchange focusing on providing optical fiber cables for communication industry and energy industry.

(3) Company K is a private company established in 1967 in Changzhou. It mainly manufactures wires and cables for customers in various industries such as power generation, transportation, new energy, mining, etc.

(4) Company L is a company listed on Shanghai Stock Exchange and established in 1992 in Nantong. It mainly provides a wide range of wire and cable products for telecom, power, renewable energy and oil and gas industries.

(5) Company M, established in 1985 and headquartered in Yixing, is a company listed on Shanghai Stock Exchange that mainly manufactures power cables, wires and cables for electrical equipment and special cables.

Sichuan's wire and cable market is also fragmented with over 300 wire and cable manufacturers. Over the past years, the number of companies has kept an upward trend, increasing from over 200 companies in 2013 to over 300 companies in 2019. Going forward, the number of companies in Sichuan is expected to keep increasing in the next five years. In

2019, the top five players together took approximately 6.72% market share in terms of revenue in 2019. Our Company took approximately 0.97% market share and ranked 4th position in Sichuan's wire and cable market.

Revenue of Top Five Players in Wire and Cable Market (Sichuan), 2019

Ranking	Company Name	Revenue (RMB Million)	Market Share
1	Company A	1,948.3	2.97%
2	Company B	757.6	1.15%
3	Company C	652.5	0.99%
4	Our Company	639.5	0.97%
5	Company D	408.6	0.62%
Top 5		4,406.5	6.72%
Others		61,212.5	93.28%

Market Size of Sichuan Wire and Cable Market: RMB65,619.0 Million

Source: *Frost & Sullivan*

Note:

(1) Company A, headquartered in Leshan, was established in 2003. It is a company listed on Shanghai Stock Exchange that specialised in manufacturing special cables.

(2) Established in 2008, Company B is a Chengdu-based wire and cable manufacturers that mainly manufactures power cables, special cables, etc.

(3) Company C is a company listed on Shenzhen Stock Exchange that mainly manufactures wires for electrical equipment and power cables. It locates in Chengdu and was established in 2013.

(4) Company D, headquartered in Chengdu, was established in 1998. It mainly manufactures bare wires, power cables, etc.

Entry Barriers Analysis of China's Wire and Cable Market

Qualifications & Certificates: To be an eligible player in China's wire and cable market, wire and cable manufacturers need to obtain a series of qualifications and certifications. First, manufactures should acquire the "National Industrial Product Permit" (《全國工業產品生產許可證》) to manufacture certain type of wires and cables. In addition, manufactures should also apply other certificates, as the case may be, like "CCC Certificates" (《強制性產品認證證書》), "Quality Management System Certificate" (《品質管制體系認證證書》), etc. Multiple qualifications and certificates have set entry barriers to new entrants.

Capital support: The wire and cable market is highly capital-intensive. Wire and cable manufacturers usually have many heavy assets such as production equipment, which require large amount of capital investment. In addition, the raw material prices of wire and cable market fluctuate frequently, and have short billing period. A lot of capital may be occupied to avoid price volatility of raw material prices. The wire and cable products also requires high capital liquidity and large capital investment in research and development. Therefore, the capital support has created a high entry barrier for new entrants.

Technical Barrier: The production of wire and cable products usually involves multiple processes technologies. Especially for high-end wires and cables, strong entry barriers have been formed for research and development capabilities, equipment operation levels, process improvement and quality testing. It is rather difficult for new market players to compete with exiting players who have mature technical capabilities.

Customer Resources: In the wire and cable market, major clients of manufacturers are usually large-scale institutional clients such as the State Grid, municipal railroad transit system and other leading players in downstream industries. In addition to qualifications and certificates, existing players also have strong sales capabilities and fine brand name in the market. New entrants cannot establish such advantages in a short time, which created high entry barriers for them.

Resources Availability: Wire and cable manufacturers usually should have stable supply of upstream raw materials. Some existing players have a shorter distance of upstream resources which creates a lower transportation cost. In addition, they also established a long-term contract cooperation relationship with local players.

Opportunities and Threats of China's Wire and Cable Market

Industrial Integration: Along with adjustment of economic structure, a considerable number of merger and acquisition activities is expected to occur in the foreseeable future. The market concentration level in the wire and cable market is likely to raise. Under this circumstance, the wire and cable market tends to develop in a more regulated market environment.

Favourable Policy Support: Recently, the government has carried out urban power construction projects, agricultural power transformation and rail transit projects, which in turn raises the demand for wires and cables. In addition, the Belt and Road Initiatives provided overseas opportunities to manufacturers. Many countries alongside the road of the Initiative usually locate at the industrialization and urbanisation process, and they have large demand for wires and cables.

Excess Capacity: As the largest electrical manufacturing industry, China's wire and cable industry have been facing the problems of excess capacity, especially for the low-end wires and cables. Large products inventories have blocked the sustaining development of China's wire and cable market.

Fluctuating Raw Material Prices: The wire and cable market is very sensitive to the raw material price. Fluctuating prices may adversely affect the operating efficiency and performance of market players.

CHINA'S ALUMINIUM PRODUCT MARKET ANALYSIS

Introduction and Industry Value Chain Analysis of China Aluminium Product Market

Aluminium products are intermediate processed products produced within the industry value chain of aluminium industry. The applications of aluminium products are widely used in different industries such as power industry, machinery manufacturing, electric manufacturing, transportation, construction, etc.

Dealerships of aluminium products are widely exited in the aluminium industry. Due to the highly fragmented market environment, local trading companies are relatively more familiar with local downstream market and can easily penetrate local customers, as well as providing more value-added services such as better after-sale services and short delivery period. It is not uncommon in the aluminium industry that upper stream players seeking financing support from local government or downstream players to facilitate their purchase.

Market Size of Aluminium Product Market in the PRC and Sichuan

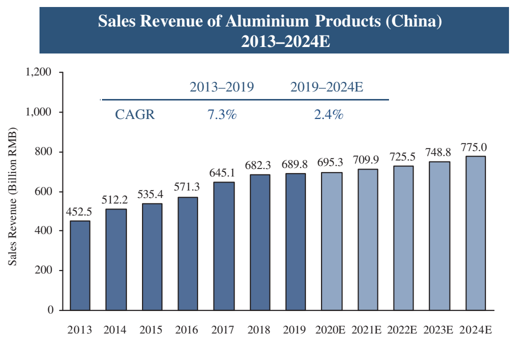
Driven by the stable demand from downstream industries, the sales revenue of aluminium products in the PRC has experienced a steady growth pace. The sales revenue increased from RMB452.5 billion in 2013 to RMB689.8 billion in 2019, representing a CAGR of 7.3%. Going forward, the sales revenue of the market is expected to grow at a CAGR of 2.4%, reaching RMB775.0 billion in 2024. The growth is mainly attributed to the fine government policy in related to manufacturing such as "13th Five-Year Development Plan of Non-Ferrous Metal Industry"(《有色金屬工業十三五發展規劃》).

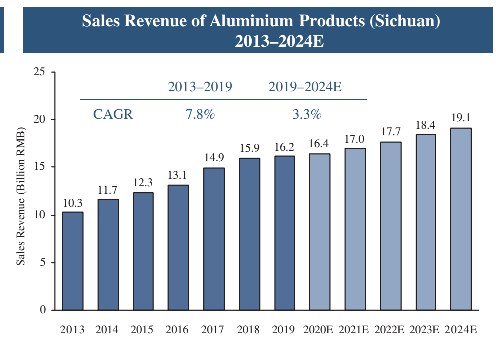
The market size of Southwest China's aluminium product market has increased from RMB36.8 billion in 2013 to RMB56.5 billion in 2019, representing a CAGR of 7.4%. It took 8.2% of China's aluminium product market. Sichuan and Chongqing are the two largest markets in Southwest China. In terms of sales revenue, Chongqing and Sichuan each took 48.0% and 29.0% market share in the market as of 2019.

Along with the development of national aluminium product market, Sichuan's aluminium product market has also shown an increasing trend. The sales revenue increased from RMB10.3 billion in 2013 to RMB16.2 billion in 2019, representing a CAGR of 7.8%. Going forward, the sales revenue in Sichuan is likely to reach RMB19.1 billion in 2024. Guangyuan is one of the important aluminium industry bases in Sichuan Province and has now become a major component of Sichuan's aluminium product market. According to Guangyuan City government in 2018, the government will vigorously develop six industries including aluminium industry till 2020. Such supporting policy is expected to the key driver for the future development of Sichuan's aluminium product market.

Guangyuan has also enacted several policies to support the development and transformation of aluminium industry. For instance, the government of Guangyuan issued "Investment Promotion Policy of Guangyuan City" (《廣元市招商引資優惠政策》) in 2017 to offer tax benefits for newly established industrial companies including aluminium enterprises. The management committee of Guangyuan Economic and Technological

Development Zone also puts an emphasis on the introduction and cultivation of professional talents in aluminium industry to better promote the development of the market.

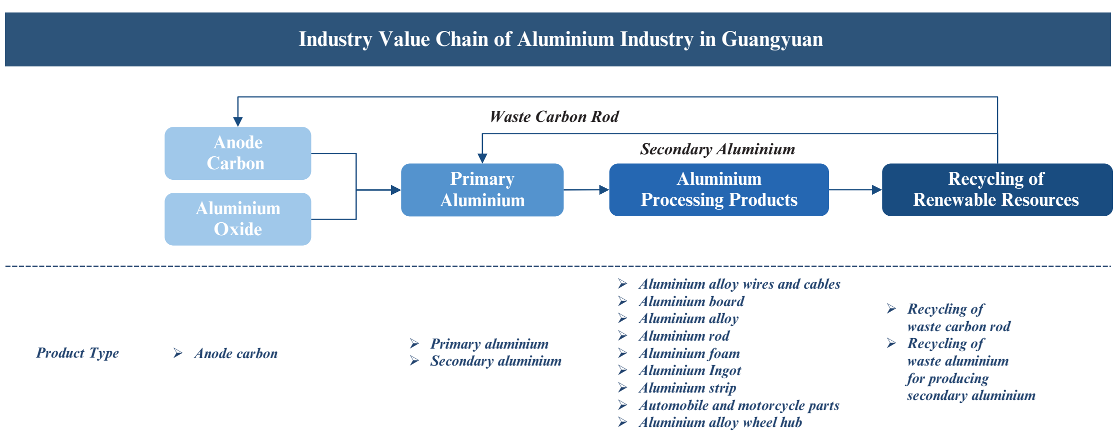




Source: Frost & Sullivan

Industry Value Chain Analysis of Aluminium Industry in Guangyuan

Guangyuan is one of the important aluminium industry based in Sichuan province and has now become a major component of Sichuan's aluminium product market. Through years of development, Guangyuan has established a completed aluminium industry value chain integrating aluminium oxide, primary aluminium and aluminium processing products. Our Company is one of the players that manufactures and sells aluminium processing products in Guangyuan.



Source: Frost & Sullivan

Market Drivers of Aluminium Product Market

Sustaining Demand from Downstream: Due to the excellent performance, low price and high recycling rate, aluminium products are widely used in multiplying industries such as construction, transportation, power industry, machinery manufacturing, packaging industry, etc. The sustained development of downstream industries has boosted demand for aluminium products. In such case, the market is still expected to have great development potential in the foreseeable future.

Government Policy Support: In recent years, the government has issue several policies and measures to support the development of aluminium industry. For instance, the "13th Five-Year Development Plan for Nonferrous Metals Industry"(《有色金屬工業十三五發展規劃》) announced in 2016 clearly stated that it is necessary to accelerate the development of high-performance light alloy materials. With the continuous deepening of the supply-side structural reform, the development environment of China's aluminium product market is facing a fine market environment.

Rich Upstream Resources: Aluminium is the most abundant metal element in the earth's crust. There are many kinds of aluminium minerals and rocks in nature, such as bauxite, shale, and alum. Bauxite has greatest commercial exploitation value among them. In 2017, China's bauxite production reached 69 million tonnes, ranking second in the world. The total reserves have exceeded 1 billion tonnes. As the main upstream raw material of various aluminium products, rich bauxite reserves will further drive the development of aluminium industries.

Competitive Landscape of Aluminium Product Market

China's aluminium product market is highly fragmented with over ten thousands of companies, most of which are medium-to-small sized companies.

Revenue of Top Five Players in Aluminium Product Market (China), 2019

Ranking	Company Name	Revenue (RMB Billion)	Market Share
1	Company N	92.6	13.4%
2	Company O	73.4	10.6%
3	Company P	23.6	3.4%
4	Company Q	20.1	2.9%
5	Company R	11.9	1.7%
Top 5		221.6	32.1%
Others		468.2	67.9%

Market Size of China Aluminium Product Market: RMB689.8 Billion

Source: Frost & Sullivan

Note:

(1) Company N is a state-owned company headquartered in Beijing. It is a company listed on Shanghai Stock Exchange that specialized in manufacturing and selling primary aluminium, aluminium oxide and aluminium products.

(2) Company O is a large-scale private company headquartered in Shandong. It is a company listed on the Stock Exchange that specialized in manufacturing aluminium alloy products.

(3) Company P was established in 2010 and headquartered in Liaoning. It is a company listed on the Stock Exchange that specialized in manufacturing and selling aluminium products.

(4) Company Q is a company listed on Shanghai Stock Exchange and headquartered in Shandong. It mainly manufactures and sells aluminium products and aluminium oxide.

(5) Company R is a company listed on Shenzhen Stock Exchange and headquartered in Henan. It mainly manufactures and sells aluminium products such as aluminium ingot.

Although there are over 300 aluminium products companies in Sichuan, Sichuan's aluminium product market is concentrated that top five players took 30.5% market share. Our Company took approximately 0.3% market share in 2019.

Revenue of Top Five Players in Aluminium Product Market (Sichuan), 2019

Ranking	Company Name	Background	Revenue (RMB Million)	Market Share
1	Company E	Private-owned	2,504.8	15.4%
2	Company F	Private-owned	1,121.7	6.9%
3	Company G	State-owned	621.0	3.8%
4	Company H	State-owned	446.5	2.8%
5	Company S	Private-owned	257.8	1.6%
Top 5			4,951.8	30.5%
Others			11,266.2	69.5%

Market Size of Sichuan Aluminium Product Market: RMB16,218.0 Million

Source: Frost & Sullivan

Notes:

(1) Company E, headquartered in Emeishan city, was established in 2003. It is a large-scale aluminium industry company that sells aluminium ingot, aluminium alloy, aluminium oxide and other aluminium products.

(2) Company F, is a large-scale privately-owned company headquartered in Chongqing. It sells aluminium products by operating a subsidiary in Aba.

(3) Company G was established in 2001 and headquartered in Meishan.

(4) Company H, a subsidiary of China Aluminium Corporation, was acquired and established in 2015.

(5) Company S, is a privately-owned company established in 2003 and headquartered in Emeishan City.

Opportunities and Threats of Aluminium Product Market

Expanding Application: As a pillar material of modern economic and high-tech development, the application of aluminium products are expected to be further expanded. In the meantime, the public has gradually accepted aluminium as a green, environmentally friendly and lightweight preferred material. New types of aluminium products are constantly emerging. The potential demand will create more market development opportunities.

Industry Integration: As more companies in the industry is paying attention to the integration within the industry value chain, potential mergers and acquisitions activities in the industry are expected to boost in the future, which in turn raises the competitiveness of market players.

Lack of Innovation: At present, the PRC are facing overcapacity in medium-to-low end aluminium products, which was mainly attributed to the low innovation capacities of domestic companies. In such case, the homogeneity of products may further worsen the market.

Strict Environmental Restriction: The production of related products in the market may threaten the environment to some degree. As the government is tightening the environment policies, the price of aluminium products may face fluctuating issues.

Price Volatility: The market can be seriously affected by the volatile sales price. For instance, the supply-demand relationship, international trade, macro economy may cause price risk to aluminium oxide and aluminium product market.

The Supply-side Reform in Aluminium Industry: The supply-side reform in aluminium industry in the PRC mainly refers to the elimination of backward production capacities in aluminium industry, which is likely to affect the production of some aluminium products. Hence, the supply-side reform in aluminium industry might lead to changes in the procurement practices of the companies in the aluminium industry or their demand for various kinds of aluminium products.

Overview of China's Copper Product Market

Copper products refer to the products made of pure copper or copper alloy. Copper products generally include copper rods, copper busbar, copper tube, copper board and strip, copper bar, etc. In 2019, the total sales revenue of China's copper product market was approximately RMB774.9 billion, growing at a CAGR of 4.2% from 2013 to 2019. Going forward, the copper product market is expected to grow at a CAGR of 2.9% in the five years from 2019 to 2024. As the raw materials of manufacturing copper wires and cables, copper rods are the largest product type in terms of sales revenue, taking over 50% of total sales revenue of copper products in 2019.

Major Factors Affecting the Gross Profit Margin of Wires and Cables Manufacturing and Gross Profit Margin Range of Specified Wires and Cables Products in the Industry

The gross profit margin of wires and cables manufacturing is normally affected by the following factors: (i) the raw material price of wires and cables such as copper, aluminium and PVC; (ii) production technics applied in the wires and cables production; (iii) product specifications required from the customers such as product types, application environment, requirements for product performance, etc.; (iv) other special requirements from the customers such as urgent demand from customers, shorter lead time, customised product requirements, etc.; (v) product delivery radius to the customers; (vi) the relationship with the customers; (vii) the sales volume for each sales order, etc.

Above factors generally determine the bargaining power and product pricing of manufacturers for each specific transaction made with the relevant customers and thereby affecting the gross profit margins of each transaction of wires and cables. As the factors affecting the gross profit margin of wires and cables are various, the gross profit margins of wires and cables produced by different manufacturers usually change in a wide range. According to the primary and secondary market research of Frost & Sullivan, the industry range of gross profit margins of some specified wires and cables products are as follows:

(i) The gross profit margin of classic copper wires and cables (including classic copper power cables) ranges from 5% to 25%.

(ii) The gross profit margin of special wires and cables ranges from 5% to 85%.

Our business includes the manufacturing and sale of finished wires and cables or semi-finished wires, trading of aluminium products and sale of cable accessories. Our business is subject to supervision and regulation by the PRC authorities. This section sets out a summary of the main laws, regulations that govern our business operations in the PRC. Information contained in this section should not be construed as a comprehensive summary of laws and regulations applicable to us.

FOREIGN INVESTMENT

According to the Wholly Foreign-Owned Enterprise Law of the People's Republic of China (《中華人民共和國外資企業法》) promulgated on 12 April 1986 and revised on 31 October 2000 and 3 September 2016 and the Detailed Implementing Rules for the Wholly Foreign-Owned Enterprise Law of the People's Republic China (《中華人民共和國外資企業法實施細則》) promulgated on 12 December 1990 and revised on 12 April 2001 and 19 February 2014, an application for establishing a wholly foreign-owned enterprise shall be subject to examination and approval by the Ministry of Foreign Trade and Economic Cooperation of the People's Republic of China (currently known as the Ministry of Commerce) before the approval certificate is issued. The record-filing administration is applied to the establishment and change of a foreign-owned enterprise that does not involve special access administrative measures prescribed by the State.

Foreign Investment Law of People's Republic of China (《中華人民共和國外商投資法》) shall come into force as of 1 January 2020, repealing simultaneously the Law of the People's Republic of China on Sino-foreign Equity Joint Ventures (《中華人民共和國中外合資經營企業法》), the Law of the People's Republic of China on Wholly Foreign-owned Enterprises (《中華人民共和國外資企業法》) and the Law of the People's Republic of China on Sino-foreign Cooperative Joint Ventures (《中華人民共和國中外合作經營企業法》).

According to the Catalogue of Industries for Guiding Foreign Investment (revised in 2017) (外商投資產業指導目錄(2017年修訂)) (the "**Catalogue**"), which was promulgated and is amended from time to time jointly by the Ministry of Commerce of the People's Republic of China ("**MOFCOM**") and the National Development and Reform Commission ("**NDRC**"), Catalogue Encouraged Industries of Foreign Investment (2019 Edition) (《鼓勵外商投資產業目錄》(2019年版)), and the Special Management Measures for Foreign Investment Access (Negative List) (2019 Edition) (外商投資準入特別管理措施(負面清單)(2019年版)), which was jointly issued by MOFCOM and NDRC and came into effect on 30 July 2019, our products are not listed in the either Catalogue of "Encouraged Industries", "Restricted Industries" or "Prohibited Industries".

M&A RULE

On 8 August 2006, the Provisions on the Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》) (the "**M&A Rules**") was jointly promulgated by six ministries and commissions, including MOFCOM, CSRC and SAFE, implemented on 8 September 2006 and amended on 22 June 2009 by MOFCOM.

According to Article 2 of the M&A Rules, "merger and acquisition of domestic enterprises by foreign investors" shall mean a foreign investor acquiring equity interest in a domestic non-foreign-invested enterprise ("**domestic company**") or subscribing for increased capital of a domestic company so as to convert such domestic company into a foreign-invested enterprise (the "**merger and acquisition of equity interest**"); or, a foreign investor establishes a foreign invested enterprise, through which it purchases and operates the assets of a domestic enterprise by agreement, or, a foreign investor purchases the assets of a domestic enterprise by agreement and then injects such assets into a foreign-invested enterprise established to operate such assets (the "**merger and acquisition of assets**"). According to Article 11 of the M&A Rules, where a domestic company, enterprise or individual in the name of an overseas company legitimately incorporated or controlled by the domestic company, enterprise or individual merges with a domestic company with a related party relationship with the domestic company, enterprise or individual, such merger shall be subject to examination and approval by MOFCOM. Further, the parties involved shall not make use of domestic investment by foreign invested enterprises or other methods to circumvent the aforesaid requirements.

COMPANY LAW

Company Law of the People's Republic of China (《中華人民共和國公司法》) promulgated on 29 December 1993 and revised on 25 December 1999, 28 August 2004, 27 October 2005, 28 December 2013 and 26 October 2018 is also applicable to the foreign investment liability limited company except as otherwise provided in the law on foreign investment.

INDUSTRY REGULATIONS

According to the Regulation of the People's Republic of China for the Administration on Production Licence of Industrial Products (Decree of the State Council of People's Republic of China No. 440) (中華人民共和國工業產品生產許可證管理條例(國務院令第440號)), Measures for Implementation of the Regulations of the People's Republic of China on the Administration of the Production Licence for Industrial Products (Decree of the General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China No. 156) (中華人民共和國工業產品生產許可證管理條例實施辦法(國家質量監督檢驗檢疫總局令第156號)), the Announcement by the General Administration of Quality Supervision, Inspection and Quarantine on the implementation of Industrial Products Production Licence and 60 types of industrial products (National Quality Supervision, Inspection and Quarantine Announcement No. 102 of 2016) (國家質量監督檢驗檢疫總局關於公佈 《工業產品生產許可證實施通則》 和60類工業產品實施細則的公告(質檢總局公告2016年102號)), Regulations of the People's Republic of China on Certification and Accreditation (2016 Edition) (《中華人民共和國認證認可條例(2016修正)》) and Administrative Regulations on Compulsory Product Certification (Decree of the General Administration of Quality Supervision, Inspection and Quarantine No. 117) (強制性產品認證管理規定(國家質量監督檢驗檢疫總局令第117號)), etc., our Company shall obtain relevant production licences for our wire, cable and aluminium intermediate products according to the laws and regulations. Further, our products shall comply with the respective national standards, industry standards and national industrial policies.

FOCUS ON DEVELOPING PRIORITY TOPICS

The National Medium and Long Term Science and Technology Development Plan (國家中長期科學和技術發展規劃綱要) promulgated by the State Council on 7 February 2006 clarified the key research and development of large-capacity long-distance Direct Current transmission technology and Ultra-high-voltage Alternating Current transmission technology and equipment, intermittent power supply integration and transmission and distribution technology, power quality monitoring and control technology, security technology for large-scale interconnected power grids, major key technologies in the West-East Power Transmission Project, power grid dispatching automation technology, efficient power distribution and power management information technology and systems.

ENVIRONMENTAL PROTECTION

We are subject to a variety of PRC laws and regulations related to environmental protection. The major environmental regulations applicable to us include the Environmental Protection Law of the People's Republic of China (《中華人民共和國環境保護法》) (the "**Environmental Protection Law**"), the Water Pollution Prevention and Control Law of the People's Republic of China (《中華人民共和國水污染防治法》), Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution (《中華人民共和國大氣污染防治法》), Law of the People's Republic of China on Prevention and Control of Pollution from Environmental Noise (《中華人民共和國環境噪聲污染防治法》) and Law of the People's Republic of China on Prevention and Control of Environmental Pollution by Solid Waste (《中華人民共和國固體廢物污染環境防治法》). Furthermore, there are national and local standards applicable to emissions control, discharges and disposal to surface and subsurface water as well as noise control.

STANDARDISATION LAW

In accordance with the Standardisation Law of the People's Republic of China (《中華人民共和國標準化法》),which was promulgated by the Standing Committee of the National People's Congress on 29 December 1988 and amended on 4 November 2017, mandatory national standards shall be formulated for technical requirements which are to protect human health, life and property safety, national security, ecological and environmental safety, and meet the basic needs of economic and social management. The State Council shall approve and promulgate, or authorise approval and promulgation of, mandatory national standards. Recommended national standards on the other hand, may be formulated for technical requirements which meet basic and common needs, and are to complement mandatory national standards. Recommended national standards shall be formulated by the standardisation administrative authority of the State Council and shall have a guiding function for the relevant industries. Where there is no recommended national standard but there is a need for unified technical requirements within a certain industry across the nation, industry standards may be formulated.

WORK SAFETY LAW

The principal law on work safety is the Production Safety Law of the People's Republic of China (《中華人民共和國安全生產法》) (the "**Work Safety Law**") promulgated by the Standing Committee of the National People's Congress on 29 June 2002 and revised on 31 August 2014. Pursuant to the Work Safety Law, business entities must comply with this law and other laws and regulations related to work safety, strengthen work safety management, form and improve their work safety responsibility systems and work safety policies and rules, enhance work safety conditions, promote work safety standardisation, improve their work safety levels, and ensure work safety. Business entities that do not meet such standards or industrial specifications are not allowed to engage in manufacturing activities. Violation of the Work Safety Law, depending on the particular circumstances, will cause various penalties, including corrective actions, suspension of business, confiscation of illegal proceeds and fines. In serious circumstances, business licences of the business entities may be revoked. Business entities and persons directly responsible may also be subject to criminal liability.

PRODUCT QUALITY LAW

The Product Quality Law of the People's Republic of China (《中華人民共和國產品質量法》) (the "**Production Quality Law**") was promulgated by the Standing Committee of the National People's Congress on 22 February 1993 and amended on 8 July 2000, 27 August 2009 and 29 December 2018, respectively. Under the Production Quality Law, industrial products that impose possible health or safety threats to human being or property must comply with relevant national and industry standards. Production and sale of industrial products that are inconsistent with such standards and requirements are prohibited. Producers shall be responsible for the quality of the products they produce.

REGULATIONS RELATING TO TENDER AND BIDDING

Pursuant to the Bidding Law of the People's Republic of China (《中華人民共和國招標投標法》), the Regulation on the Implementation of the Bidding Law of the People's Republic of China (《中華人民共和國招標投標法實施條例》), the Measures for Survey and Design Bidding of Construction Projects (《工程建設項目勘察設計招標投標辦法》) and the Provisions on Engineering Projects Which Must Be Subject to Bidding (必須招標的工程項目規定), a construction engineering project must be subject to bidding if the survey, design, construction, supervision and the purchase of important equipment and materials relating to the construction works, among others, meet certain criteria. No company or individual is permitted to evade the bidding process by splitting a project, or by any other means, for which a bid must be invited according to the law. A bid inviter may, in light of the various characteristics of a construction engineering project, conduct an overall bidding process for survey and design, or conduct separate processes in stages as required without prejudicing the integrity and continuity of the project.

INTELLECTUAL PROPERTY

Patent Law

According to the Patent Law of the People's Republic of China (Revised in 2008) (《中華人民共和國專利法》(2008年修正)), the patent administrative authorities of the State Council shall be responsible for administration of patent matters nationwide. The patent administration departments of provincial, autonomous region or municipal governments are responsible for administering patents within their respective jurisdictions. The Chinese patent system adopts a "first come, first file" principle, which means, where more than one person files a patent application for the same invention, a patent will be granted to the person who files the application first. In order to be successfully registered as a patent, an invention or a utility model must meet three criteria, namely novelty, inventiveness and practicability. A patent is valid for twenty years in the case of an invention and ten years in the case of utility models and designs. A third party must obtain consent or a proper licence from the patent owner to use the patent. Otherwise, the use would constitute an infringement of the patent.

Trademark Law

Trademarks are protected by the Trademark Law of the People's Republic of China (Revised in 2019) (《中華人民共和國商標法》(2019年修正)) which was adopted in 1982 and subsequently amended in 1993, 2001, 2013 and 2019, respectively, as well as the Implementation Regulations of the Trademark Law of the People's Republic of China (中華人民共和國商標法實施條例) adopted by the State Council in 2002 and amended on 29 April 2014. The Trademark Office under the SAIC handles trademark registrations and grants a term of ten years to registered trademarks which may be renewed for a consecutive ten-year period upon request by the trademark owner. A trademark registrant may licence its registered trademark to another party by entering into a trademark licence agreement.

Trademark licence agreements shall be submitted to the Trademark Office for record and the Trademark Office shall publish the licencing. An unrecorded licence may not be used as a defence against bona fide third parties. Like patents, the PRC has adopted a "first come, first file" principle with respect to trademark registration. Where a trademark for which a registration application has been made is identical or similar to another trademark which has already been registered or been subject to a preliminary examination and approval for use on the same kind of or similar commodities or services, the application for registration of such trademark may be rejected. Any person applying for the registration of a trademark may not prejudice the right already obtained by others.

Domain Names

The MIIT promulgated Measures for the Administration of Internet Domain Names (互聯網域名管理辦法) (the "**Domain Name Measures**") on 24 August 2017. According to the Domain Name Measures, the MIIT is in charge of the administration of PRC Internet domain names. The domain name services follow a "first apply, first register" principle. An applicant for domain name registration shall submit truthful, accurate, and complete domain name registration information, and sign a user registration agreement with the relevant domain name registration service agency. The applicants will become the holder of such domain names upon the completion of the registration procedure.

REGULATIONS RELATING TO FOREIGN CURRENCY EXCHANGE

Pursuant to the Regulations of the People's Republic of China on Foreign Exchange Control (《中華人民共和國外匯管理條例》), promulgated in 1996 and revised in 1997 and further amended in 2008 and various regulations issued by SAFE and other relevant PRC government authorities, Renminbi is freely convertible into other currencies only to the extent of current account items, such as trade-related receipts and payments, interest and dividends. The conversion of Renminbi into other currencies and remittance of the converted foreign currency outside the PRC for the purpose of capital account items, such as direct equity investments, loans and repatriation of investment, requires the prior approval from the SAFE or its local office. Payments for transactions that take place within the PRC must be made in Renminbi.

According to the Circular of State Administration of Foreign Exchange on the Reform of Administrative Approach for the Settlement of Foreign Exchange Capital Funds of Foreign-funded Enterprises (Hui Fa [2015] No. 19) (《國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知》(匯發[2015]19號)) promulgated on 30 March 2015 and effective as from 1 June 2015, the voluntary settlement of foreign exchange capital funds for foreign-funded enterprises will be implemented.

According to the Circular of State Administration of Foreign Exchange on Reforming and Regulating the Management Policies Regarding the Settlement under Capital Account (Hui Fa [2016] No. 16) (《國家外匯管理局關於改革和規範資本項目結匯管理政策的通知》(匯發[2016]16號)) promulgated on 9 June 2016 and effective as from the same date, the reform on the management of the settlement of foreign debt capital of enterprises is promoted nationwide. Meanwhile, the voluntary settlement and payment management of foreign exchange income under the capital items is standardised.

According to The Circular of the State Administration of Foreign Exchange on Further Promoting the Foreign Exchange Administration Reform and Improving the Authenticity & Compliance Check (Hui Fa [2017] No. 3) (《國家外匯管理局關於進一步推進外匯管理改革完善真實合規性審核的通知》(匯發[2017]3號)) promulgated on 26 January 2017 and effective as from the same date, policies on managing the remittance of profits from foreign exchange of direct investment will be further implemented and improved.

On 21 October 2005, the SAFE promulgated the Notice on Relevant Issues Relating to the Administration of Foreign Exchange of Financing and Return Investment Activities by Domestic Residents Conducted via Offshore Special Purpose Vehicles 《關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》 (the "**Circular 75**"), according to which, a PRC resident who establishes or takes control of a special purpose company abroad is required to effect foreign exchange registration with local foreign exchange bureau. While injecting assets or equity interests that a domestic resident owns in a domestic enterprise into a special purpose company abroad (the "**SPV**"), or carrying out offshore equity financing after injecting such assets or equities into such SPV, a domestic resident shall amend the registration of offshore investment related foreign exchange to reflect the net assets or equity interests that he/she holds in the SPV. On 14 July 2014, the Circular 75 has been repealed by the Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents to Engage in Overseas Investment and Financing and Inbound Investment via Special Purpose Vehicles 《關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》("**Circular 37**"). Pursuant to Circular 37, which was promulgated by the SAFE and became effective on 14 July 2014, a PRC citizen residing in the PRC (a "**PRC Resident**") must complete the registration with the local branch of SAFE before he or she contributes assets or equity interests in an overseas special purpose vehicle, which is directly established or controlled by the PRC Resident for the purpose of overseas investment or financing.

REGULATIONS ON TAXATION

Enterprise Income Tax

On 16 March 2007, the National People's Congress promulgated the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得税法》), which was amended on 24 February 2017 and 29 December 2018. On 6 December 2007, the State Council enacted the Regulations on the Implementation of the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得税法實施條例》), which came into effect on 1 January 2008 (together with the Enterprise Income Tax Law of the PRC, the "**EIT Law**"). The EIT Law provides that enterprise income tax rate shall be 25%, but certain High and New Technology Enterprises are entitled to a reduced enterprise income tax rate of 15%.

Special Tax Adjustment in EIT Law

According to EIT Law Chapter 6, where business dealings between an enterprise and its interested parties fail to comply with the independent transaction principle, and reductions are made to the taxable income or the amount of income of the enterprise or its interested parties, the tax authorities have a right to make adjustments according to a reasonable method.

Additionally, where the actual tax burden of an establishment controlled by a resident enterprise or by a resident enterprise jointly with Chinese residents, is clearly lower than an enterprise in a country (region) stipulated in the first paragraph of Article 4, and any undistributed or reduced distribution of profit does not result from reasonable operational needs, the share of the said profit attributable to the resident enterprise shall be included as income of the resident enterprise for the current period.

The tax authorities have a right to make adjustments according to a reasonable method, where the taxable income or amount of income of an enterprise is reduced as a result of arrangements with no reasonable commercial objectives implemented by the enterprise.

In addition, a High and New Technology Enterprise may apply for the tax benefits under the EIT Law, the Law of the People's Republic of China on the Administration of Tax Collection (《中華人民共和國稅收徵收管理法》), which was promulgated in 1992 and amended on 28 February 1995, 28 April 2001, 29 June 2013 and 24 April 2015, and the Detailed Rules on the Implementation of the Law of the People's Republic of China on the Administration of Tax Collection (中華人民共和國稅收徵收管理法實施細則), which first came into effect in 1993 amended on 7 September 2002, 9 November 2012, 18 July 2013 and 6 February 2016. Once an enterprise is recognised as a High and New Technology Enterprise, it may apply for tax reduction or exemption to the competent tax authorities.

Value-added Tax

The Interim Regulation of the People's Republic of China on Value-added Tax (《中華人民共和國增值稅暫行條例》) was promulgated by the State Council on 13 December 1993 and came into effect on 1 January 1994, which were subsequently amended on 10 November 2008, 6 February 2016 and 19 November 2017, respectively. The Detailed Rules for the Implementation of the Interim Regulation of the People's Republic of China on Value-Added Tax (Revised in 2011) (中華人民共和國增值稅暫行條例實施細則(2011年修訂)) were promulgated by the Ministry of Finance and State Administration of Taxation on 28 October 2011 and came into effect on 1 November 2011 (together with The Interim Regulation of the People's Republic of China on Value-added Tax, the "**VAT Law**"). According to the VAT Law, all enterprises and individuals engaged in the sale of goods, the provision of processing, repair and replacement services, and the importation of goods within the territory of the PRC shall pay value-added tax. For general VAT taxpayers selling or importing goods other than those specifically listed in the VAT Law, the value-added tax rate is 17%.

Pursuant to the Pilot Scheme for the Conversion of Business Tax to VAT (營業稅改徵增值稅試點方案) promulgated on 16 November 2011, since 1 January 2012 the State started to introduce the pilot scheme in the pilot regions (such as Shanghai, Beijing, Hubei Province and Jiangsu Province) in certain service industries (namely transportation and certain modern service industries) and planned to gradually extend the pilot scheme to other industries. Under the pilot scheme, VAT will be levied in lieu of business tax. Further, in addition to the standard rate of VAT of 17% and the lower tax rate of VAT of 13%, two lower tax rates of 11% and 6% is added. The tax rate of 17% shall be applicable to the lease of tangible movables and the tax rate of 11% shall be applicable to the transportation, construction and other related industries, and the tax rate of 6% shall be applicable to some other modern service industries.

According to the Circular of the Ministry of Finance and the State Administration of Taxation on the Adjustment to VAT Rates (《財政部、國家稅務總局關於調整增值稅稅率的通知》) (Cai Shui [2018] No. 32) (財稅[2018]32號), the deduction rates of 17% and 11% applicable to the taxpayers who have VAT taxable sales activities or imported goods are adjusted to 16% and 10%, respectively.

According to the Announcement on Policies for Deepening the VAT Reform (《關於深化增值稅改革有關政策的公告》) (Announcement [2019] No. 39 of the Ministry of Finance, the State Taxation Administration and the General Administration of Customs) (財政部、稅務總局、海關總署公告2019年第39號), for general VAT payers' sales activities or imports that are subject to VAT at an existing applicable rate of 16% or 10%, the applicable VAT rate is adjusted to 13% or 9% respectively.

TAX PREFERENTIAL POLICIES FOR ENTERPRISES LOCATED IN WESTERN REGION

According to the Measures on Handling of Enterprise Income Tax Preferential Policies (Revision 2018) (《企業所得稅優惠政策事項辦理辦法》 (2018年修訂)) and the Appendix: Administrative list For Enterprise Income Tax Incentive (2017 Edition) (《附件：企業所得稅優惠事項管理目錄（2017年版）》) (State Taxation Administration [2018] No. 23) (國家稅務總局[2018]23號), enterprise income tax of encouraged industrial enterprises located in the western region is levied at a preferential rate of 15%. The traffic, electricity, water conservancy, postal, and broadcasting and television enterprises that have been newly established before 31 December 2010 will be levied the same rate until the expiration of the original policy.

According to the Circular on Issues Concerning Relevant Tax Policies in Deepening the Implementation of the Western Development Strategy (《關於深入實施西部大開發戰略有關稅收政策問題的通知》) (Cai Shui [2011] No. 58) (財稅[2011]58號), from 1 January 2011 to 31 December 2020, the enterprise income tax imposed upon any enterprise established in western regions and included among the encouraged industries shall be collected at the reduced rate of 15%.

TAX PREFERENTIAL POLICIES FOR PROMOTING EMPLOYMENT OF THE DISABLED PEOPLE

According to the Circular on Preferential Value-Added Tax Policies for Promoting Employment of the Disabled (《關於促進殘疾人就業增值稅優惠政策的通知》) (Cai Shui [2016] No. 52) (財稅[2016]52號), for the entities and individually owned businesses employing the disabled (hereinafter referred to as "taxpayers" in short), taxation authorities shall adopt the method of refund immediately after payment of VAT with a limit based on the number of the disabled actually employed.

The specific limit of VAT refundable for each disabled person employed by taxpayers shall be determined by the taxation authorities at the county level or above as quadruple the minimum monthly wage standards applicable in the districts or counties (including counties or county-level cities, hereafter the same) as approved by the people's governments of provinces (including autonomous regions, centrally-administered municipalities or cities with independent planning status, hereafter the same).

According to the Notice on Issuing the Administrative Measures for the Collection and Use of Employment Security Levies for the Disabled (《關於印發《殘疾人就業保障金徵收使用管理辦法》的通知》) (Cai Shui [2015] No. 72) (財稅[2015]72), within 3 years from the date of registration of industry and commerce administration, small and micro enterprises that have not reached the required proportion of employment of disabled persons and have a total of fewer than 20 employees (including 20 persons) will be exempted from the security levies.

LAWS RELATED TO EMPLOYMENT OF PEOPLE WITH DISABILITIES

The Law of the People's Republic of China on the Protection of Disabled Persons (《中華人民共和國殘疾人保障法》) ("**Disabled People Protection Law**"), which was implemented on 28 December 1990 and amended on 24 April 2008 and 26 October 2018, primarily aimed at regulating civil rights and welfare of people with disabilities. Pursuant to the Disabled People Protection Law, persons with disabilities are those who, in their mental, physiological or human structure, have lost or become abnormal in some form of tissue or function or have lost, in whole or in part, their ability to engage in certain activities in a normal manner. The State shall, in accordance with law, grant preferential tax treatment and tax refund to employing units and disabled people engaged in self-employed activities that employ disabled people at or above the prescribed proportion of disabled persons, and give them support in production, marketing, technology, capital, materials and places.

The State shall protect the property ownership and operational autonomy of welfare units for people with disabilities, and their lawful rights and interests shall not be infringed upon.

People with disabilities shall not be discriminated against in recruitment, conversion, promotion, evaluation of job titles, remuneration for work, living benefits, rest and vacation, social insurance, etc..

According to the Regulations on the Employment of the Disabled (State Council Order No. 488) (《殘疾人就業條例》(國務院令第488號)), which promulgated in February 2007, and effective from May 1, 2007. An employer shall arrange a certain proportion of the disabled for the employment and provides suitable kind of jobs and posts for them. The proportion for an employer to hire disabled people shall not be lower than 1.5% of the total number of its staff members in service. The specific proportion shall be prescribed by the local people's government of the province, autonomous region, or municipality directly under the Central Government. In case the number of disabled person hired by an employer is less than the proportion as prescribed by the people's government of the local province, autonomous region, or municipality directly under the Central Government, the employer shall pay the employment protection fund for the disabled. Furthermore, the Regulation on the Employment of the Disabled provides the following:

(i) Welfare enterprises for the disabled, blind massage agencies and other welfare entities (hereinafter referred to as employers that hire the disabled in a centralised manner) established by governments and the society according to law shall arrange for the employment of the disabled in a centralised manner.

    The employers that hire disabled people in a centralised manner shall be identified according to the relevant provisions of the state.

(ii) The number of the disabled employees engaging in full-time jobs for an employer that hires the disabled in a centralised manner shall account for 25% or more of the total number of its full-time employees.

(iii) Employers shall conclude labour contracts or service agreements with the disabled whom they employ according to law.

(iv) For the purpose of this Regulation, "employment of disabled persons" refers to the employment of the disabled persons who have reached the statutory age for employment and have request for paid jobs.

REGULATIONS ON EMPLOYMENT AND SOCIAL SECURITY

Laws Related to Employment of People with Disabilities

The Labour Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》) ("**Labour Contract Law**"), which was implemented on 1 January 2008 and amended on 28 December 2012, primarily aimed at regulating employer/employee rights and obligations, including matters with respect to the formation, performance and termination of labour contracts. Pursuant to the Labour Contract Law, labour contracts shall be in writing if labour relationships are to be or have been formed between enterprises/institutions and individuals. Enterprises and institutions shall not force employees to work beyond the time limit and employers shall pay the employees for overtime work in accordance with national regulations. In addition, labour wages shall not be lower than local standards on minimum wages and shall be paid to the employees timely.

According to the Labour Law of the People's Republic of China (《中華人民共和國勞動法》) promulgated on 5 July 1994 and amended on 27 August 2009 and amended on 29 December 2018, enterprises and institutions shall establish and improve their system of workplace safety and sanitation, strictly abide by state rules and standards on workplace safety, educate labour on labour safety and sanitation in the PRC. Labour safety and sanitation facilities shall meet State-fixed standards.

Social Insurance and Housing Funds

As required under the Regulations on Work-Related Injury Insurance (《工傷保險條例》) implemented on 1 January 2004 and amended on 20 December 2010, the Provisional Measures for Maternity Insurance of Employees of Corporations (企業職工生育保險試行辦法) implemented on 1 January 1995, the Decision of the State Council on Establishment of a Unified Basic Pension System for Enterprise Staff and Workers (國務院關於建立統一的企業職工基本養老保險制度的決定) issued on 16 July 1997, Decision of the State Council on Setting up the Basic Medical Insurance System for Staff Members and Workers in Cities and Towns (國務院關於建立城鎮職工基本醫療保險制度的決定) promulgated on 14 December 1998, the Regulations on Unemployment Insurance (《失業保險條例》) promulgated on 22 January 1999 and the Social Insurance Law of the People's Republic of China (《中華人民共和國社會保險法》) implemented on 1 July 2011 and amended on 29 December 2018 enterprises are obliged to provide their employees in the PRC with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, labour injury insurance and medical insurance.

In accordance with the Regulations on Management of Housing Provident Fund (《住房公積金管理條例》) which was promulgated by the State Council in 1999 and amended in 2002, enterprises must register at the competent housing accumulation fund management centre and shall, after the housing accumulation fund management centre has checked the registration, open the house accumulation fund account for its employees at the entrusted bank. Enterprises are also required to pay and deposit housing funds in full and on time.

OVERVIEW

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 9 October 2018. Pursuant to the Reorganisation as more particularly described in the paragraph headed "Reorganisation" in this section, our Company has become the holding company of our Group for the purpose of the Listing and holds the entire interests of eleven subsidiaries, namely Bida Investment, Saftower International, Weichi Investment, Saftower Management, Wechi Int'l, Guangyuan Saftower Technology, Sichuan Saftower, Guangyuan Saftower, Sichuan Liangdian, Lhasa Saftower and Guangyuan Shuneng. As at the Latest Practicable Date, our Company also indirectly held 56.67% equity interest in Guangyuan Tongchuang.

BUSINESS DEVELOPMENT

Our history can be traced back to June 2004 when Mr. Dang Fei and Mr. Wang set up Sichuan Saftower in Pidu District, Chengdu, Sichuan Province, the PRC to engage in the manufacture, processing and sale of wires. Since the establishment of our Group, Mr. Dang Fei has been overseeing the overall corporate development and formulating strategic planning of our Group with the assistance of Mr. Wang. Both Mr. Dang Fei and Mr. Wang have been participating in the day-to-day management of our Group. For details of Mr. Dang Fei and Mr. Wang's background and experience, see "Directors and Senior Management — Directors — Executive Directors" in this prospectus.

As our business expanded, in 2009, our first production facility was relocated to No. 88 Qingma Road, Modern Industrial Park (South Area), Pidu District, Chengdu, Sichuan Province, the PRC. In May 2010, Sichuan Saftower merged with two other companies engaging in the manufacture and sale of wires and cables, namely Chengdu Xinhongxin New Building Materials Company Limited* (成都欣宏鑫新型建材有限公司) ("**Chengdu Xinhongxin**") and Chengdu Kaiyuan Electromechanical Equipment Company Limited* (成都市開源機電設備有限責任公司) ("**Chengdu Kaiyuan**"). For details of the mergers, see "Corporate Development — Sichuan Saftower" in this section. After the said mergers, our business expanded to include the manufacture, processing and sale of cables.

In view of the abundance of aluminium in Guangyuan, in February 2015, Nengshi Intelligent Port Sichuan Technology Development Company Limited* (能士智能港四川科技發展有限公司) ("**Nengshi**"), which belongs to a group of companies engaging in the development of products and technology involving internet and telecommunication, and Sichuan Saftower, established Guangyuan Saftower so as to expand the manufacture of aluminium wires and cables as well as aluminium products in our Guangyuan Plant and the sales thereof. At the time of its establishment, Guangyuan Saftower was owned as to 91.27% by Nengshi and 8.73% by Sichuan Saftower. Nengshi is wholly owned by Nengshi Intelligent Port Technology Development Company Limited* (能士智能港科技發展有限公司), which is in turn owned as to 79.78% by Mr. Cen Shaoneng (岑紹能) and 20.22% by Mr. Wang Yanglu (王央露), both of whom are Independent Third Parties. Pursuant to two equity transfers in August 2015 and September 2015, Guangyuan Saftower became wholly owned by Sichuan Saftower. In July 2017, to further develop our manufacturing capability of aluminium wires and cables, we formed a joint venture, namely Guangyuan Tongchuang, with Tongsheng Guochuang (a state-owned investment platform of Guangyuan City government) and Mr. Li Zhanwei (李占威) (an Independent Third Party). To better consolidate our position in the market, in January 2018, Guangyuan Saftower and Tongsheng Guochuang established Guangyuan Shuneng with the purpose to produce aluminium rod materials.

In June 2015, in preparation for the listing on the NEEQ, Sichuan Saftower was converted from a limited liability company into a company limited by shares. From October 2015 to June 2018, Sichuan Saftower had been listed on the NEEQ.

Throughout more than 15 years of accumulated experience in the wire and cable industry in the PRC, we have gained customers' confidence in our products through our continuous commitment to product quality, reliability, safety as well as our wide product offering. Our brand had been awarded "Chengdu City Well-known Trademark (成都市著名商標)" by Chengdu AIC from December 2013 to December 2018 and our "Saftower Brand" wires and cables had been awarded the "Sichuan Famous Brand Products Title" (四川名牌產品稱號) by the Sichuan Provincial People's Government (四川省人民政府) for the period from March 2017 to March 2019. According to the F&S Report, we ranked fourth in the wire and cable market in Sichuan, with a market share of 0.97% by revenue in 2019.

Over the years, we also gradually expanded our sales network to cooperate with some large corporations in Sichuan, including state-owned power companies such as Litai Energy, Sichuan Nengtou Materials Industry Group Co., Ltd. (四川能投物資產業集團有限公司) and Changhong Group.

We have been focusing on product development and product quality improvement. As at the Latest Practicable Date, we had registered 58 patents and had submitted 13 patent applications in the PRC with respect to the wire and cable product development and technology, which are material to our business. With our continuous innovation, we strive to achieve a leading position in the industry.

The key milestones in our development to date are set out below.

Year	**Events**
June 2004	We established Sichuan Saftower, our principal operating entity, and set up Chengdu Plant, our first production facility.
November 2009	We merged with (i) Chengdu Xinhongxin for the purpose of acquiring the land where our Chengdu Plant is now situated; and (ii) Chengdu Kaiyuan for the purpose of acquiring its capabilities to manufacture and process cables. The mergers were completed in May 2010.
December 2013	Our brand was awarded "Chengdu City Well-known Trademark (成都市著名商標)" by Chengdu AIC.

Year	Events
February 2015	Nengshi and Sichuan Saftower established Guangyuan Saftower to expand the manufacture and sale of aluminium wires and cables as well as the sale of aluminium products. Subsequent to two equity transfers from Nengshi to Sichuan Saftower which took place in August 2015 and September 2015, Guangyuan Saftower became wholly owned by Sichuan Saftower.
August 2015	China Quality Certification Centre certified that Sichuan Saftower operated a quality management system that met the standard of GB/T 19001-2016/ISO 9001:2015 for the manufacturing of wires and cables and related management activities.
October 2015 to June 2018	The shares of Sichuan Saftower had been listed on the NEEQ.
December 2016	We were accredited as "High and New Technology Enterprise" (高新技術企業) by the Science and Technology Department of Sichuan Province (四川省科學技術廳), the Finance Department of Sichuan Province (四川省財政廳), Sichuan State Administration of Taxation (四川省國家稅務局) and Sichuan Province Local Taxation Bureau (四川省地方稅務局).
March 2017 to March 2019	Our "Saftower Brand" wires and cables had been awarded the "Sichuan Famous Brand Products Title" (四川名牌產品稱號) by the Sichuan Provincial People's Government (四川省人民政府).
April 2017	Our Guangyuan Plant commenced production.
July 2017	We established Guangyuan Tongchuang with Tongsheng Guochuang and Mr. Li Zhanwei (李占威) (being an Independent Third Party).
September 2017	Guangyuan Tongchuang commenced the manufacturing, processing and sale of wires and cables as well as aluminium products.
January 2018	Guangyuan Saftower and Tongsheng Guochuang established Guangyuan Shuneng to produce aluminium rod materials.
June 2018	China Quality Certification Centre certified that Sichuan Saftower operated an occupational health and safety management system that met the standard of GB/T 28001-2011/OHSAS 18001:2007 and an environmental management system that met the standard of GB/T 24001-2016/ISO 14001:2015 for the manufacturing of wires and cables and related management activities.

Year	Events
January 2019	We were awarded the "Guangyuan City Outstanding Private Enterprise*" (廣元市優秀民營企業) by the Chinese Communist Party Guangyuan Municipal Committee (中共廣元市委) and Guangyuan Municipal Government (廣元市人民政府).
April 2019	Guangyuan Shuneng commenced trial production of aluminium rods materials for Guangyuan Tongchuang.
	We underwent the Tongchuang Equity Acquisition.
November 2019	Guangyuan Shuneng underwent capital reduction and became our indirect wholly-owned subsidiary.
	We were accredited as "High and New Technology Enterprise" (高新技術企業) by the Science and Technology Department of Sichuan Province (四川省科學技術廳), the Finance Department of Sichuan Province (四川省財政廳) and Sichuan Provincial Tax Service, State Taxation Administration (國家稅務總局四川省稅務局).

CORPORATE DEVELOPMENT

The following is a brief corporate history of the establishment and major changes in the shareholdings of our Company's subsidiaries since their respective dates of incorporation/establishment:

Investment holding companies

As part of the Reorganisation, we have incorporated investment holding companies including Bida Investment, Saftower International, Weichi Investment, Saftower Management, Wechi Int'l and Guangyuan Saftower Technology. For details, see "Reorganisation" in this section.

Sichuan Saftower

Sichuan Saftower, formerly known as Pixian Sandian Cables Company Limited* (郫縣三電電纜有限責任公司), was established in the PRC on 24 June 2004 as a limited liability company, with an initial registered capital of RMB1 million. It engages in the manufacturing, processing and sale of wires and cables and the sale of aluminium products. At the time of the establishment of Sichuan Saftower, Mr. Dang Fei and Mr. Wang contributed RMB0.5 million and RMB0.5 million, respectively, to the registered capital of Sichuan Saftower. Sichuan Saftower was then owned as to 50% by Mr. Dang Fei and 50% by Mr. Wang.

On 24 April 2008, Mr. Dang Jun entered into two equity transfer agreements with Mr. Dang Fei and Mr. Wang, respectively, pursuant to which Mr. Dang Fei transferred 5% and Mr. Wang transferred 10% equity interest of Sichuan Saftower to Mr. Dang Jun, respectively. The consideration was fully settled with reference to the then registered capital of Sichuan Saftower. Such transfers were approved by the Administration for Industry and Commerce of Pixian, Chengdu* (成都市郫縣工商行政管理局) ("**Chengdu Pixian AIC**") on 29 April 2008. Upon completion of the equity transfers, Sichuan Saftower became owned by the following persons and their respective percentage of interest is as follows:

Name of shareholders	Capital contribution *RMB'000*	Percentage of equity interest	Date of first becoming shareholder
Mr. Dang Fei	450	45.00%	24 June 2004
Mr. Wang	400	40.00%	24 June 2004
Mr. Dang Jun	150	15.00%	24 April 2008
Total	**1,000**	**100.00%**	

To expand its business, pursuant to a merger agreement dated 28 November 2009, Sichuan Saftower merged with Chengdu Xinhongxin and Chengdu Kaiyuan. Before the said mergers, Chengdu Xinhongxin was owned as to 60% by Mr. Dang Fei and 40% by Mr. Wang, while Chengdu Kaiyuan was owned as to 50% by Mr. Yu Dagui (于大貴) and as to 50% by Ms. Wang Daocun (汪道存), both of whom are Independent Third Parties. At the time of the mergers, Chengdu Xinhongxin owned a piece of land where our Chengdu Plant is now situated. The merger with Chengdu Xinhongxin was conducted for the purpose of acquiring such land and the properties situated on it. On the other hand, we underwent the merger with Chengdu Kaiyuan for the purpose of acquiring its capabilities to manufacture and process cables. After the said mergers, the registered capital of Sichuan Saftower was increased to RMB3 million. The additional registered capital was contributed as to RMB0.9 million by Mr. Dang Fei, RMB0.6 million by Mr. Wang, RMB0.25 million by Ms. Wang Daocun and RMB0.25 million by Mr. Yu Dagui. The basis of the merger valuation was the net asset value of Chengdu Xinhongxin and Chengdu Kaiyuan as at 30 November 2009 according to the valuation reports issued by Sichuan Changjiang Assets Evaluation Company Limited* (四川長江資產評估有限公司), an independent valuer. Chengdu Xinhongxin and Chengdu Kaiyuan were subsequently dissolved by deregistration in May 2010 after merging with Sichuan Saftower. Upon completion of the said mergers, Sichuan Saftower became owned by the following persons and their respective percentage of interest is as follows:

Name of shareholders	Capital contribution *RMB'000*	Percentage of equity interest	Date of first becoming shareholder
Mr. Dang Fei	1,350	45.00%	24 June 2004
Mr. Wang	1,000	33.34%	24 June 2004
Mr. Dang Jun	150	5.00%	24 April 2008
Mr. Yu Dagui	250	8.33%	21 May 2010
Ms. Wang Daocun	250	8.33%	21 May 2010
Total	**3,000**	**100.00%**	

On 30 March 2013, Mr. Dang Jun entered into two equity transfer agreements with Mr. Yu Dagui and Ms. Wang Daocun, pursuant to which Mr. Yu Dagui transferred 8.33% and Ms. Wang Daocun transferred 6.66% equity interest of Sichuan Saftower to Mr. Dang Jun, respectively. On the same date, Mr. Dang Fei entered into two equity transfer agreements with Ms. Wang Daocun and Mr. Wang, respectively, pursuant to which Ms. Wang Daocun transferred 1.66% and Mr. Wang transferred 3.33% equity interest of Sichuan Saftower to Mr. Dang Fei, respectively. The considerations were all fully settled with reference to the then registered capital of Sichuan Saftower. Such transfers were approved by Chengdu Pixian AIC on 9 April 2013. Upon completion of the equity transfers, Sichuan Saftower became owned by the following persons and their respective percentage of interest is as follows:

Name of shareholders	Capital contribution *RMB'000*	Percentage of equity interest	Date of first becoming shareholder
Mr. Dang Fei	1,500	50.00%	24 June 2004
Mr. Wang	900	30.00%	24 June 2004
Mr. Dang Jun	600	20.00%	24 April 2008
Total	**3,000**	**100.00%**	

On 2 December 2013, the registered capital of Sichuan Saftower was increased from RMB3 million to RMB7.5 million. The additional registered capital was contributed as to RMB2.25 million by Mr. Dang Fei, RMB1.35 million by Mr. Wang and RMB0.9 million by Mr. Dang Jun and was fully paid up. Such increase was approved by Chengdu Pixian AIC on 16 December 2013. Upon completion of the capital increase, Sichuan Saftower remained owned as to 50% by Mr. Dang Fei, 30% by Mr. Wang and 20% by Mr. Dang Jun.

On 10 February 2015, Chengdu Gaopeng, which was established on 21 January 2015 for the purpose of introducing some of our business partners to invest in our Group, became one of the shareholders of Sichuan Saftower. On the same date, the registered capital of Sichuan Saftower was increased from RMB7.5 million to RMB26.4 million. The additional registered capital was contributed as to RMB5.952 million by Mr. Dang Fei, RMB4.284 million by Mr. Wang, RMB2.064 million by Mr. Dang Jun and RMB6.60 million by Chengdu Gaopeng and was fully paid up. Such increase was approved by Chengdu Pixian AIC on 15 February 2015. Upon completion of the capital increase, Sichuan Saftower became owned by the following persons and their respective percentage of interest is as follows:

Name of shareholders	Capital contribution *RMB'000*	Percentage of equity interest	Date of first becoming shareholder
Mr. Dang Fei	9,702	36.75%	24 June 2004
Mr. Wang	6,534	24.75%	24 June 2004
Mr. Dang Jun	3,564	13.50%	24 April 2008
Chengdu Gaopeng *(Note)*	6,600	25.00%	10 February 2015
Total	**26,400**	**100.00%**	

Note: For details of the partners of Chengdu Gaopeng and their respective interest in Chengdu Gaopeng, please refer to Note (1) of the chart which sets forth our approximate shareholding and corporate structure immediately before the Reorganisation below.

On 27 March 2015, the registered capital of Sichuan Saftower was further increased from RMB26.4 million to RMB52.80 million. The additional registered capital was contributed as to RMB9.702 million by Mr. Dang Fei, RMB6.534 million by Mr. Wang, RMB3.564 million by Mr. Dang Jun and RMB6.60 million by Chengdu Gaopeng and was fully paid up. Such increase was approved by Chengdu AIC on 19 May 2015. Upon completion of the capital increase, Sichuan Saftower remained owned as to 36.75% by Mr. Dang Fei, 24.75% by Mr. Wang, 13.5% by Mr. Dang Jun and 25% by Chengdu Gaopeng.

In June 2015, Sichuan Saftower was converted from a limited liability company into a company limited by shares with a registered capital of RMB52.8 million divided into 52,800,000 shares of RMB1 each. From October 2015 to June 2018, Sichuan Saftower had been listed on the NEEQ.

While listed on the NEEQ, on 12 January 2017, Mr. Wang transferred 100,000 shares in Sichuan Saftower to Ms. He Meijuan (何梅娟), an Independent Third Party, through the online trading platform of the NEEQ, for a consideration of RMB0.515 million. On 7 June 2018, the shares of Sichuan Saftower ceased to be listed on the NEEQ. For details of the delisting, see "Prior Listing on the NEEQ and the Delisting" in this section. Immediately after Sichuan Saftower was delisted from NEEQ, Sichuan Saftower was owned by the following persons and their respective percentage of interest is as follows:

Name of shareholders	Percentage of shareholding	Date of first becoming shareholder
Mr. Dang Fei	36.75%	24 June 2004
Mr. Wang	24.56%	24 June 2004
Mr. Dang Jun	13.50%	24 April 2008
Chengdu Gaopeng	25.00%	10 February 2015
Ms. He Meijuan	0.19%	12 January 2017
Total	**100.00%**	

On 24 August 2018, Ms. He Meijuan entered into a share transfer agreement with Mr. Ma Da (馬達), an Independent Third Party. Pursuant to the share transfer agreement, Ms. He Meijuan transferred her entire shareholding in Sichuan Saftower to Mr. Ma Da at a consideration of RMB0.1 million. Upon completion of the share transfer, Sichuan Saftower was owned as to 36.75% by Mr. Dang Fei, 24.56% by Mr. Wang, 13.5% by Mr. Dang Jun, 25% by Chengdu Gaopeng and 0.19% by Mr. Ma Da.

Subsequently in October 2018, Sichuan Saftower was reconverted into a limited liability company with a registered capital of RMB52.8 million. On 16 October 2018, the registered capital of Sichuan Saftower was increased from RMB52.8 million to RMB60 million. The additional registered capital was contributed as to RMB2.646 million by Mr. Dang Fei, RMB0.972 million by Mr. Dang Jun, RMB1.7684 million by Mr. Wang, RMB1.8 million by Chengdu Gaopeng and RMB13,600 by Mr. Ma Da and was fully paid up. Such increase was approved by Chengdu Pidu District Administration for Market and Quality Regulation* (成都市郫都區市場和質量監督管理局) ("**Chengdu Pidu AMR**") on 9 November 2018. Upon completion of the capital increase, Sichuan Saftower remained owned as to 36.75% by Mr. Dang Fei, 24.56% by Mr. Wang, 13.5% by Mr. Dang Jun, 25% by Chengdu Gaopeng and 0.19% by Mr. Ma Da.

On 9 November 2018, as part of the Reorganisation, pursuant to five equity transfer agreements, Guangyuan Saftower Technology acquired 36.75%, 13.5%, 24.56%, 25% and 0.19% of the equity interests of Sichuan Saftower from Mr. Dang Fei, Mr. Dang Jun, Mr. Wang, Chengdu Gaopeng and Mr. Ma Da, at the considerations of RMB22.05 million, RMB8.1 million, RMB14.7364 million, RMB15 million and RMB113,600, respectively, all of which were determined with reference to the then registered capital of Sichuan Saftower. Such transfers were properly and legally settled and were approved by Chengdu Pidu AMR on 5 December 2018. Upon completion of the equity transfers, Sichuan Saftower became wholly owned by Guangyuan Saftower Technology.

Guangyuan Saftower

Guangyuan Saftower was established in the PRC on 16 February 2015 as a limited liability company, with a registered capital of RMB25.20 million. It engages in the manufacturing, processing and sale of semi-finished wires and the trading of aluminium products.

At the time of the establishment of Guangyuan Saftower, Nengshi, an Independent Third Party and Sichuan Saftower contributed RMB23 million and RMB2.2 million to the registered capital of Guangyuan Saftower, respectively. The capital contribution of Nengshi was made by way of land use rights owned by it in Sichuan-Zhejiang Cooperative Industrial Park, Guangyuan Economic Development Zone, together with the properties situated thereon. Guangyuan Saftower was then owned as to 91.27% by Nengshi and 8.73% by Sichuan Saftower.

Subsequent to two equity transfers from Nengshi to Sichuan Saftower which took place in August 2015 and September 2015 at a total consideration of RMB42 million, Guangyuan Saftower became wholly owned by Sichuan Saftower. The consideration was determined based on the valuation of the land use rights together with the properties situated at Sichuan-Zhejiang Cooperative Industrial Park, Guangyuan Economic Development Zone as at 3 August 2015 conducted by Sichuan Chuanheng Real Estate Appraisal Company Limited* (四川川衡房地產估價有限公司), an independent valuer. Such transfers were properly and legally settled.

Sichuan Liangdian

Sichuan Liangdian, formerly known as Deyang Saftower Cable Technology Company Limited* (德陽蜀塔電纜科技有限公司), was established in the PRC on 19 March 2015 as a limited liability company, with a registered capital of RMB0.1 million. Since its establishment, Sichuan Liangdian has been wholly owned by Sichuan Saftower. Sichuan Liangdian is principally engaged in the sale of wires and cables.

Lhasa Saftower

Lhasa Saftower, formerly known as Lhasa Saftower Cable Company Limited* (拉薩蜀塔電纜有限公司), was established in the PRC on 14 January 2013 as a limited liability company, with an initial registered capital of RMB0.1 million. At the time of the establishment, Lhasa Saftower was wholly owned by Sichuan Saftower.

On 27 March 2017, the registered capital of Lhasa Saftower was increased from RMB0.1 million to RMB10 million. The additional registered capital was contributed as to RMB5 million by Sichuan Saftower and RMB4.9 million by Ms. Yu Xiaoying (于曉英), who is a remote relative of Mr. Dang Fei, and shall be fully paid up on or before 9 January 2033. Such increase was approved by the Administration for Market and Regulation of Lhasa Economic and Technological Development Zone* (拉薩經濟技術開發區市場監督管理局) ("**Lhasa AMR**") on 30 March 2017. Upon completion of the capital increase, Lhasa Saftower became owned as to 51% by Sichuan Saftower and 49% by Ms. Yu Xiaoying.

On 18 October 2018, Ms. Yu Xiaoying entered into an equity transfer agreement with Sichuan Saftower. Pursuant to the equity transfer agreement, Ms. Yu Xiaoying transferred her 49% equity interest in Lhasa Saftower to Sichuan Saftower. Since Ms. Yu Xiaoying did not pay up any capital of Lhasa Saftower, Sichuan Saftower did not need to pay Ms. Yu Xiaoying to take up the payable registered capital of RMB4.9 million. The payable registered capital however shall be fully settled by Sichuan Saftower on or before 9 January 2033. Such transfer was approved by Lhasa AMR on 29 October 2018. Upon completion of the equity transfer, Lhasa Saftower became wholly owned by Sichuan Saftower. Since its establishment and up to the Latest Practicable Date, Lhasa Saftower had no active business operation.

Guangyuan Shuneng

Guangyuan Shuneng was established in the PRC on 24 January 2018 as a limited liability company, with a registered capital of RMB8 million. At its establishment, it had been owned as to 60% by Guangyuan Saftower and 40% by Tongsheng Guochuang. The registered capital was contributed as to RMB4.8 million by Guangyuan Saftower which was fully paid up by 5 July 2019 and RMB3.2 million by Tongsheng Guochuang which has not been fully paid up. Guangyuan Shuneng commenced trial production of aluminium rod materials for Guangyuan Tongchuang in April 2019.

On 18 November 2019, upon the approval of Guangyuan AMR, Guangyuan Shuneng completed a 40% capital reduction of the registered capital payable by Tongsheng Guochuang of RMB3.2 million, from RMB8 million to RMB4.8 million. As a result, Tongsheng Guochuang ceased to be a shareholder of Guangyuan Shuneng. Guangyuan Shuneng became wholly owned by Guangyuan Saftower accordingly.

Guangyuan Tongchuang

Guangyuan Tongchuang was established in the PRC on 14 July 2017 as a limited liability company, with a registered capital of RMB60 million. At the time of its establishment and before the acquisition described below, it was a joint venture owned as to 40% by Guangyuan Saftower, 16.67% by Mr. Li Zhanwei (李占威), an Independent Third Party, and 43.33% by Tongsheng Guochuang. Guangyuan Tongchuang is principally engaged in the manufacturing and sale of aluminium wires and cables, on OEM basis, for external customers and our Group.

Mr. Li Zhanwei was introduced to our Group when Guangyuan Saftower and Tongsheng Guochuan negotiated on the establishment of Guangyuan Tongchuang. When Guangyuan Tongchuang was established, Mr. Li Zhanwei was a controlling shareholder and director of Sichuan Jinyue New Material Company Limited* (四川金岳新型材料有限公司) ("**Sichuan Jinyue**"), which engaged in the production of aluminium rods. As Mr. Li Zhanwei was engaging in similar business with our Group, it was expected that he could bring synergy to our business. Our Directors confirmed that save as being a shareholder and director of Guangyuan Tongchuang at the material times, Mr. Li Zhanwei does not have any past or present relationship of any nature, including business, employment, family, trust, financing or otherwise with our Company, our subsidiaries/associates, our directors, shareholders, senior management or any of their respective associates.

At the material time when Guangyuan Tongchuang was established, Sichuan Jinyue had encountered financial difficulties. As such, Mr. Li Zhanwei needed to focus on attending to the business and financial problems of Sichuan Jinyue, and he did not pay much attention to the affairs of Guangyuan Tongchuang and he did not contribute to the capital of Guangyuan Tongchuang of RMB10 million on time. In addition, as he became short of funds, he did not subsequently contribute to the capital of Guangyuan Tongchuang. As his failure to contribute the capital constituted a breach of the articles of association of Guangyuan Tongchuang and the agreement among the shareholders of Guangyuan Tongchuang, upon negotiation he did not transfer the equity interests in Guangyuan Saftower to our Group at a premium. On 15 April 2019, we underwent the Tongchuang Equity Acquisition. Such acquisition was approved by Guangyuan AMR on 7 May 2019. Since Mr. Li Zhanwei did not pay up any capital of Guangyuan Tongchuang and it was recognised as an amount due from owner on Guangyuan Tongchuang's financial statement before the acquisition, Guangyuan Saftower did not need to pay Mr. Li Zhanwei pursuant to the equity transfer agreement but had to pay up the unpaid capital of RMB10 million to Guangyuan Tongchuang. On 26 September 2019, the registered capital of Guangyuan Tongchuang was fully paid by Guangyuan Saftower. For further details, see "Guangyuan Tongchuang" in this prospectus. Upon completion of the equity transfer, Guangyuan Tongchuang became our non-wholly owned subsidiary and owned as to 56.67% by Guangyuan Saftower and 43.33% by Tongsheng Guochuang. For details, see "Guangyuan Tongchuang" in this prospectus.

Guangyuan Saftower Technology

Guangyuan Saftower Technology was established in the PRC as a limited liability company on 14 September 2018, with an initial registered capital of RMB2 million. It engages in investment holding. At the time of the establishment of Guangyuan Saftower Technology, Mr. Dang Fei, Mr. Dang Jun, Mr. Wang and Chengdu Gaopeng contributed RMB0.735 million, RMB0.27 million, RMB0.495 million and RMB0.5 million to the registered capital of Guangyuan Saftower Technology, respectively. Guangyuan Saftower Technology therefore became owned as to 36.75% by Mr. Dang Fei, 13.5% by Mr. Dang Jun, 24.75% by Mr. Wang and 25% by Chengdu Gaopeng.

By two payments made on 17 December 2018 and 25 December 2018 respectively, Mr. Dang Fei contributed a total of RMB12 million towards Guangyuan Saftower Technology, out of which RMB0.4 million was used to increase its registered capital while the remaining RMB11.6 million was used to increase the capital reserve. The registered capital of Guangyuan Saftower Technology was thus increased to RMB2.4 million. Such capital increase was approved by Guangyuan AIC on 25 December 2018. Upon the completion of the capital increase, Guangyuan Saftower Technology became owned by the following persons and their respective percentage of interest is as follows:

Name of Shareholders	**Capital contribution** *RMB'000*	**Percentage of equity interest**
Mr. Dang Fei	1,135	47.29%
Mr. Dang Jun	270	11.25%
Mr. Wang	495	20.63%
Chengdu Gaopeng	500	20.83%
Total	**2,400**	**100.00%**

On 16 January 2019, as part of the Reorganisation and the Pre-IPO Investment, Mr. Wang entered into an equity transfer agreement and a supplemental equity transfer agreement with Wechi Int'l. Wechi Int'l was incorporated in Hong Kong with limited liability on 27 December 2018 and was indirectly owned as to 100% by Ms. Zhao Qi through Weichi Investment, a company incorporated in the BVI with limited liability on 15 November 2018. Pursuant to the equity transfer agreement and the supplemental equity transfer agreement, Mr. Wang transferred 4% of his equity interest in Guangyuan Saftower Technology to Wechi Int'l at a consideration of RMB2.88 million, which was determined with reference to the valuation of Sichuan Saftower as of 30 June 2018 conducted by an independent valuer and the capital injection of RMB12 million in Guangyuan Saftower Technology by Mr. Dang Fei in December 2018. Such transfer was properly and legally completed and was approved by Guangyuan AIC on 30 January 2019 and filed with Guangyuan Bureau of Commerce* (廣元市商務局) on 2 February 2019. Upon completion

of the equity transfer, Guangyuan Saftower Technology became a Sino-foreign equity joint venture, being owned as to 47.29% by Mr. Dang Fei, 11.25% by Mr. Dang Jun, 16.63% by Mr. Wang, 20.83% by Chengdu Gaopeng and 4% by Wechi Int'l. Their respective contributions to the registered capital of Guangyuan Saftower Technology are as follows:

Name of shareholders	Capital contribution *RMB'000*	Percentage of equity interest
Mr. Dang Fei	1,135	47.29%
Mr. Dang Jun	270	11.25%
Mr. Wang	399	16.63%
Chengdu Gaopeng	500	20.83%
Wechi Int'l	96	4.00%
Total	**2,400**	**100.00%**

On 29 May 2019, as part of the Reorganisation, pursuant to four equity transfer agreements, Saftower Management acquired 47.29%, 11.25%, 16.63% and 20.83% of the equity interests of Guangyuan Saftower Technology from Mr. Dang Fei, Mr. Dang Jun, Mr. Wang and Chengdu Gaopeng, at the considerations of RMB1.135 million, RMB0.27 million, RMB0.399 million and RMB0.5 million, respectively. The considerations were determined with reference to the then registered capital of Guangyuan Saftower Technology. Such transfers were properly and legally completed and settled and were approved by Guangyuan AMR on 6 June 2019. Upon completion of the equity transfers, Guangyuan Saftower Technology became owned as to 96% by Saftower Management and 4% by Wechi Int'l.

PRIOR LISTING ON THE NEEQ AND THE DELISTING

Aligning with Sichuan Saftower's business growth and in order to enhance its corporate profile, Sichuan Saftower applied for listing on the NEEQ in 2015. In October 2015, 52,800,000 shares in Sichuan Saftower, being its entire issued share capital at that time, became listed on the NEEQ (stock code: 833940). On 14 May 2018, all the shareholders of Sichuan Saftower resolved to voluntarily delist Sichuan Saftower's shares from the NEEQ (the "**NEEQ Delisting**") at a general meeting. For reasons of the NEEQ Delisting, see "Reasons for the NEEQ Delisting" in this section. On 5 June 2018, National Equities Exchange and Quotations Company Limited* (the "**NEEQ Company**") (全國中小企業股份轉讓系統有限責任公司) approved the NEEQ Delisting. On 7 June 2018, the shares of Sichuan Saftower ceased to be listed on the NEEQ with a market capitalisation of RMB271.92 million, based on last transfer price when Mr. Wang transferred 100,000 shares in Sichuan Saftower to Ms. He Meijuan on 12 January 2017, being RMB5.15 per share.

REASONS FOR THE NEEQ DELISTING

The NEEQ is a market in the PRC open to qualified investors only, including (a) PRC corporate or partnership enterprise investors with paid-up capital of more than RMB5 million; (b) PRC natural persons with average daily financial assets within the latest 10 trading days over RMB5 million and have experience in securities, funds, futures investments for more than two years or have more than two years of relevant working experience; and (c) qualified PRC and foreign institutional investors, such as securities companies, asset management companies, banks and insurers. In addition, the NEEQ adopts a market maker, negotiated transfer or investor competing transfer trading mechanism rather than continuous auction mechanism, which significantly limits investor discovery and order execution. The nature of the NEEQ and its low trading volume could make it difficult to (a) identify and establish the fair value of Sichuan Saftower to reflect its competitive strengths which differentiate it from its competitors; (b) publicly raise funds, in equity or debt, to continuously support our business growth; and (c) execute substantial on-market disposals by our Shareholders to realise value.

Our Directors confirmed that, to the best of their knowledge and belief, save as the two incidents of non-compliance with the Rules for Information Disclosures by Companies Admitted to the NEEQ, as disclosed in "Non-compliance incidents with the Rules for Information Disclosures by Companies Admitted to the NEEQ (《全國中小企業股份轉讓系統掛牌公司信息披露細則》)" in this section, Sichuan Saftower and all its directors had been in compliance in all material aspects with all applicable PRC securities laws and regulations as well as rules and regulations of the NEEQ, and had not been subject to any material investigation or disciplinary action by the relevant regulators, during the period when its shares were listed on the NEEQ and up to the NEEQ Delisting. As advised by our PRC Legal Advisers, the NEEQ Delisting was not attributable to the failure of Sichuan Saftower in meeting any of the NEEQ listing requirements. Based on the foregoing, our Directors confirm there is no matter that might materially and adversely affect the Listing in relation to Sichuan Saftower's previous listing on the NEEQ as mentioned above and there has not been any matter that needs to be brought to the attention of the potential investors. Furthermore, based on the results of the independent due diligence performed by the Sole Sponsor, nothing has come to the attention of the Sole Sponsor that would entail the Sole Sponsor to disagree with the views of our Directors on the reasonableness of the confirmation made by our Directors above.

For reasons for seeking the Listing on the Stock Exchange, see "Future Plans and Use of Proceeds — Reasons for Listing" in this prospectus for details.

NON-COMPLIANCE INCIDENTS WITH THE RULES FOR INFORMATION DISCLOSURES BY COMPANIES ADMITTED TO THE NEEQ《全國中小企業股份轉讓系統掛牌公司信息披露細則》

During the listing of Sichuan Saftower on the NEEQ, we had the following non-compliance incidents:

	Non-compliance incident	Reason(s) of non-compliance	Legal consequences and maximum potential penalty	Current status and remedies
1.	Sichuan Saftower had been listed on the NEEQ from October 2015 to June 2018, and during such period it did not disclose its annual report for 2017 within the regulatory time limit (i.e. before 27 April 2018). Prior to the deadline to disclose its annual report for 2017, on 26 April 2018, Sichuan Saftower published an announcement on the NEEQ system, which stated that Sichuan Saftower was expected to make the required disclosure on or before 30 June 2018. Furthermore, prior to the extended timeline for disclosure of annual report for 2017, the shares of Sichuan Saftower ceased to be listed on the NEEQ on 7 June 2018. As a result, Sichuan Saftower did not disclose its annual report for 2017.	Primarily due to (i) the delayed audit work of the then auditor which did not issue the audit report on time due to shortage of manpower and failed to communicate with Sichuan Saftower to extend the deadline; and (ii) during the material time, our Group was focusing on our plan to delist from the NEEQ, in contemplation of the proposed Listing on the Stock Exchange. As a result, our Group did not communicate with the then auditor clearly to enable them to timely complete their audit work, and thus failed to publish the 2017 annual report by the regulatory deadline of 27 April 2018.	On 10 May 2018, the NEEQ Company issued to Sichuan Saftower a decision on taking self-regulatory measures against NEEQ-admitted companies and persons responsible for disclosure of information for failing to disclose the annual report for 2017 within the specified time limit (Gu Zhuan Xi Tong Fa [2018] No. 892) (《關於對未按期披露2017年年度報告的掛牌公司及相關信息披露責任人採取自律監管措施的決定》) (股轉系統發[2018] 892號) (the "**Decision**"), requesting Sichuan Saftower, Mr. Dang Fei and Mr. Wang and/or responsible personnel to take self-regulatory measures to rectify the failure. Sichuan Saftower has not been subject to any administrative penalty imposed by the NEEQ and/or other regulatory bodies in this regard. In the Decision, the NEEQ also expressed its view that Mr. Dang Fei and Mr. Wang, being the then chairman and the then secretary of the board of Sichuan Saftower, respectively, failed to carry out their duties faithfully and diligently, thereby contravening Article 1.5 of the Business Rules of the National Equities Exchange and Quotations System (for Trial Implementation) (《全國中小企業股份轉讓系統業務規則(試行)》), which provides, among other things, that the NEEQ-admitted company and its persons responsible for disclosure of information shall disclose information in a true, accurate, complete and timely manner without false records, misleading statements or material omission. As advised by our PRC Legal Advisers, the above-mentioned Decision and rectification measures were not administrative penalties but a standard statement issued by the NEEQ Company to companies which failed to publish its annual report on time. There is no risk that legal actions will be taken by the NEEQ Company against Sichuan Saftower or its directors after the delisting of Sichuan Saftower on the NEEQ.	On 7 June 2018, the shares of Sichuan Saftower ceased to be listed on the NEEQ and therefore Sichuan Saftower never issued its annual report of 2017 on the NEEQ. Since the NEEQ Delisting took place before 30 June 2018, the NEEQ Company has confirmed that it no longer has regulatory power over Sichuan Saftower. Our Directors confirmed that subsequent to the NEEQ Delisting, Sichuan Saftower did not hear further from the NEEQ Company or any regulatory bodies. Our Group had formulated internal control policies in connection with this non-compliance incident.

	Non-compliance incident	Reason(s) of non-compliance	Legal consequences and maximum potential penalty	Current status and remedies
2.	During FY2017 (since May 2017) and FY2018 (between January to February 2018), Guangyuan Saftower sold semi-finished wires to Chongqing Dexindi. The revenue generated from Chongqing Dexindi to our Group amounted to RMB21.1 million, RMB3.2 million and nil for FY2017, FY2018 and FY2019, representing 8.1%, 0.6% and nil of our total revenue, respectively. See also "Business — Customers — Our five largest customers" for details. As advised by our PRC Legal Advisers, according to the rules of the NEEQ, Chongqing Dexindi is a related party of Sichuan Saftower and the transactions between our Group and Chongqing Dexindi constituted related party transactions and Sichuan Saftower failed to make an estimation of the transactions for 2017 in its 2016 annual report, and failed to disclose the same in the half-year report for 2017 and in an announcement in accordance with the NEEQ disclosure rules.	Primarily due to (i) at the time when the half-year report of Sichuan Saftower was prepared, Ms. Yu Xuelin and Mr. Dang Jun (mother and elder brother of Mr. Dang Fei, respectively) had not made any capital injection to Chongqing Dexindi, they did not take part in the management of Chongqing Dexindi and they had no position in and did not receive any salary from Chongqing Dexindi, leading them to mistakenly believe that the transactions did not constitute related party transactions which have to be disclosed; and (ii) after being reminded by its then legal adviser on the responsibility in early 2018, its directors proposed to rectify the disclosure in the 2017 annual general meeting of Sichuan Saftower. However, given that the then auditor of Sichuan Saftower delayed the issue of the 2017 annual report as discussed above, while Sichuan Saftower was delisted from the NEEQ in June 2018, the related party transactions could not be disclosed accordingly afterwards.	Article 34(1) of the "NEEQ Disclosure Rules (Trial)" (《全國中小企業股份轉讓系統掛牌公司信息披露細則(試行)》) (promulgated in February 2013) and Article 37(1) of the "Rules for Information Disclosures by Companies Admitted to the National Equities and Exchange Quotations"(《全國中小企業股份轉讓系統掛牌公司信息披露細則》) (issued in December 2017) provide that a company listed on the NEEQ should, before publishing the annual report of the previous year, make a reasonable estimation of the amount of related party transactions which are expected to take place in the upcoming year, and submit the same to its annual general meeting for review and make the relevant disclosure. For related party transactions which are within the estimation, the company should classify them and disclose the same in a table in the annual report or the half-year report, and disclose if the transactions are fair and reasonable. Article 60 of the Measures for the Supervision and Administration of Unlisted Public Companies (《非上市公眾公司監督管理辦法》) (revised in December 2013) provides that companies and other information disclosure obligors who fail to disclose information in accordance with the provisions, or that the information disclosed has false records, misleading statements or major omissions, penalties shall be imposed in accordance with the provisions of Article 193 of the Securities Law of the PRC. Given (i) the transactions with Chongqing Dexindi were conducted on normal commercial terms, they did not have material adverse impact on the daily operation and business performance of Sichuan Saftower and did not affect the overall interests of Sichuan Saftower's shareholders; (ii) Sichuan Saftower has not been imposed of any penalty nor self-regulatory measures in relation to the related party transactions by the NEEQ or the China Securities Regulatory Commission; and (iii) Sichuan Saftower has already been delisted from NEEQ in June 2018, our PRC Legal Advisers are of the view that the chance of Sichuan Saftower being subject to any disciplinary measures taken out by China Securities Regulatory Commission or the NEEQ Company is remote.	On 7 June 2018, the shares of Sichuan Saftower ceased to be listed on the NEEQ and therefore Sichuan Saftower cannot make any further announcement. Our reporting accountants confirmed that they had performed procedures in respect of the related party transactions of our Group in accordance with Hong Kong Standard on Investment Circular Reporting Engagement 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the HKICPA and such related party transactions had been disclosed in Note 35 to Appendix I to the Prospectus. Our Group had formulated internal control policies in connection with this non-compliance incident, including but not limited to the policies or procedures to (i) identify all related parties; (ii) report any potential related party transaction to the Board; and (iii) obtain approval from the Board for certain related party transactions. In preparation for the Listing and to further enhance our internal control system, we have engaged an independent internal control consultant to perform a review of our Group's internal control system, including the internal control policies in relation to the related parties transactions of our Group. According to the review results, our Directors believe, and the Sole Sponsor concurs that, the internal control measures in place are sufficient to identify such related parties transactions and could effectively ensure a proper internal control system of our Group to prevent the recurrence of such non-compliance incident.

Having considered the nature and reasons for the aforesaid incidents of non-compliance, our Directors are of the view that the two incidents of non-compliance did not involve any dishonesty on the part of our Directors and do not reflect a material defect in the character, integrity or competence of our Directors, and therefore does not affect our Directors' suitability to act as directors of a listed issuer as required under Rules 5.01 and 5.02 of the GEM Listing Rules or the suitability for Listing of our Company under Rule 11.06 of the GEM Listing Rules.

REORGANISATION

Our Group underwent the Reorganisation in preparation for the Listing, which involved the following steps:

Incorporation of offshore holding companies (Red Fly, Xseven Investment, Bonyer Investment, Rocky Base Investment, Bigroad Investment, Hisky Investment, Dibell Investment, Gun Wealth Investment, ZH Fortune Investment and Lockxy Investment)

On 21 September 2018, Red Fly was incorporated in BVI with limited liability and it became owned as to 80.79% by Mr. Dang Fei and 19.21% by Mr. Dang Jun, respectively.

On 21 September 2018, Xseven Investment was incorporated in BVI with limited liability and it became wholly owned by Mr. Wang.

At the material times, Mr. Tan Bangyao, Mr. Luo Chuji, Mr. Deng Daosong, Mr. Li Guojiang, Ms. Peng Zeling, Mr. Tang Xiaojian, Ms. Yi Caixia, Ms. Ding Zhaoqun, Ms. Hu Min, Ms. Guo Rong, Ms. Zhang Ping, Ms. Zhang Hairong, Ms. Luo Xi, Mr. Fu Chuanrong and Mr. Wang Zhengwen were limited partners of Chengdu Gaopeng. For details of their respective interest in Chengdu Gaopeng, please refer to Note (1) of the chart which sets forth our approximate shareholding and corporate structure immediately before the Reorganisation below. As part of the Reorganisation, a number of investment holding companies were incorporated by them to be their investment vehicles, including: Bonyer Investment, Rocky Base Investment, Bigroad Investment, Hisky Investment, Dibell Investment, Gun Wealth Investment, ZH Fortune Investment and Lockxy Investment.

On 21 January 2019, Bonyer Investment was incorporated in BVI with limited liability and it became wholly owned by Mr. Tan Bangyao.

On 21 January 2019, Rocky Base Investment was incorporated in BVI with limited liability and it became wholly owned by Mr. Luo Chuji.

On 21 January 2019, Bigroad Investment was incorporated in BVI with limited liability and it became wholly owned by Mr. Deng Daosong.

On 22 January 2019, Hisky Investment was incorporated in BVI with limited liability and it became owned as to 56.82%, 20.46%, 11.36% and 11.36% by Mr. Li Guojiang, Ms. Peng Zeling, Mr. Tang Xiaojian and Ms. Yi Caixia, respectively.

On 21 January 2019, Dibell Investment was incorporated in BVI with limited liability and it became owned as to 90.91% by Ms. Ding Zhaoqun and 9.09% by Ms. Hu Min.

On 22 January 2019, Gun Wealth Investment was incorporated in BVI with limited liability and it became wholly owned by Ms. Guo Rong.

On 21 January 2019, ZH Fortune Investment was incorporated in BVI with limited liability and it became owned as to 66.67% by Ms. Zhang Ping and 33.33% by Ms. Zhang Hairong.

On 21 January 2019, Lockxy Investment was incorporated in BVI with limited liability and it became owned as to 68% by Ms. Luo Xi, 20% by Mr. Fu Chuanrong and 12% by Mr. Wang Zhengwen.

Incorporation of our Company and redenomination of the authorised and issued share capital of our Company from US$1 to HK$0.01

On 9 October 2018, our Company was incorporated in the Cayman Islands as an exempted company with limited liability. As at the date of its incorporation, it had an authorised share capital of US$50,000 divided into 50,000 shares with a par value of US$1 each.

On the date of its incorporation, our Company allotted and issued one subscriber share of US$1 each (the "**USD-denominated Share**") as fully paid to a nominee subscriber. On the same date, the nominee subscriber as transferor executed a share transfer form in favour of Red Fly as transferee, pursuant to which the nominee subscriber transferred the USD-denominated Share, representing the entire issued share capital of our Company, to Red Fly for a consideration of US$1. Such transaction was properly and legally completed and settled.

On 8 January 2019, the authorised share capital of our Company was increased by HK$380,000 by the creation of 38,000,000 new Shares of a par value of HK$0.01 each. Our Company allotted and issued 780 such new Shares as fully paid to Red Fly. At the same time, our Company repurchased the USD-denominated Share at a consideration of US$1 and the USD-denominated Share was cancelled upon repurchase. Immediately following such repurchase, our Company cancelled the 50,000 authorised but unissued shares of a par value of US$1 each in the capital of our Company.

Our Company then remained wholly owned by Red Fly immediately after the redenomination of its authorised and issued share capital.

Incorporation of Bida Investment, Weichi Investment, Saftower International and Wechi Int'l

On 5 November 2018, Bida Investment was incorporated in BVI with limited liability. It is authorised to issue a maximum of 50,000 ordinary shares of a single class with a par value of US$1 each. On the date of its incorporation, Bida Investment allotted and issued one share with a par value of US$1 as fully paid to our Company. Bida Investment then became wholly owned by our Company.

On 15 November 2018, Weichi Investment was incorporated in BVI with limited liability. It is authorised to issue a maximum of 50,000 ordinary shares of a single class with a par value of US$1 each. On the date of its incorporation, Weichi Investment allotted and issued one share with a par value of US$1 as fully paid to Ms. Zhao Qi. Weichi Investment then became wholly owned by Ms. Zhao Qi.

On 5 December 2018, Saftower International was incorporated in Hong Kong with limited liability. On the date of its incorporation, Saftower International allotted and issued one founder's share credited as fully paid to Bida Investment. Saftower International then became wholly owned by Bida Investment.

On 27 December 2018, Wechi Int'l was incorporated in Hong Kong with limited liability. On the date of its incorporation, Wechi Int'l allotted and issued one founder member's share as fully paid to Weichi Investment. Wechi Int'l then became wholly owned by Weichi Investment.

Establishment of Guangyuan Saftower Technology

On 14 September 2018, Guangyuan Saftower Technology was established in the PRC as a limited liability company, with an initial registered capital of RMB2 million. It engages in investment holding. At the time of the establishment of Guangyuan Saftower Technology, Mr. Dang Fei, Mr. Wang, Mr. Dang Jun and Chengdu Gaopeng contributed RMB0.735 million, RMB0.495 million, RMB0.27 million and RMB0.5 million to the registered capital of Guangyuan Saftower Technology, respectively. Guangyuan Saftower Technology therefore became owned as to 36.75% by Mr. Dang Fei, 13.5% by Mr. Dang Jun, 24.75% by Mr. Wang, and 25% by Chengdu Gaopeng.

Acquisition of entire equity interest of Sichuan Saftower by Guangyuan Saftower Technology from Mr. Dang Fei, Mr. Dang Jun, Mr. Wang, Chengdu Gaopeng and Mr. Ma Da

On 9 November 2018, pursuant to five equity transfer agreements, Guangyuan Saftower Technology acquired 36.75%, 13.5%, 24.56%, 25% and 0.19% of the equity interests of Sichuan Saftower from Mr. Dang Fei, Mr. Dang Jun, Mr. Wang, Chengdu Gaopeng and Mr. Ma Da, at the considerations of RMB22.05 million, RMB8.1 million, RMB14.7364 million, RMB15 million and RMB113,600, respectively. The respective consideration was determined with reference to the then registered capital of Sichuan Saftower. Such transfers were properly and legally completed and settled and were approved by Chengdu Pidu AMR on 5 December 2018. Upon completion of the above transfers, Sichuan Saftower became wholly owned by Guangyuan Saftower Technology.

Increase of registered capital of Guangyuan Saftower Technology which was contributed by Mr. Dang Fei

On 18 December 2018, the registered capital of Guangyuan Saftower Technology was increased from RMB2 million to RMB2.4 million. The additional registered capital was contributed by Mr. Dang Fei by cash. Such increase was approved by Guangyuan AIC on 25 December 2018. Upon the completion of the capital increase, Guangyuan Saftower Technology became owned as to 47.29% by Mr. Dang Fei, 11.25% by Mr. Dang Jun, 20.63% by Mr. Wang and 20.83% by Chengdu Gaopeng, respectively.

Transfer of 4% of equity interest of Guangyuan Saftower Technology from Mr. Wang to Wechi Int'l

On 16 January 2019, as part of the Reorganisation and the Pre-IPO Investment, Mr. Wang as transferor and Wechi Int'l as transferee entered into an equity transfer agreement. At the material times, Wechi Int'l was indirectly and wholly owned by Ms. Zhao Qi, our Pre-IPO Investor and an Independent Third Party. On the same date, Mr. Wang entered into a supplemental equity transfer agreement with Wechi Int'l. Pursuant to the equity transfer agreement and the supplemental equity transfer agreement, Mr. Wang transferred 4% of his equity interest in Guangyuan Saftower Technology to Wechi Int'l at a consideration of RMB2.88 million. The consideration was determined with reference to the valuation of Sichuan Saftower as of 30 June 2018 conducted by an independent valuer and the capital injection of RMB12 million in Guangyuan Saftower Technology by Mr. Dang Fei in December 2018. Such transfer was properly and legally completed and was approved by Guangyuan AIC on 30 January 2019, and filed with Guangyuan Bureau of Commerce* (廣元市商務局) on 2 February 2019. Upon completion of the equity transfer, Guangyuan Saftower Technology became a Sino-foreign equity joint venture, being owned as to 47.29% by Mr. Dang Fei, 11.25% by Mr. Dang Jun, 16.63% by Mr. Wang, 20.83% by Chengdu Gaopeng and 4% by Wechi Int'l, respectively.

Transfer of 16.67% equity interest of Guangyuan Tongchuang from Mr. Li Zhanwei to Guangyuan Saftower

On 15 April 2019, Mr. Li Zhanwei and Guangyuan Saftower entered into an equity transfer agreement, pursuant to which Mr. Li Zhanwei transferred 16.67% equity interest of Guangyuan Tongchuang to Guangyuan Saftower. Since Mr. Li Zhanwei did not pay up any capital of Guangyuan Tongchuang and his unpaid up capital was recognised as an amount due from owner on Guangyuan Tongchuang's financial statement before the Tongchuang Equity Acquisition, Guangyuan Saftower did not need to pay Mr. Li Zhanwei pursuant to the equity transfer agreement but had to pay up the unpaid capital of RMB10.0 million to Guangyuan Tongchuang. On 26 September 2019, the registered capital of Guangyuan Tongchuang was fully paid by

Guangyuan Saftower. Such transfer was approved by Guangyuan AMR on 7 May 2019. Upon completion of the equity transfer, Guangyuan Tongchuang became our non-wholly owned subsidiary and owned as to 56.67% by Guangyuan Saftower and 43.33% by Tongsheng Guochuang.

Establishment of Saftower Management

On 14 May 2019, Saftower Management was established in the PRC as a limited liability company, with a registered capital of RMB0.1 million. It engages in investment holding. Since its establishment, the entire equity interest of Saftower Management has been wholly owned by Saftower International.

Acquisition of the entire issued share capital of Weichi Investment by Bida Investment

On 20 May 2019, pursuant to a share swap agreement, Bida Investment acquired the entire issued share capital of Weichi Investment from Ms. Zhao Qi in consideration of and in exchange for the allotment and issue of 400 Shares to Ms. Zhao Qi credited as fully paid. Upon completion of such acquisition, Weichi Investment then became wholly owned by Bida Investment.

Allotment and issue of Shares to Red Fly, Xseven Investment, Bonyer Investment, Rocky Base Investment, Bigroad Investment, Hisky Investment, Dibell Investment, Gun Wealth Investment, ZH Fortune Investment and Lockxy Investment

On 20 May 2019, our Company further allotted and issued 5,075 Shares to Red Fly, 1,663 Shares to Xseven Investment, 158 Shares to Bonyer Investment, 158 Shares to Rocky Base Investment, 316 Shares to Bigroad Investment, 278 Shares to Hisky Investment, 139 Shares to Dibell Investment, 402 Shares to Gun Wealth Investment, 473 Shares to ZH Fortune Investment and 158 Shares to Lockxy Investment at par, all credited as fully paid.

Our Company then became owned as to 58.55% by Red Fly, 16.63% by Xseven Investment, 1.58% by Bonyer Investment, 1.58% by Rocky Base Investment, 3.16% by Bigroad Investment, 2.78% by Hisky Investment, 1.39% by Dibell Investment, 4.02% by Gun Wealth Investment, 4.73% by ZH Fortune Investment, 1.58% by Lockxy Investment and 4% by Zhao Qi.

Acquisition of 96% equity interest of Guangyuan Saftower Technology by Saftower Management

On 29 May 2019, pursuant to four equity transfer agreements, Saftower Management acquired 47.29%, 11.25%, 16.63% and 20.83% of the equity interests of Guangyuan Saftower Technology from Mr. Dang Fei, Mr. Dang Jun, Mr. Wang and Chengdu Gaopeng, at the considerations of RMB1.135 million, RMB0.27 million, RMB0.399 million and RMB0.5 million, respectively. The considerations were determined with reference to the then registered capital of Guangyuan Saftower Technology. Such transfers were properly and legally completed and settled and were approved by Guangyuan AMR on 6 June 2019.

Upon completion of the equity transfers, Guangyuan Saftower Technology became owned as to 96% by Saftower Management and 4% by Wechi Int'l.

ACTING IN CONCERT UNDERTAKING

Pursuant to the Acting in Concert Undertaking, among other things, Mr. Dang Fei and Mr. Dang Jun agreed that when making any major decision which has or is likely to have a material impact on the operation of our Group, they would first convene a meeting therefor and reach a consensus on the proposed matter. In the event that Mr. Dang Fei and Mr. Dang Jun are unable to reach a consensus on those major decisions, the decision shall be made by a simple majority with reference to the percentage of shareholding held by Mr. Dang Fei and Mr. Dang Jun in Red Fly. They will continue to act in accordance with the terms of the Acting in Concert Undertaking until the earlier of (i) the confirmation being terminated by the parties in writing; or (ii) Mr. Dang Fei or Mr. Dang Jun ceasing to be the ultimate beneficial owner of our Company.

By virtue of the Acting in Concert Undertaking, Mr. Dang Fei and Mr. Dang Jun will together be entitled to exercise and control 43.91% of the issued share capital of our Company upon the completion of the Capitalisation Issue and the Share Offer (without taking into account any Share that may be allotted and issued upon the exercise of the Offer Size Adjustment Option and the options to be granted under the Share Option Scheme).

PRE-IPO INVESTMENT

Details of the Pre-IPO investment is set out in the table below.

Name of the Pre-IPO Investor	Ms. Zhao Qi
Date of the relevant equity transfer agreement and the supplemental equity transfer agreement	16 January 2019
Amount of consideration paid	RMB2.88 million
Settlement date of the consideration	12 September 2019
Vendor of equity interest	Mr. Wang
Basis of determination of the consideration	The consideration was determined with reference to the valuation of Sichuan Saftower as of 30 June 2018 conducted by an independent valuer and the capital injection of RMB12 million in Guangyuan Saftower Technology by Mr. Dang Fei in December 2018
Number of Shares held after the Capitalisation Issue	24,000,000

Effective cost per Share paid (taking into account the Capitalisation Issue)	Approximately RMB0.12 (which is equivalent to approximately HK$0.14)
Discount to the Offer Price (based on the Offer Price of HK$0.325 per Offer Share, being the mid-point of the Offer Price range)	Approximately 56.9%
Use of proceeds	Mr. Wang's personal use
Benefits brought to our Group	Our Directors believe that the Pre-IPO Investment can diversify the shareholders' portfolio of our Company
Shareholding in our Company immediately after the completion of Reorganisation and the Pre-IPO Investment but before the Capitalisation Issue and the Share Offer	4%
Shareholding in our Company immediately upon completion of the Capitalisation Issue and the Share Offer (without taking into account any Share which may be allotted and issued upon the exercise of the Offer Size Adjustment Option and the options which may be granted under the Share Option Scheme)	3%
Lock-up period	Out of the 24,000,000 Shares to be held by the Pre-IPO Investor immediately after the completion of the Capitalisation Issue and the Share Offer, 16,000,000 Shares will be subject to lock-up restriction for a six-month period commencing from the Listing Date to 10 January 2021

Public float	The Shares held by Ms. Zhao Qi are considered as part of the public float for the purpose of Rule 11.23 of the GEM Listing Rules as (i) Ms. Zhao Qi is not a director, chief executive or Substantial Shareholder of our Company or its subsidiaries or a close associate of any of them (the "**Non-Public Shareholders**"); (ii) the acquisition of the Shares by Ms. Zhao Qi was not financed by the Non-Public Shareholders; and (iii) Ms. Zhao Qi is not accustomed to taking instructions from a Non-Public Shareholder for the voting or dispositions in respect of the Shares held by Ms. Zhao Qi
Special rights	Nil

Background of the Pre-IPO Investor

Ms. Zhao Qi is an acquaintance of Mr. Wang. To the best of our Directors' knowledge, information and belief and having made all reasonable enquiries, Ms. Zhao Qi invested in our Group because she appreciates the prospect and potential growth of our Group. Save for her investment in our Company and her past directorships in Weichi Investment and Wechi Int'l, Ms. Zhao Qi did not have any past or present relationships (including, without limitation, family, trust, business, employment relationships) or any agreements, arrangements or understanding with our Company, our subsidiaries, Shareholders, Directors or senior management and any of their respective associates and is an Independent Third Party as at the Latest Practicable Date.

Sole Sponsor's confirmation

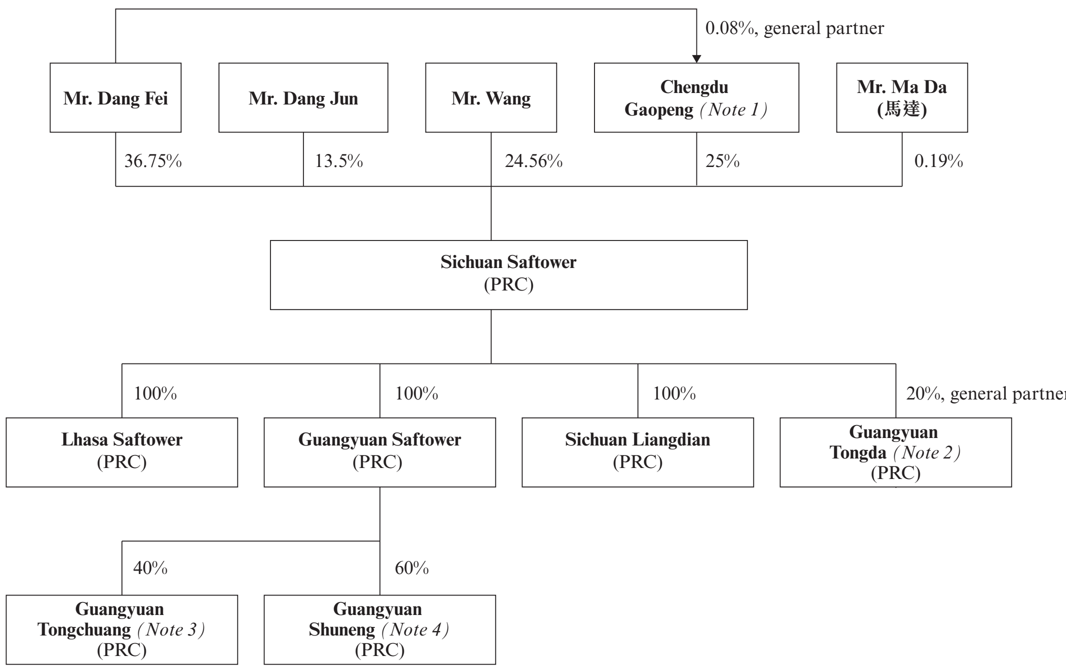
The Sole Sponsor has confirmed that the investment by the Pre-IPO Investor is in compliance with (i) the Guidance Letter HKEX-GL29-12 (Interim Guidance on Pre-IPO Investments) issued in January 2012 and updated in March 2017 by the Stock Exchange as the consideration for the Pre-IPO Investment was all settled more than 28 clear days before the date of the first submission of the listing application to the Stock Exchange in relation to the Listing; and (ii) the Guidance Letter HKEX-GL-43-12 (Guidance on Pre-IPO investments) issued in October 2012 and updated in July 2013 and March 2017 by the Stock Exchange as there are no special rights granted to the Pre-IPO Investor that will survive the Listing.

COMPANIES EXCLUDED FROM OUR GROUP DURING THE REORGANISATION

Prior to the Reorganisation, Sichuan Saftower held 20% interest (also as the general partner) in a limited partnership, namely, Guangyuan Tongda Commercial Centre (Limited Partnership)* (廣元同達商貿中心(有限合夥)) ("**Guangyuan Tongda**") established in the PRC on 28 June 2018, which had no active business operation since its establishment and was dissolved on 26 November 2018.

Our Directors confirmed that, during the Track Record Period and up to the date of deregistration of Guangyuan Tongda, Guangyuan Tongda had no material non-compliance issues or had not been involved in any material claims or legal proceedings against them. Our Directors further confirmed that, if the financial results of Guangyuan Tongda up to the date of deregistration were included in our Group, our Company would be able to meet the operating cash-flow requirement under Rule 11.12A(1) of the GEM Listing Rules.

The following chart sets forth our approximate shareholding and corporate structure immediately before the commencement of the Reorganisation:



Notes:

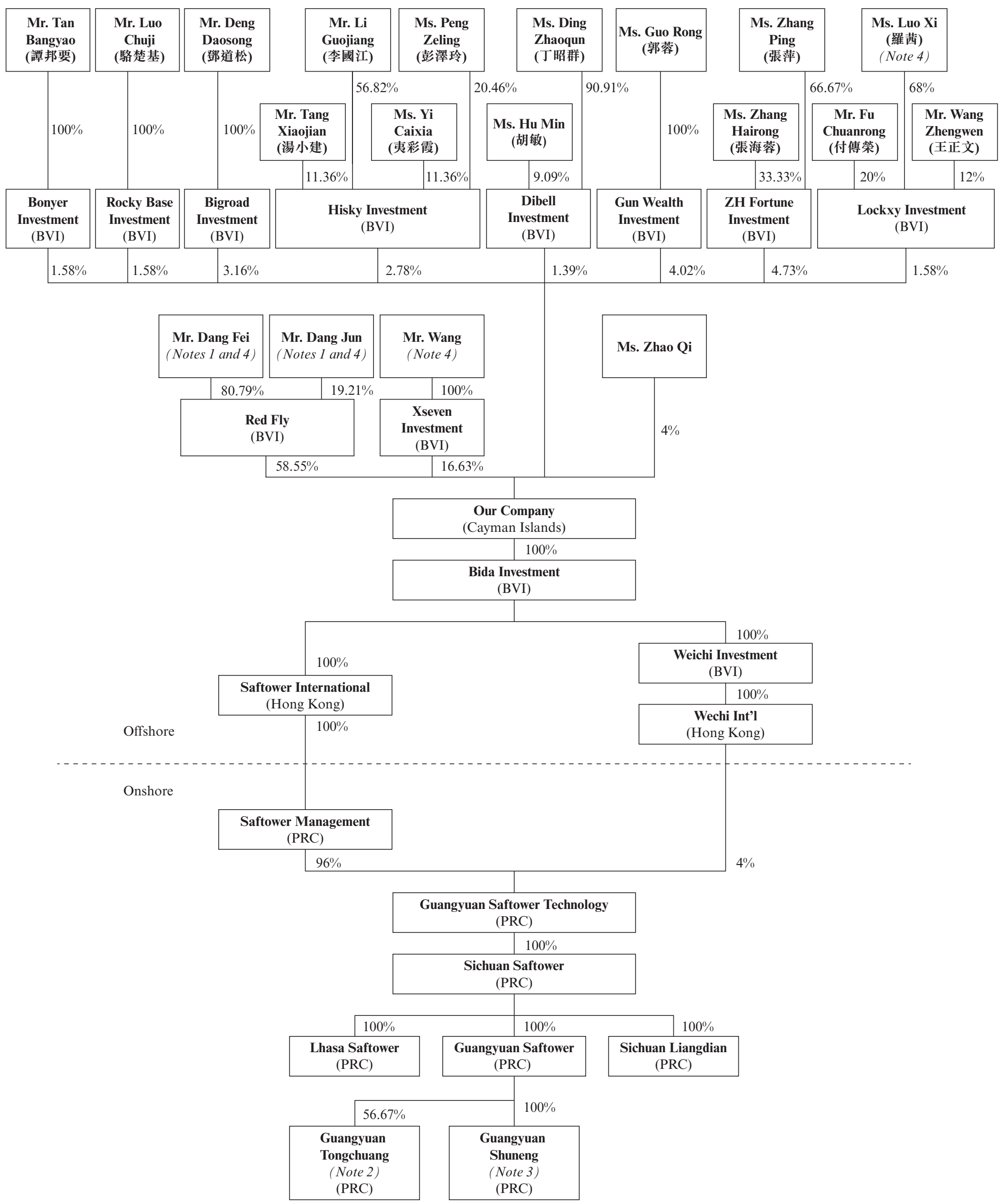
(1) Chengdu Gaopeng engaged in management consulting* (企業管理咨詢), with Mr. Dang Fei as the general partner holding 0.08% partnership interest. Its limited partners included Mr. Deng Daosong (鄧道松) (15.15%), Ms. Guo Rong (郭蓉) (19.32%), Ms. Zhang Ping (張萍) (15.15%), Ms. Zhang Hairong (張海蓉) (7.58%), Mr. Li Guojiang (李國江) (7.58%), Ms. Peng Zeling (彭澤玲) (2.73%), Mr. Tang Xiaojian (湯小建) (1.51%), Ms. Hu Min (胡敏) (0.61%), Ms. Luo Xi (羅茜) (5.15%), Mr. Fu Chuanrong (付傳榮) (1.51%), Mr. Wang Zhengwen (王正文) (0.91%), Ms. Yi Caixia (夷彩霞) (1.51%), Ms. Ding Zhaoqun (丁昭群) (6.06%), Mr. Luo Chuji (駱楚基) (7.575%) and Mr. Tan Bangyao (譚邦要) (7.575%). Save as Mr Dang Fei and Ms. Luo Xi, who are our executive Directors, and Mr. Deng Daosong who is a former employee of our Group, all of Chengdu Gaopeng's shareholders are Independent Third Parties, and were not the employee of our Group during the Track Record Period.

(2) The other partner of Guangyuan Tongda was Tongsheng Guochuang (80%).

(3) The other shareholders of Guangyuan Tongchuang were Tongsheng Guochuang (43.33%) and Mr. Li Zhanwei (李占威) (16.67%).

(4) The other shareholder of Guangyuan Shuneng was Tongsheng Guochuang (40%).

The following chart sets forth our approximate shareholding and corporate structure immediately after the completion of the Reorganisation and the Pre-IPO Investment but before the Capitalisation Issue and the Share Offer:



Notes:

(1) Mr. Dang Fei and Mr. Dang Jun are parties acting in concert pursuant to the Acting in Concert Undertaking.

(2) The other shareholder of Guangyuan Tongchuang is Tongsheng Guochuang (43.33%).

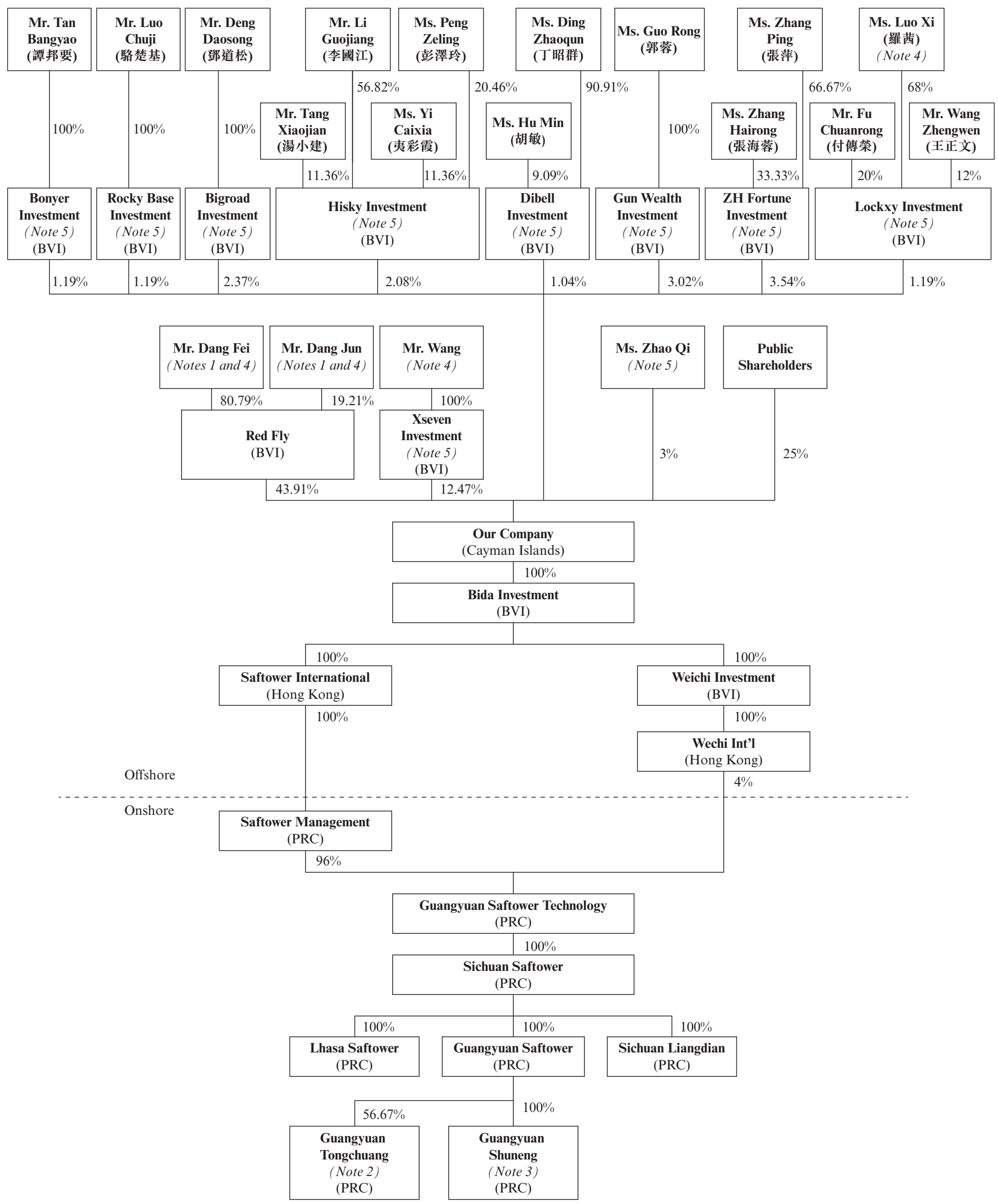
(3) On 18 November 2019, upon the approval of Guangyuan AMR, Guangyuan Shuneng completed a 40% capital reduction of the registered capital payable by Tongsheng Guochuang of RMB3.2 million, from RMB8 million to RMB4.8 million. As a result, Tongsheng Guochuang ceased to be a shareholder of Guangyuan Shuneng. Guangyuan Shuneng became wholly-owned by Guangyuan Saftower accordingly.

(4) Mr. Dang Fei, Mr. Wang and Ms. Luo Xi are the executive Directors of our Company and Mr. Dang Jun is a member of the senior management of our Group.

Capitalisation Issue

Conditional upon the crediting of our Company's share premium account as a result of the issue of the Offer Shares pursuant to the Listing, our Directors are authorised to capitalise an amount of HK$5,999,900 standing to the credit of the share premium account of our Company by applying such sum towards to pay up in full at par a total of 599,990,000 Shares for allotment and issue, immediately prior to the Share Offer, to our Shareholders whose names appear on the register of members of our Company at the close of business on 10 June 2020, in proportion (as nearly as possible without involving fractions and odd lots) to their then respective shareholding percentage in our Company, so that the number of Shares so allotted and issued, when aggregated with the number of Shares already owned by them, will constitute 75% of the issued share capital of our Company immediately after completion of the Capitalisation Issue and the Share Offer (without taking into account any Share which may be allotted and issued upon the exercise of the Offer Size Adjustment Option and the options which may be granted under the Share Option Scheme).

The following chart sets forth our approximate shareholding and corporate structure immediately upon completion of the Capitalisation Issue and the Share Offer (without taking into account any Share that may be allotted and issued upon the exercise of the Offer Size Adjustment Option and the options that may be granted under the Share Option Scheme):



Notes:

(1) Mr. Dang Fei and Mr. Dang Jun are parties acting in concert pursuant to the Acting in Concert Undertaking.

(2) The other shareholder of Guangyuan Tongchuang is Tongsheng Guochuang (43.33%).

(3) On 18 November 2019, upon the approval of Guangyuan AMR, Guangyuan Shuneng completed a 40% capital reduction of the registered capital payable by Tongsheng Guochuang of RMB3.2 million, from RMB8 million to RMB4.8 million. As a result, Tongsheng Guochuang ceased to be a shareholder of Guangyuan Shuneng. Guangyuan Shuneng became wholly-owned by Guangyuan Saftower accordingly.

(4) Mr. Dang Fei, Mr. Wang and Ms. Luo Xi are the executive Directors of our Company and Mr. Dang Jun is a member of the senior management of our Group.

(5) The shareholdings in our Company held by each of Xseven Investment, Bonyer Investment, Rocky Base Investment, Bigroad Investment, Hisky Investment, Dibell Investment, Gun Wealth Investment, ZH Fortune Investment, Lockxy Investment and Ms. Zhao Qi will be subject to lock-up restrictions. For details, please refer to the section headed "Underwriting — Underwriting Arrangements and Expenses — Public Offer — Undertakings given under the Public Offer Underwriting Agreement" of this prospectus.

PRC REGULATORY ISSUES RELATING TO THE REORGANISATION

Compliance with the Regulations for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》) (the "M&A Rules")

Under the M&A Rules, a foreign investor is required to obtain approvals from competent authorities when (i) a foreign investor acquires equity in a domestic non-foreign invested enterprise thereby converting it into a foreign-invested enterprise, or subscribes for new equity in a domestic enterprise via an increase of registered capital thereby converting it into a foreign-invested enterprise; or (ii) a foreign investor establishes a foreign-invested enterprise which purchases and operates the assets of a domestic enterprise, or which purchases the assets of a domestic enterprise and injects those assets to establish a foreign-invested enterprise. According to the M&A Rules, where a domestic company or enterprise, or a domestic natural person, through an overseas company established or controlled by it/him, acquires a domestic company which is related to or connected with it/him, approval from the Ministry of Commerce of the PRC ("**MOC**") is required.

As mentioned in the paragraph headed "Corporate Development — Guangyuan Saftower Technology" in this section, Wechi Int'l acquired 4% equity interest in Guangyuan Saftower Technology from Mr. Wang on 16 January 2019 (the "**4% Acquisition**"). As confirmed by our PRC Legal Advisers, all the requisite approvals, permits and licences in relation to the 4% Acquisition had been obtained pursuant to applicable laws and regulations in the PRC and the 4% Acquisition was in compliance with the M&A Rules and had been duly approved by competent regulatory authorities, based on the following:

(i) the 4% Acquisition does not constitute transactions requiring approvals from the MOC and the CSRC under the M&A Rules, due to the facts that (a) at the time when the 4% Acquisition took place, Ms. Zhao Qi was a Hong Kong Permanent Resident and was not a domestic natural person under the M&A Rules; and (b) the 4% Acquisition were not related acquisitions under the M&A Rules;

(ii) the revised business licence of Guangyuan Saftower Technology was issued by Guangyuan AIC on 30 January 2019, which states the type of corporation of Guangyuan Saftower Technology as "limited liability company (joint venture of Taiwan, Hong Kong, Macau and the PRC) (percentage of foreign investment less than 25%)" (有限責任公司(台港澳與境內合資)(外資比例低於25%));

(iii) Guangyuan Bureau of Commerce* (廣元市商務局) issued the "Proof of Establishment of Enterprises with Foreign Investment" (外商投資企業設立備案回執) on 2 February 2019, which states the type of business (企業類型) as joint venture (合資); and

(iv) Guangyuan AMR and Guangyuan Bureau of Commerce* (廣元市商務局) are the competent authorities for the approval of the 4% Acquisition under the M&A Rules.

As for the acquisition of 96% of the equity interest in Guangyuan Saftower Technology by Saftower Management on 29 May 2019, our PRC Legal Advisers advised that such acquisitions are transfers of equity interest in foreign invested enterprises as Guangyuan Saftower Technology had become Sino-foreign joint venture enterprise at the time of the acquisitions and Saftower Management is a company established in the PRC, thus the M&A Rules is not applicable and approval from the MOC and/or the CSRC is not required. Instead, such acquisitions shall comply with the Interim Measures for the Recordation Administration of the Formation and Modification of Foreign-Funded Enterprises (外商投資企業設立及變更備案管理暫行辦法) and the relevant provisions in the Rules on the Changes of Shareholding of Foreign-invested Enterprise Investors (外商投資企業投資者股權變更的若干規定), as the case may be, and are subject to approval of the authority approving the establishment of Guangyuan Saftower Technology as a Sino-foreign joint venture enterprise, i.e. Guangyuan AMR and Guangyuan Bureau of Commerce.

Compliance with the Circular on Relevant Issues Concerning Foreign Exchange Administration of Overseas Investment and Financing and Return Investments Conducted by Domestic Residents Through Overseas Special Purpose Vehicles (《關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) ("Circular 37")

As confirmed by our PRC Legal Advisers, Mr. Dang Fei, Mr. Dang Jun, Mr. Wang, and Mr. Tan Bangyao (譚邦要), Mr. Luo Chuji (駱楚基), Mr. Deng Daosong (鄧道松), Mr. Li Guojiang (李國江), Ms. Peng Zeling (彭澤玲), Mr. Tang Xiaojian (湯小建), Ms. Yi Caixia (夷彩霞), Ms. Ding Zhaoqun (丁昭群), Ms. Hu Min (胡敏), Ms. Guo Rong (郭蓉), Ms. Zhang Ping (張萍), Ms. Zhang Hairong (張海蓉), Ms. Luo Xi (羅茜), Mr. Fu Chuanrong (付傳榮) and Mr. Wang Zhengwen (王正文), being some ultimate individual shareholders of our Company, have completed the foreign exchange registration pursuant to Circular 37.

Our PRC Legal Advisers further confirmed that all necessary approvals, permits and licences required under the PRC laws and regulations in connection with the Reorganisation and equity interests transfer in respect of the PRC subsidiaries in our Group as set out in this section have been obtained, and the Reorganisation has completed all necessary processes under the PRC laws and regulations.

TONGCHUANG EQUITY ACQUISITION

On 15 April 2019, we completed the Tongchuang Equity Acquisition, following which Guangyuan Tongchuang become our non-wholly owned subsidiary. As a result, Guangyuan Tongchuang was consolidated into our Group starting from 16 April 2019, and Tongchuang Plant forms part of our production facilities since then. Set forth below is a summary of our relationship with Guangyuan Tongchuang.

Background of Guangyuan Tongchuang

On 14 July 2017, Guangyuan Tongchuang was established in the PRC as a limited liability company, with a registered capital of RMB60 million. It was intended that Guangyuan Tongchuang would be owned as to 40% by Guangyuan Saftower, 16.67% by Mr. Li Zhanwei (李占威), an Independent Third Party, and 43.33% by Tongsheng Guochuang. As of 30 September 2017, Tongsheng Guochuang paid RMB26 million in cash as the registered capital of Guangyuan Tongchuang, and Guangyuan Saftower injected a total of RMB24 million as contribution to the registered capital, of which RMB3.1 million was contributed in the form of cash and RMB20.9 million was contributed in the form of assets. Mr. Li Zhanwei had not paid up his part of registered capital. On 15 April 2019, Mr. Li Zhanwei and Guangyuan Saftower entered into an equity transfer agreement, pursuant to which Mr. Li Zhanwei transferred 16.67% of the equity interest of Guangyuan Tongchuang to Guangyuan Saftower. Such transfer has completed on 15 April 2019 and was approved by Guangyuan AMR on 7 May 2019. For details, see "History, Development and Reorganisation — Corporate Development — Guangyuan Tongchuang" in this prospectus.

After its establishment, Guangyuan Tongchuang entered into a lease agreement with Guangyuan Saftower, pursuant to which Guangyuan Saftower leased a portion of its production site with a gross floor area of 8,995.46 sq.m. to Guangyuan Tongchuang at an annual rent of RMB2,000,000 for a term of 10 years commencing from 1 September 2017 to 31 August 2027. Its production facilities is therefore located on the same site as our Guangyuan Plant.

Management of Guangyuan Tongchuang

At the time of its establishment, Guangyuan Tongchuang had a total of five directors, of which each of Guangyuan Saftower and Tongsheng Guochuang nominated two directors, which implied a joint control of the board. Mr. Li Zhanwei also took a board seat in Guangyuan Tongchuang. On 10 July 2017, Ms. Luo Xi and Mr. Liu Yongkang, who were then the senior management of our Group, were appointed as the directors of Guangyuan Tongchuang. Ms. Luo Xi was appointed as an executive Director of our Group on 22 May 2019, whereas Mr. Liu Yongkang remains as the senior management of our Group as at the Latest Practicable Date.

Upon completion of the Tongchuang Equity Acquisition, Guangyuan Tongchuang has six directors, of which four directors and two directors were nominated by Guangyuan Saftower and Tongsheng Guochuang, respectively, which implied a control of the board by our Group.

Employees of Guangyuan Tongchuang

When Tongchuang Plant commenced commercial production in September 2017, Guangyuan Tongchuang had a total number of 63 staff, including (i) 50 staff transferred from Guangyuan Saftower; (ii) nine employees and management seconded by Guangyuan Tongchuang's then shareholders; and (iii) four employees directly hired by Guangyuan Tongchuang.

As almost all employees of Guangyuan Saftower were transferred to Guangyuan Tongchuang (50 out of 53, the remaining three staff resigned later), Sichuan Saftower seconded about 19 employees (including three management staff and 16 production workers) per month to Guangyuan Saftower to maintain its operation since September 2017.

Through such staff arrangement, our Group utilised our manpower with requisite skills and expertise and resources (e.g. production lines) to cope with the increase in production needs. The subcontracting arrangement between our Group and Guangyuan Tongchuang also facilitated it to capture more business opportunities such as new customer orders on OEM basis.

The table below sets forth the breakdown of number of employees of Guangyuan Tongchuang as at the indicated dates:

	As at 31 December		As at 15 April	As at 31 December
	2017	**2018**	**2019**	**2019**
Employees transferred from Guangyuan Saftower	46	18	18	18
Employees and management seconded by our Group *(Note)*	4	9	9	9
Employees and management seconded by Tongsheng Guochuang	4	4	4	4
Employees employed by and management of Guangyuan Tongchuang	23	40	41	43
Total	**77**	**71**	**72**	**74**

Note:

Labour costs of employees who were seconded to Guangyuan Tongchuang by our Group and designated as management were borne by our Group and Guangyuan Tongchuang proportionately based on the work allocation and/or estimated time spent on the positions assumed by the relevant employees.

Business of Guangyuan Tongchuang

Guangyuan Tongchuang established Tongchuang Plant which commenced commercial production in September 2017 and is principally engaged in the manufacturing and sale of aluminium wires and cables, on OEM basis, for external customers and our Group. As the sales volume of Tongchuang Plant was not substantial in the first year after its commencement of commercial operation, during this period, Guangyuan Tongchuang also engaged in the trading of aluminium strips with a view to developing business relationship with local aluminium suppliers, and the sourcing of copper rods for Sichuan Saftower who was then the only customer purchasing copper rods from Guangyuan Tongchuang. Our Group was granted a credit period of 60 days by Guangyuan Tongchuang when we purchased copper material from them. As the sales volume of aluminium cables and wires increased significantly in FY2018, Guangyuan Tongchuang ceased the trading of aluminium strips and copper rods in March 2018 and May 2018 respectively. For production facilities and production capacity of Guangyuan Tongchuang, see "Business — Production Facilities" in this prospectus. For the list of major machines and equipment at Tongchuang Plant, see "Business — Production Facilities — Machinery and equipment" in this prospectus.

Transactions between Guangyuan Tongchuang and our Group

Given our substantial interest in Guangyuan Tongchuang, Guangyuan Tongchuang had been our close business associate prior to the completion of the Tongchuang Equity Acquisition. We have been providing Guangyuan Tongchuang's operation with various supports including production know-how and production personnel. In light of our significant investment and substantial ownership in Guangyuan Tongchuang and its proximity to aluminium resources in Guangyuan, before the Tongchuang Equity Acquisition, we took Guangyuan Tongchuang as our manufacturing arm of finished aluminium wires and cables since its establishment. For that reason, during the Track Record Period, Sichuan Saftower delegated, by way of subcontracting, the manufacturing function of aluminium wires and cables with the machinery and equipments contributed by us to Guangyuan Tongchuang given that Guangyuan Tongchuang had been a close business associate with our Group prior to the completion of the Tongchuang Equity Acquisition. To fulfil the production requirement of Guangyuan Tongchuang, our Group also transferred staff to Guangyuan Tongchuang to manage the production activities. The arrangement to allocate production orders to Guangyuan Tongchuang for production in practice was viewed by us as something akin to intra-group production arrangement given our substantial interest in Guangyuan Tongchuang, while we remained responsible for the overall sales management. During FY2017 and FY2018, Guangyuan Tongchuang also assisted Sichuan Saftower in sourcing copper products for further processing of copper wires and cables, and assisted Guangyuan Saftower in sourcing aluminium products for its trading business. Apart from being a supplier, during the Track Record Period, Guangyuan Tongchuang purchased from us (i) raw materials and semi-finished wires for further production and processing into finished aluminium wires and cables; and (ii) copper power cables for its OEM customers who demanded for copper cables in addition to aluminium wires and cables. Our sales to Guangyuan Tongchuang did not contribute significant gross profit to our Group during the Track Record Period. For details, see "Business —

Overlapping Major Customers and Suppliers — Guangyuan Tongchuang" in this prospectus. Our Directors are of the view that the pricing and terms for the transactions between our Group and Guangyuan Tongchuang during the Track Record Period were determined on an arm's length basis, and were comparable to the market price and those of our Group's transactions with other customers/suppliers in respect of the same or similar products, respectively.

During the Track Record Period and up to the Latest Practicable Date, the other shareholders of Guangyuan Tongchuang was Tongsheng Guochuang, an investment platform of Guangyuan Municipal People's Government, which mainly provided financing support to Guangyuan Tongchuang and explored business opportunities to expand Guangyuan Tongchuang's market presence leveraging on its local business network. As Tongsheng Guochuang is an investment platform of Guangyuan Municipal People's Government, and the joint venture formed with Tongsheng Guochuang helped us explored business opportunities to expand Guangyuan Tongchuang's market presence leveraging on the local business network Tongsheng Guochuang. As such, our Directors consider that the establishment of Guangyuan Tongchuang and the subcontracting arrangement between our Group and Guangyuan Tongchuang are commercially justified.

Financial results of Guangyuan Tongchuang for FY2017, FY2018 and up to 15 April 2019

As one or more of the applicable percentage ratios as defined in the GEM Listing Rules in respect of the Tongchuang Equity Acquisition exceed 25%, the Tongchuang Equity Acquisition, if made by us upon Listing, would constitute a major transaction of our Company based on the consolidated financial statements of our Group for FY2018. The pre-acquisition financial information on Guangyuan Tongchuang for FY2017, FY2018 and up to 15 April 2019 is set out in "Pre-acquisition Financial Information of Guangyuan Tongchuang" in this prospectus and Note 37 to Appendix I to this prospectus. Upon completion of the Tongchuang Equity Acquisition, we consolidated the financial results of Guangyuan Tongchuang for the period from 16 April 2019 to 31 December 2019 into the consolidated financial statements of our Group for FY2019.

Customers of Guangyuan Tongchuang

For FY2017, FY2018 and up to 15 April 2019, sales of Guangyuan Tongchuang to our Group represented 58.6%, 50.0% and 55.4% of its total revenue. External customers of Guangyuan Tongchuang mainly include wires and cables manufacturers. For the impact of combining Guangyuan Tongchuang's customers into our Group assuming that the Tongchuang Equity Acquisition was completed at the beginning of FY2017, see "Business — Customers" in this prospectus. Payment terms of major customers of Guangyuan Tongchuang are similar to those of major customers offered by our Group.

Suppliers of Guangyuan Tongchuang

Due to the principal business of Guangyuan Tongchuang, which is the manufacturing and sale of aluminium wires and cables, major suppliers of Guangyuan Tongchuang are engaged in the supply of aluminium materials. For FY2017, FY2018 and up to 15 April 2019, purchase from Zhonglv, which is also one of our Group's major suppliers, accounted for 16.2%, 63.5% and 77.1% of the total purchase of Guangyuan Tongchuang. For the impact of combining Guangyuan Tongchuang's suppliers into our Group assuming that the Tongchuang Equity Acquisition was completed at the beginning of FY2017, see "Business — Suppliers" in this prospectus. Payment terms of major suppliers of Guangyuan Tongchuang are similar to those of major suppliers granted to our Group.

Overlapping customers and suppliers — Guangyuan Tongchuang and our Group

Prior to the Tongchuang Equity Acquisition, certain customers and suppliers of Guangyuan Tongchuang were also customers and suppliers of our Group. Following the completion of the Tongchuang Equity Acquisition, sales and purchases of Guangyuan Tongchuang from 16 April 2019 to 31 December 2019 were consolidated into our Group's sales and purchases, and hence those customers and suppliers of Guangyuan Tongchuang who had business relationship with Guangyuan Tongchuang during the period ended 15 April 2019 and continued to deal with Guangyuan Tongchuang also became our customers and suppliers for FY2019. Therefore, our Directors believe that analysis of overlapping customers and suppliers of our Group for FY2019 is not applicable.

Set out below the respective sales to overlapping customers and purchases from overlapping suppliers for FY2017 and FY2018:

Overlapping customers

	FY2017		FY2018	
	Sales to overlapping customers	**Contribution to respective total sales**	**Sales to overlapping customers**	**Contribution to respective total sales**
	RMB'000	*%*	*RMB'000*	*%*
Our Group	14,306	5.5	77,705	14.1
Guangyuan Tongchuang	11,486	14.7	23,582	12.5

Overlapping suppliers

	FY2017		FY2018	
	Purchases from overlapping suppliers	**Contribution to respective total purchases**	**Purchases from overlapping suppliers**	**Contribution to respective total purchases**
	RMB'000	*%*	*RMB'000*	*%*
Our Group	179,183	74.9	329,424	66.1
Guangyuan Tongchuang	30,420	37.8	160,539	91.0

Reasons and benefits for entering into Tongchuang Equity Acquisition

We consider that the Tongchuang Equity Acquisition have the following advantages to us:

(i) as Guangyuan Tongchuang engages in similar business with that of our Group, there may be occasions of potential conflicts or competition. Therefore, by acquiring additional equity interest in Guangyuan Tongchuang which resulted in it being a non-wholly owned subsidiary of our Group, we will have a higher degree of control over the allocation of resources and business opportunities between us and Guangyuan Tongchuang;

(ii) as Guangyuan Tongchuang has become our non-wholly owned subsidiary, we would retain better control over the production facilities and enhance the management efficiency by increasing our directly managed production capacity, and we can allocate our production resources flexibly between different production plants in response to changing customers' production requirements and market conditions; and

(iii) by consolidating the financial statements of Guangyuan Tongchuang with those of our Group, potential investors are to be furnished with complete financial information of our Group and Guangyuan Tongchuang with whom we have an intimate business and legal relationships, and hence be able to fully assess our Group's overall performance during the Track Record Period.

On the other hand, we do not consider the Tongchuang Equity Acquisition would constitute a significant change of our business for the following reasons:

(i) the business nature of Guangyuan Tongchuang is similar to ours and the Tongchuang Equity Acquisition will not result in change of principal business of our Group;

(ii) as disclosed in "Business — Overlapping Customers and Suppliers" in this prospectus, we have had close business tie with Guangyuan Tongchuang and Guangyuan Tongchuang has been regarded as our production arm since its commencement of operation; and

(iii) we already have a significant degree of control and influence over Guangyuan Tongchuang in terms of production as over 70% of total employees of Guangyuan Tongchuang were originally transferred from our Group in FY2017 and we have deployed 6 supervisory employees to assist the management of Guangyuan Tongchuang as at 15 April 2019, and as disclosed above, we were entitled to appoint two directors and have the same number of board seats with Tongsheng Guochuang prior to the Tongchuang Equity Acquisition. During the Track Record Period, Ms. Luo Xi and Ms. Hu Yi, being the directors of Guangyuan Tongchuang, are also the Director and senior management of our Group, respectively. In addition, Mr. Liu Yongkang, being general manager of Guangyuan Tongchuang, is also the senior management of our Group. The Tongchuang Equity Acquisition will not result in a change of business nature and management control of Guangyuan Tongchuang.

OVERVIEW

Founded in 2004, we are a regional manufacturer and supplier of wires and cables, with integrated production facilities situated in Chengdu and Guangyuan of Sichuan Province. According to the F&S Report, in 2019, (i) we ranked fourth in the wire and cable market in Sichuan Province in terms of revenue with a market share of 0.97%; and (ii) among approximately 18,000 players in the market, we ranked between 150 and 200 in the wire and cable market in China in terms of revenue with a market share of approximately 0.03%.

Products sold by us can be broadly classified into four categories: (i) finished wires and cables; (ii) semi-finished wires; (iii) aluminium products; and (iv) others, which comprise cable accessories. In terms of revenue, wires and cables are our principal products, and their sales accounted for 93.8%, 72.4% and 93.3%, respectively, of our total revenue for FY2017, FY2018 and FY2019. The conductors of our wires and cables are mainly made of copper and aluminium. Our portfolio of finished wires and cables products comprises classic and special products, which consists of over 800 types in aggregates as differentiated by their respective technical specifications, voltage requirements, raw material components and properties in accordance with the requirements of our customers. Apart from finished wires and cables, we also produce semi-finished wires comprising aluminium rods and bare copper wires to maximise our market exposure and enlarge our market share.

With our more than 15 years of accumulated experience in the wire and cable manufacturing industry in the PRC, we have gained customers' confidence in our products through our continuous commitment to product quality, reliability, safety as well as our wide product offering. As a recognition of our success in the industry, our brand was awarded "Chengdu City Well-known Trademark" (成都市著名商標) by Chengdu AIC in December 2013, and we were awarded "Sichuan Famous Brand Product Title" (四川名牌產品稱號) by the Sichuan Provincial People's Government (四川省人民政府) in March 2017. Moreover, we were awarded "CCC Certificates" by China Quality Certification Centre in May 2015. Guangyuan Saftower was awarded "Guangyuan City Outstanding Private Enterprise" (廣元市優秀民營企業) by Guangyuan Municipal Government in January 2019. For details, see the paragraph headed "Awards and Certifications" in this section.

As at the Latest Practicable Date, we had obtained 12 registered trademarks in the PRC and Hong Kong, and 58 registered patents in the PRC which are material to our business and had submitted 13 patent applications in the PRC with respect to the wires and cables product development and technology. Sichuan Saftower was also awarded "High and New Technology Enterprise" (高新技術企業) in December 2016 and November 2019. For details, see the paragraph headed "Research and Development" in this section.

Over the past few years, we have been extending our footprint in Sichuan Province to drive our growth and seize business opportunity. In 2004, we established our first production base, Chengdu Plant. In 2017, our Guangyuan Plant commenced production. According to Frost & Sullivan, Guangyuan is one of the three aluminium producing regions in Sichuan Province. The establishment of Guangyuan Plant allows us to have direct access to aluminium and related materials. In the same year, we formed a strategic partnership with Tongsheng Guochuang, a state-owned investment platform, to set up Tongchuang Plant, as part of our overall strategies to leverage on the abundant aluminium resources in Guangyuan, and also echo local government's initiatives in developing aluminium industry.

We have a diverse customer base. For FY2018 and FY2019, our products were sold to over 500 and 350 customers in the PRC, respectively, including power companies, manufacturing enterprises, construction and renovation companies, trading companies as well as walk-in customers. We are actively seeking strategic cooperation with local state-owned players such as those in the power system construction industry in Sichuan Province, which we believe could extend our business presence and generate potential sales opportunities. We are also keen to develop business relationship with listed companies to enlarge our customer base and generate higher profits from selling premium products to them, and we believe that our status of being an approved supplier of listed companies will enhance the confidence in and recognition about our product quality and production capability among our customers. See the paragraph headed "Sales and Marketing — Strategic cooperation with local state-owned players in the power system construction industry and listed companies" in this section for details.

Apart from wires and cables, in view of our long history of business presence in wire and cable manufacturing industry and our solid relationship with upstream aluminium suppliers in the PRC, we began the trading of aluminium products through Guangyuan Saftower since November 2017, after our Guangyuan Plant commenced operation. Aluminium products traded by us comprise aluminium strips and ingots which we sell to our customers without further processing.

Driven by the commencement of production of Guangyuan Plant and our focus on developing strategic customers, we achieved rapid growth in our revenue, which increased from RMB262.3 million for FY2017 to RMB552.7 million for FY2018, representing a year-to-year increase of 110.7%. Compared to FY2018, our revenue for FY2019 increased by RMB132.9 million, representing a year-to-year increase of 24.0%. Our gross profit increased from RMB14.4 million for FY2017 to RMB38.4 million for FY2018, representing a year-to-year increase of 166.7%. Compared to FY2018, our gross profit for FY2019 increased by RMB15.5 million, representing a year-to-year increase of 40.5%. See "Financial Information of our Group — Description of Selected Items in Statements of Comprehensive Income — Gross profit and gross profit margin" in this prospectus for details.

COMPETITIVE STRENGTHS

Our Directors believe that our Group possesses the following competitive strengths:

We are a reputable and reliable supplier of wires and cables with proven track record

Based in Sichuan Province, we have more than 15 years of accumulated experience in the wire and cable manufacturing industry in the PRC. Throughout the years, we have been striving to develop our "Saftower Brand" (蜀塔牌) as synonymous to quality, reliability and safety. Our brand ® was awarded "Chengdu City Well-known Trademark" (成都市著名商標) and our "Saftower Brand" wires and cables were also awarded "Sichuan Famous Brand Product Title" (四川名牌產品稱號) which recognise the reputation, competitiveness and branding of our Group in Sichuan Province. For details, see the paragraph headed "Awards and Certifications" in this section.

To promote our brand, we have been continuously improving our product quality, product mix and product development, with a view to offering best value for money products to our customers. As a testament to our commitment to a quality management system and quality products, we have obtained the ISO9001, ISO14001 and OHSAS18001 certifications issued by the China Quality Certification Centre (中國質量認證中心) in recognition of our quality management, environmental management and occupational health and safety.

We had over 500 and 350 customers for FY2018 and for FY2019, respectively. Among these customers, we have been developing business relationship with state-owned or state-invested companies which have good credit profile and established business network. For FY2017, FY2018 and FY2019, our sales to state-owned and state-invested companies accounted for 43.8%, 34.5% and 24.4% respectively, of our total revenue. In addition, we have been actively seeking strategic cooperation with local state-owned players such as those in the power system construction industry in Sichuan Province, which we believe could extend our business presence and generate potential sales opportunities. For FY2018, Litai Energy, a subsidiary of Customer A, being a provincial state-owned power company and is principally engaged in construction of power infrastructure in Sichuan, became one of our major customers. We initially started relationship with companies in the power system construction industry since 2008. To enhance our cooperation with local state-owned players in the power system construction industry, we entered into a five-year framework cooperation agreement on materials supply with Litai Energy in October 2018, pursuant to which Litai Energy agreed to promote our products among its fellow subsidiaries within Sichuan Province. During FY2017, FY2018 and FY2019, we had business relationship with 12 power system construction companies under Customer A, and revenue contributed by them in aggregate accounted for 2.3%, 7.3% and 8.2%, respectively, of our total revenue for FY2017, FY2018 and FY2019.

In addition, we are keen to develop business relationship with listed companies to enlarge our customer base and generate higher profits from selling premium products to them, and we believe that our status of being an approved supplier of listed companies will enhance the confidence in and recognition about our product quality and production capability among our customers. For example, we sold products to Xiangyu Chongqing Co., Ltd.* (象嶼重慶有限責任公司), a wholly-owned subsidiary of a company listed on Shanghai Stock Exchange, and Customer B, a listed company on the Main Board of the Stock Exchange which is engaged in manufacturing wires and cables and headquartered in Jiangsu Province. In September 2018, we offered special wires and cables to Changhong, a customer listed on the Shanghai Stock Exchange which is engaged in electrical appliance and construction businesses.

We believe that our long history presence in the wire and cable industry in Sichuan Province also allows us to establish a solid supply chain network. During the Track Record Period, we sourced major raw materials from over 100 domestic suppliers, a majority of which were located in Sichuan Province or nearby regions such as Henan and Chongqing Municipalities. For our major suppliers during FY2017, FY2018 and FY2019, our relationship with them spanned from one year to 11 years.

Our accumulated experience in the wire and cable industry in the PRC and in particular our established position in Sichuan Province allow us to gain recognition from customers and suppliers and this can be translated into our competitive edge over our peers for capturing future business opportunities and enlarging market share.

We offer a wide array of high quality, reliable and safe wires and cables

During FY2017, FY2018 and FY2019, we had offered finished wires and cables comprising classic and special products, which consisted of over 800 types in aggregate as differentiated by their respective technical specifications, voltage requirements, raw material components, and properties in accordance with the requirements of our customers, such as cables with fire-resistant, waterproofing, flame retardant, environmentally friendly and energy saving features. Our portfolio of classic and special wires and cables comprised both copper based and aluminium based products, which enables us to satisfy demand of different customers at different price range and technical requirements. As copper based products and aluminium based products have different specifications, they are not interchangeable in terms of specific applications. We believe that our production capability in producing and supplying both copper and aluminium based products allows us to swiftly respond to any price volatility of copper and aluminium and diversify risk should the demand for any such product change significantly due to market changes. Our wires and cables are widely used in the power infrastructure and construction projects across the PRC, particularly Sichuan Province and Southwestern Region, such as water treatment plant, power cable upgrade projects in rural areas in Sichuan Province and railway projects in Chengdu.

Further, we place emphasis on product quality. We have stringent control over the selection of raw materials and our production process to ensure that the wires and cables manufactured by us are of consistently high quality. Our quality management system in respect of wires and cables has been accredited with ISO9001. For details, see the paragraph headed "Quality Control" in this section. We have obtained a number of accreditations and certifications in respect of our products or production including the AAA Certification issued by the Sichuan Provincial Quality and Technical Supervision Administration for the period from 2013 to 2014, the "CCC Certificates" and other certifications issued by the China Quality Certification Centre in 2015 and 2018, respectively, the "Safety Production Standardisation Certificate — Level 3 Enterprise (Industry and Trade)" issued by the Chengdu Emergency Administration in 2019 and the Supplier Assessment Certificate issued by Alibaba.com and assessed by TÜV Rheinland in 2013. These accreditations and certifications signify our commitment to producing high quality, reliable and safe products, as well as our ability in fulfilling the stringent performance requirements imposed by these bodies and/or authorities. We believe that our dedication to product quality and reliability enables us to remain competitive in the wire and cable manufacturing industry.

We are strategically located in proximity to upstream aluminium resources such that we are well placed to capture business opportunities

According to the F&S Report, in 2019, we were the fourth largest wires and cables supplier in Sichuan Province by revenue and were the leading manufacturer of aluminium wires and cables in Guangyuan. According to Frost & Sullivan, the very upstream of the aluminium industry is bauxite (鋁土礦), which is the raw materials to produce aluminium oxide. Aluminium oxide is the material used to produce primary aluminium, which is then further processed into different aluminium products. Guangyuan is one of the three aluminium producing regions in Sichuan Province, and has proved reserve of bauxite (鋁土礦) of 6.0 million tonnes in 2017 which represented 15% of the total proved reserve of bauxite in Sichuan Province. According to Frost & Sullivan, the value chain of aluminium industry is relatively long that involves multiple stages. To ensure continuous operation, players in the industry require sustained upstream supplies and resources, as well as stable downstream sales channels. Accordingly, it is important for companies in aluminium industry to establish a stable cooperative relationship with both upstream and downstream players.

Our Guangyuan Plant is located in Guangyuan, and its strategic location provides us with an efficient access to the upstream resources of bauxite (鋁土礦) and business opportunities. According to Frost & Sullivan, Guangyuan is one of the important aluminium industry bases in Sichuan Province and has now become a major component of Sichuan's aluminium product market. According to the Guangyuan City government in 2018, Guangyuan aims to cultivate the local aluminium industry with a total output value exceeding RMB20 billion by 2020. In addition, aluminium wires and cables have limited transportation radius. Generally, the economic transportation radius of aluminium products is within 1,000 kilometres. Local players that have access to upstream resources would benefit in terms of transportation costs. We believe that the proximity of our production bases to upstream resources will enable us to capture more business opportunities and develop stable cooperative relationship with both upstream and downstream players in the aluminium industry.

We have integrated production facilities

Our business is supported by our integrated production facilities. For FY2017, FY2018 and FY2019, we carried out our production activities mainly at Chengdu Plant and Guangyuan Plant, our two major production plants in Sichuan Province, occupying a site area of 18,061.8 sq.m. and 65,027.9 sq.m. (including the site area occupied by Tongchuang Plant), respectively. We have the capability of producing both copper and aluminium products and our production facilities are flexibly set up so as to allow them to promptly switch to the production of products with different specifications. Our production capability is further enhanced upon the completion of the Tongchuang Equity Acquisition on 15 April 2019.

The average approximate utilisation rate of our production lines at (i) Chengdu Plant on an annualised basis was 103.3%, 86.9% and 97.3%; (ii) Guangyuan Plant on an annualised basis was 59.1%, 106.2% and 110.3%; and (iii) Tongchuang Plant on an annualised basis was 19.8%, 88.8% and 102.1%, respectively, for FY2017, FY2018 and FY2019. We further achieved upward vertical integration through the establishment of Shuneng Plant in April 2019 which is designed to produce unprocessed aluminium rods to support our in-house production activities in Tongchuang Plant. As at the Latest Practicable Date, Shuneng Plant was at the trial production stage.

We are actively involved in product development

In response to the rapid technological advancement in the wire and cable industry and the demand for stable and reliable power supply in the PRC, we are actively involved in developing new products and improving our product quality. In this connection, in August 2015, we entered into a two-year agreement on the research project of High-strength Rare Earth Alloy Cable* (高強稀土鋁合金電纜) with the Chengdu University of Technology. The project aimed at developing new technique to enhance the properties of conductor and developing new materials of insulator for power cables. Pursuant to the above agreement, the ownership and associated intellectual property rights of the research outcome would solely belong to us. We also focus on developing value-added wires and cables. For example, to enhance the flexibility and conductivity of wires, we tested the use of Aluminium 8030 Alloy to replace copper as conductor.

In April 2018, we entered into a collaboration agreement with Southwest United Equity Exchange* (西南聯合交易所) for studying the application of aluminium alloy power cables in the new energy sector. In February 2019, the aluminium alloy power cables under such collaboration passed the type test conducted by Quality Inspection and Test Centre for Equipment of Electric Power* (電力工業電氣設備品質檢驗測試中心). We offered such power cables to a few customers in FY2019, most of which have been principally engaging in power transmission and transformation or construction business. Compared to the traditional power cables that are made with copper or aluminium base, aluminium alloy power cables are value-added products and can enrich our product mix.

As at 31 December 2019, we had a task force of 15 products staff members from different departments who were responsible for collaborating with external institution(s) to develop new products and enhance the quality and performance of our existing products. Six employees hold either a college degree or diploma or graduated from vocational high school and have accumulated experience between five to 24 years in the wire and cable industry. Our research and development expenses amounted to RMB850,000, RMB803,000 and RMB1,381,000, respectively, for FY2017, FY2018 and FY2019. For details, see the paragraph headed "Research and Development" in this section. As at the Latest Practicable Date, we had obtained 58 registered patents in relation to product development and technology that are material to our business in the PRC and had submitted 13 patent applications to the State Intellectual Property Office of the PRC (中華人民共和國國家知識產權局).

As a recognition of our efforts in product development, in June 2014, we have received the Chengdu Enterprise Technology Centre Certification* (成都市企業技術中心) and in December 2016 and November 2019, Sichuan Saftower obtained the High and New Technology Enterprise Certificate (高新技術企業證書) issued by the Science and Technology Department of Sichuan Province (四川省科學技術廳), the Finance Department of Sichuan Province (四川省財政廳), the Sichuan State Administration of Taxation (四川省國家稅務局) and the Sichuan Province Local Taxation Bureau (四川省地方稅務局).

We have a stable, experienced and dedicated management team with extensive industry experience

Our senior management team has in-depth and extensive experience in the production and supply of wires and cables in the PRC. Under the leadership of our senior management team, our business has experienced an impressive growth. Mr. Dang Fei, our co-founder of Sichuan Saftower and our Controlling Shareholder, Chairman of our Board and executive Director, possesses over 15 years of accumulated experience in this sector and plays a leading role in formulating our business strategies and driving our overall growth. Mr. Wang, the co-founder of Sichuan Saftower and our executive Director, has over 15 years of experience in the manufacturing, processing and sale of wires and cables and is responsible for overseeing the overall strategic planning, business development and daily operation of our Group. Under the leadership of Mr. Dang Fei and Mr. Wang and driven by their vision and ability, we have become a reputable supplier of wires and cables in Southwestern Region, particularly in Sichuan Province, offering a wide range of products to customers across various industry segments in our target market.

In addition to Mr. Dang Fei and Mr. Wang, we have a committed and experienced management team who has been with us for an average of 7.5 years and has more than 10 years of experience in our industry. Over the years, our management team has accumulated in-depth knowledge of the wire and cable industry and played a vital role in building up a strong relationship with key market participants. With the experience and technical knowledge of our management team, we believe that we will continue to be well-positioned in competing for and securing purchase orders.

BUSINESS STRATEGIES

According to the F&S Report, (i) the sales revenue of China's copper wire and cable and aluminium wire and cable market is expected to grow at a CAGR of 2.2% and 4.5%, respectively, from 2019 to 2024, reaching RMB1,732.2 billion and RMB233.9 billion in 2023, respectively; and (ii) the sales revenue of Sichuan Province's copper wires and cables and aluminium wires and cables is expected to grow at a CAGR of 2.1% and 6.9%, respectively, for the period from 2019 to 2024, both of which are higher than that of the entire PRC market. Benefiting from the Western Development Strategy (《西部大開發戰略》), Sichuan Province has long been acting an important role in the economic development of Southwest China. The development of multiple industries such as power generation, infrastructure construction, communication and petrochemical has created a strong demand for wire and cable products.

Our key business objectives are to continue to grow our business to become the leading wire and cable supplier in Sichuan Province and a major player in Southwestern Region of the PRC, and further strengthen our position in the wire and cable and aluminium products industries in the PRC by implementing the following strategies:

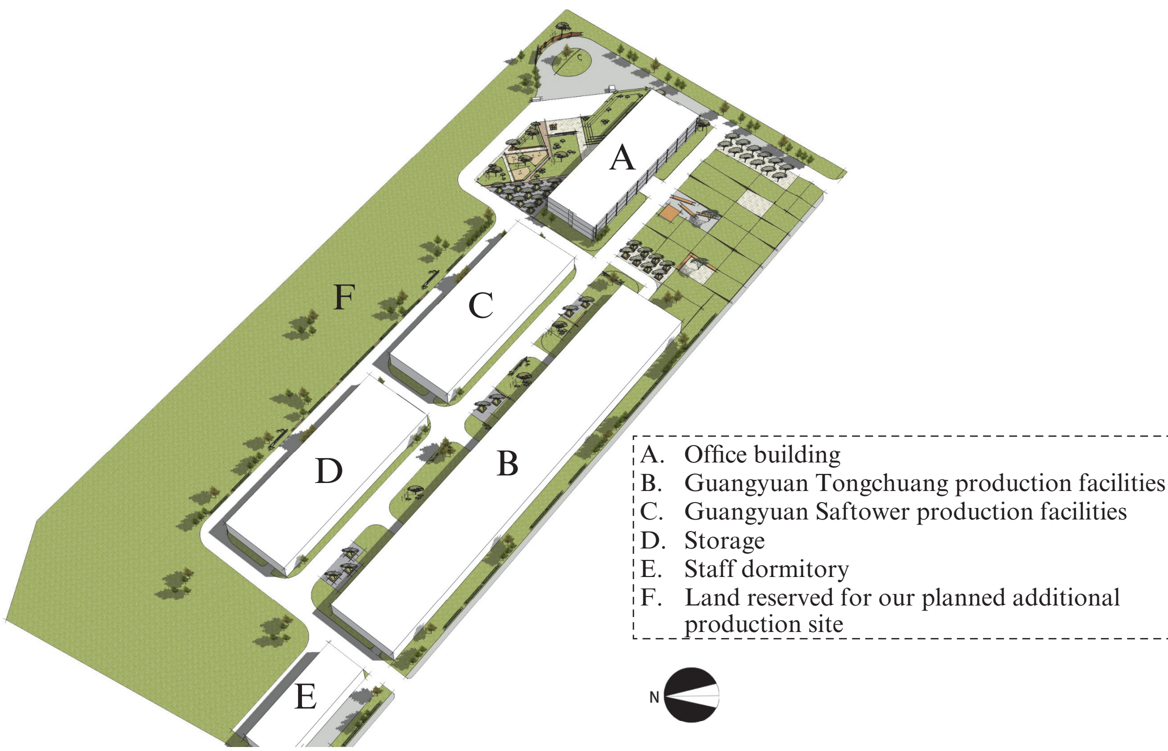
Expand our existing production facilities and production plant

According to Frost & Sullivan, Guangyuan is one of the important aluminium industry bases in Sichuan Province and currently a major component of Sichuan's aluminium product market and according to the Guangyuan City government in 2018, Guangyuan aims to cultivate the local aluminium industry with a total output value exceeding RMB20 billion by 2020. In view of the expected higher growth of the aluminium cables and wires market and the initiatives of the Guangyuan City government, we plan to leverage on the strategic location of our Guangyuan Plant and expand our existing production facilities for finished aluminium cables and wires to further enhance our integrated production capabilities.

Our proposed additional production site is expected to occupy an area of approximately 7,000 sq.m.

For illustrative purpose only, the following drawing visualises the current usage of our land on which Guangyuan Plant is situated and the area we plan to construct additional production site which will be located at the reserved land:

Guangyuan Plant (including Tongchuang Plant)



Note: The above drawing provides a simplified visual illustration of our existing production facilities, and hence is for reference only. It may not reflect the actual scale of the land and buildings.

Currently, our Guangyuan Plant mainly produces semi-finished wires, whereas our Tongchuang Plant mainly produces finished aluminium wires and cables for OEM customers. For FY2017, FY2018 and FY2019, our Guangyuan Plant had three key production lines with annual production capacity of approximately 13,500 tonnes in total, with an average approximate annualised utilisation rate of 59.1%, 106.2% and 110.3%, respectively. In respect of Tongchuang Plant, the average approximate annualised utilisation rate was 19.8%, 88.8% and 102.1%, respectively, for FY2017, FY2018 and FY2019. For details, see the paragraph headed "Production Facilities — Production capacity" in this section.

Our Directors believe that, following the implementation of our expansion plan, apart from semi-finished wires, our Integrated Guangyuan Production Facilities will be able to manufacture increased volume of finished aluminium wires and cables to capture the expected increase in demand of such products as well as to support our sales of wires and cables to OEM customers, which we expect will increase our revenue source and profitability.

The table below sets forth the estimated average annual production capacity and estimated completion date of the construction of the three new addition production lines in Guangyuan Plant:

Major products	Estimated average annual production capacity	Estimated completion date of the relevant production line
Steel reinforced aluminium bare cables (鋁製鋼芯鋁絞綫)	3,900 tonnes	Fourth quarter of 2020
Aluminium overhead power cables (鋁製架空電纜)	4,500 km	Fourth quarter of 2020
Classic aluminium medium and low voltage cables (鋁製中低壓電力電纜)	4,500 km	Fourth quarter of 2020

We expect that our expansion plan with respect to our production facilities will enable us to capture additional demand from the market and will bring in additional revenue for our Group in the future. For illustrative purposes only, we estimate that the payback period is approximately two years after the commencement of the operation of the three new production lines. The payback period refers to the number of years required to recover the initial set up costs to be incurred in relation to the construction of our additional production site, purchase of new machines and related upfront expenses, calculated based on our estimated profit contribution from these new production lines. For further details, see "Future Plans and Use of Proceeds — Use of Proceeds — Expanding our existing production facilities and production plant" in this prospectus.

For further details of the relevant risks and uncertainties, see "Risk Factors — Risks Relating to Our Business — We may not be able to successfully implement our business strategies and deliver the expected results" in this prospectus.

We plan to utilise HK$15.4 million or 55.0% of the net proceeds from the Share Offer to implement this expansion plan. For further details of our expansion plans, see "Future Plans and Use of Proceeds — Use of Proceeds — Expanding our existing production facilities and production plant" in this prospectus.

Repay part of our existing loan to improve our capital base

We have been financing our operation through, among others, income generated from operations, internal resources and debt financings. In particular, as at 31 December 2019, our borrowings amounted to RMB99.2 million of which RMB95.5 million was repayable within one year and our gearing ratio was 71.5%. The effective interest rate of our Group's fixed rate borrowings as at 31 December 2019 was in the range of 3.97% to 15.0%. For details, see "Financial Information of our Group — Indebtedness" and Note 40 to the Accountants' Report set out in Appendix I to this prospectus. We plan to apply HK$7.0 million or 25.0% of the net proceeds from the Share Offer to repay part of our existing loan which bears the highest interest rate per annum, with a view to reduce our gearing ratio and interest expenses. As at the Latest Practicable Date, we had a borrowing of RMB7.8 million from a financial institution Guangyuan Lizhou Small Scale Lending Co., Ltd* (廣元市利州金坤小額貸款有限公司) with an interest rate of 15% per annum. The maturity date of the loan is August 2021.

We expect that upon repayment of the above loan, we would be able to save interest expenses of approximately RMB1.2 million per annum and our pro forma gearing ratio based on 31 December 2019 is expected to be reduced to approximately 65.4%. Our Directors believe that the planned repayment of the relatively high interest rate borrowing would help improve our financial position and profitability for upcoming financial years and capital base accordingly.

Fund the upfront costs for the commercial production of the Shuneng Plant to enhance the vertical expansion of our production capability

Guangyuan Shuneng was established in the PRC on 24 January 2018 as a limited liability company, with a registered capital of RMB8 million as at the date of its establishment. At its establishment, it was owned as to 60% by Guangyuan Saftower and 40% by Tongsheng Guochuang. On 18 November 2019, upon the approval of Guangyuan AMR, Guangyuan Shuneng completed a 40% capital reduction of the registered capital payable by Tongsheng Guochuang. As a result, Tongsheng Guochuang is no longer a shareholder of Guangyuan Shuneng and Guangyuan Shuneng became our indirect wholly owned subsidiary. For details, see "History, Development and Reorganisation — Corporate Development — Guangyuan Shuneng" in this prospectus. Guangyuan Shuneng established Shuneng Plant in April 2019 with an approximate gross floor area of 1,268.5 sq.m.. As at the Latest Practicable Date, our Shuneng Plant was at the trial production stage and was designed mainly for producing unprocessed rods, which would allow our Group to achieve the vertical expansion of our production capability. We expect that our Shuneng Plant will commence commercial production in or around the third quarter of 2020. In order to support Shuneng Plant's development and in view of Guangyuan Shuneng became the indirect wholly owned subsidiary of our Company upon the completion of the capital reduction, we plan to fund the upfront costs, mainly including costs for raw materials in preparation for the commencement of commercial production of Shuneng Plant by way of capital injection to Guangyuan Shuneng. We plan to apply HK$2.8 million or 10.0% of net proceeds from the Share Offer to fund the proposed capital injection to Guangyuan Shuneng which will in turn be utilised to fund the upfront costs for its commercial production such as purchase of raw materials.

Increase sales and marketing activities to promote our products and corporate profile

We will continue our marketing efforts in promoting our "Saftower Brand" (蜀塔牌) and reputation in the PRC. We will actively explore and participate in major exhibitions and trade fairs in large cities in the PRC, such as Shanghai or Guangzhou, and other exhibitions in order to reach out potential customers, promote our existing and new products and enhance our brand awareness. We also plan to promote our brand and products through social media and advertisement in printed media that are targeting industrial players. In addition to the framework cooperation with Litai Energy, we are also looking for opportunities to establish strategic cooperation with power system construction companies in other regions in the PRC, mainly the Southwestern Region of the PRC. Further, during the Track Record Period, Guangyuan Tongchuang has established stable customer relationship with reputable wire and cable manufacturers including Customer C and Customer B (being our first and sixth largest customers for FY2019). However, due to the limitation of our existing production capacity, we faced difficulty in accommodating any additional orders from them. We may lose business opportunities by failing to satisfy our customers' order in a timely manner. For example, Customer C, our largest customer in FY2019, placed an order with us during FY2019 for the supply of steel reinforced aluminium bare cables. As we were not able to utilise spare production capacity at the material time to satisfy the order from Customer C in full, Customer C eventually withdrew part of the ordered quantity with us and engaged another manufacturer to produce or supply the remaining order. The volume of the order withdrawn amounted to 1,100 tonnes, with contract value of RMB15.7 million. We believe that our current production utilisation rate, which is relatively high, will reduce the willingness of potential or other existing customers to place new orders or increase (as the case may be) the size of the orders placed with us, thereby limiting our growth opportunity. We expect that following our expansion plan as described above, we would have additional capacity to take up new orders, and therefore, we plan to further extend our presence in OEM business for customers from the Eastern Region of the PRC who sell products to Sichuan Province and/or to other area in the Southwestern Region.

To support the planned strengthening of our sales and marketing capability, we will study into the market potential of target provinces, identify potential customers, and explore possible cooperation opportunities with local enterprises for expanding our geographic reach within the PRC. We will also work with other institutions to further strengthen our research and development with a view to developing new variety of products to meet our customers' demands. We plan to fund these marketing and research and development initiatives by our internal resources.

Enhance corporate management efficiency

As our business continues to grow, we intend to strengthen our management efficiency and upgrade our internal corporate management system by implementing an enterprise resource planning ("**ERP**") system for the purpose of improving our financial reporting, work flow and cost control using our internal resources. The ERP system which we intend to implement would integrate and standardise our key operational flow and enhance overall corporate management and operational efficiency. We plan to fund these activities by our internal resources.

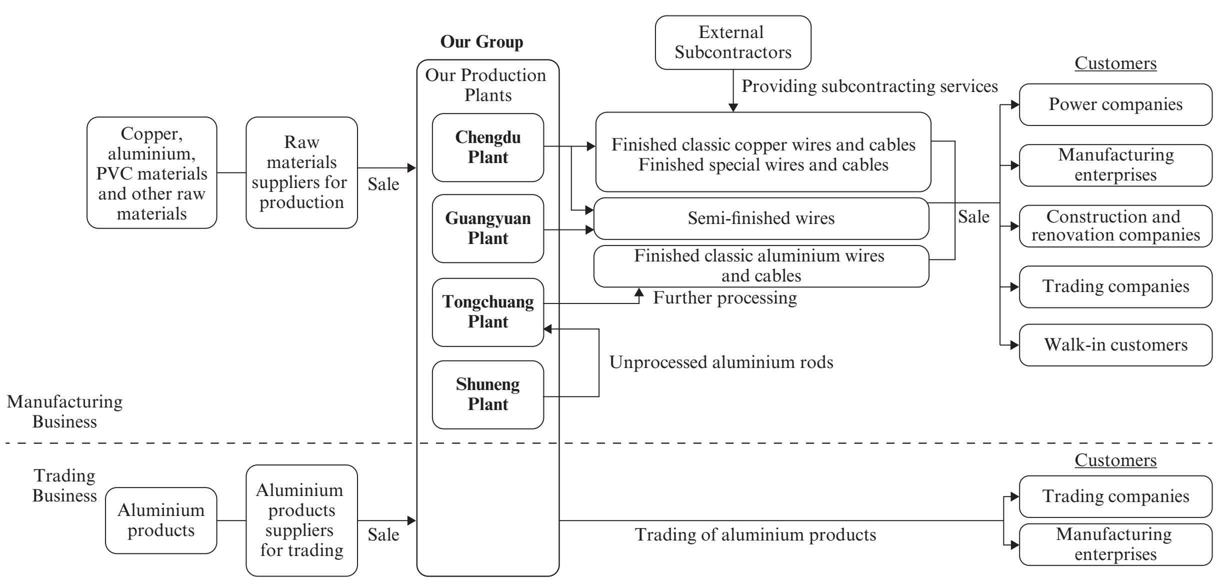
BUSINESS MODEL

We derive revenue mainly from the manufacturing and sale of finished wires and cables as well as semi-finished wires and, to a lesser extent, from the trading of aluminium products and sale of cable accessories. During the Track Record Period, we sold a large proportion of finished wires and cables under our own brand name, and, when requested, we also undertook the production and sale of aluminium cables on OEM basis. The orders of our production on OEM basis were subcontracted to Guangyuan Tongchuang before Tongchuang Equity Acquisition and the OEM orders had been undertaken by Tongchuang Plant after Tongchuang Equity Acquisition.

In terms of revenue, wires and cables are mainly sold to power companies, manufacturing enterprises, construction and renovation companies, and trading companies. Aluminium products are sold to traders for onward sale or to manufacturing enterprises for further processing or production of end-products.

During the Track Record Period, we subcontracted the production of certain wires and cables by engaging other external subcontractors, including Guangyuan Tongchuang who possessed the required skills and capacity to undertake the work. For details, see the paragraph headed "Subcontracting Arrangements" in this section.

Set forth below is a simplified flowchart of our business model during the Track Record Period and up to the Latest Practicable Date:



PRINCIPAL PRODUCTS

Wires and cables were our principal products for FY2017, FY2018 and FY2019, accounting for 93.8%, 72.4% and 93.3%, respectively, of our total revenue for FY2017, FY2018 and FY2019. Our principal products are mainly applied in industrial sectors such as power transmission, construction and renovation and manufacturing in the PRC.

The table below summarises our product portfolio with examples:

	Copper	Aluminium
Finished wires and cables		
— Classic	— Copper power cables — Copper wires for electrical equipment	— Steel reinforced aluminium bare cables — Aluminium overhead power cables — Aluminium medium and low voltage power cables — Aluminium wires for electrical equipment
— Special	— Special copper power cables — Special copper wires for electrical equipment	— Special aluminium medium and low voltage power cables — Special aluminium wires for electrical equipment
Semi-finished wires	Bare copper wires	Aluminium rods
Aluminium products	N/A	— Aluminium strips — Aluminium ingots
Others	Cable accessories	Cable accessories

The following table sets forth the breakdown of our revenue by products based on their key component of raw materials for the indicated periods:

	FY2017		FY2018		FY2019	
	Revenue	**% to total revenue**	**Revenue**	**% to total revenue**	**Revenue**	**% to total revenue**
	RMB'000		*RMB'000*		*RMB'000*	
Copper	83,938	32.0	143,754	26.0	152,148	22.2
Aluminium	178,357	68.0	408,902	74.0	533,382	77.8
Total	**262,295**	**100.0**	**552,656**	**100.0**	**685,530**	**100.0**

The following table sets forth the breakdown of our revenue and gross profit by product segment for the indicated periods below:

	FY2017				FY2018				FY2019			
	Revenue	% to total revenue	Gross profit	Gross profit margin	Revenue	% to total revenue	Gross profit	Gross profit margin	Revenue	% to total revenue	Gross profit	Gross profit margin
	RMB'000		*RMB'000*		*RMB'000*		*RMB'000*		*RMB'000*		*RMB'000*	
Finished wires and cables												
— Classic products	178,373	68.0	15,059	8.4	180,625	32.7	17,346	9.6	320,430	46.7	31,365	9.8
— Special products	—	—	—	—	10,323	1.9	7,309	70.8	45,580	6.7	12,168	26.7
Sub-total	**178,373**	**68.0**	**15,059**	**8.4**	**190,948**	**34.6**	**24,655**	**12.9**	**366,010**	**53.4**	**43,533**	**11.9**
Semi-finished wires	67,788	25.8	(663)	N/A	208,467	37.8	6,541	3.1	273,523	39.9	9,035	3.3
Aluminium products	16,134	6.2	—	—	138,591	25.0	4,313	3.1	45,335	6.6	1,170	2.6
Others — cable accessories	—	—	—	—	14,650	2.6	2,847	19.4	662	0.1	136	20.5
Total/overall	**262,295**	**100.0**	**14,396**	**5.5**	**552,656**	**100.0**	**38,356**	**6.9**	**685,530**	**100.0**	**53,874**	**7.9**

For details of the sales volume, average selling price and total sales of our products under each segment, see "Financial Information of our Group — Revenue — Revenue and average selling price by product type" in this prospectus.

Finished wires and cables

Our finished wires and cables are broadly divided into two types: (i) classic and (ii) special. Finished wires and cables refer to those products that have undergone all necessary processing procedures and hence possess the required features for direct application and usage such as power transmission and electricity distribution. We have developed over 800 types of classic and special wires and cables differentiated by their respective technical specifications, voltage requirements, raw material components and properties in accordance with the requirements of our customers. Our classic wires and cables are finished products that comply with general standard requirements in the industry. Our special wires and cables are differentiated from classic wires and cables in terms of application, usage, performance, structure and technical requirement. Distinguished from our classic wires and cables, our special wires and cables usually possess value-added features such as environmentally friendly, high fire resistance and/or energy saving features and hence they are normally applied in specific environments such as environment that requires higher energy efficiency or better fire resistance. Due to their special features, special cables usually demand higher technical contents and production requirements and service capabilities. We produce special wires and cables for customer's designated purpose, such as for the power system of the set-up of a new factory. As a result, we generally charge higher price for special wires and cables and generate a higher profit margin compared to classic products.

The conductor of our wires and cables are made of copper or aluminium. We consider that our capability of producing both copper and aluminium wires and cables allows us to swiftly respond to any price volatility of copper and aluminium and diversify risk should the demand for any such product change significantly due to market changes. In general, due to higher price level, copper wires and cables command higher gross margins as we are able to charge higher value added premium. Average selling price and gross profit margin of similar type of products varied significantly in the wires and cables market. Our Directors believe (which Frost & Sullivan also concurred) that the following are key factors that affect the pricing of a typical product per unit with same key component of the same conductor, namely copper or aluminium, (i) number of core conductor, multiple or single, multiple core conductor is of higher pricing than single core conductor; (ii) the size of the cross section area of the product, determined by the radius of the core conductor, the longer the radius, the higher pricing; (iii) the voltage requirement for the product, the higher voltage requirement, the higher pricing; (iv) customer requirement on product specification and application also affect the pricing, for example, special wires and cables are usually of higher pricing than classic wires and cables; (v) customer service also affect the pricing of the same product, such as requirement on after-sale services, logistics services and credit terms will usually reflect a higher pricing; (vi) the size of sales volume for each sales order, the higher the sales volume per transaction, the greater the bulk discount to the selling price, or vice versa; and (vii) the relationship with the customers, of which customers with longer years of business relationship with us and customers that are expected to maintain the business relationship with us or place more sales orders to us in the future are usually offered a lower pricing.

The following table sets forth the breakdown of our revenue from finished wires and cables by types for the indicated periods:

	FY2017				FY2018				FY2019			
	Revenue	% to total revenue under this segment	Gross profit	Gross profit margin	Revenue	% to total revenue under this segment	Gross profit	Gross profit margin	Revenue	% to total revenue under this segment	Gross profit	Gross profit margin
	RMB'000		*RMB'000*	*%*	*RMB'000*		*RMB'000*	*%*	*RMB'000*		*RMB'000*	*%*
Classic												
Copper wires and cables	83,927	47.1	13,471	16.1	99,526	52.1	16,550	16.6	76,747	21.0	12,620	16.4
Aluminium wires and cables	94,446	52.9	1,588	1.7	81,099	42.5	796	1.0	243,683	66.6	18,745	7.7
Subtotal	178,373	100.0	15,059	8.4	180,625	94.6	17,346	9.6	320,430	87.6	31,365	9.8
Special												
Special copper wires and cables	—	—	—	—	3,302	1.7	1,670	50.6	24,250	6.6	6,269	25.9
Special aluminium wires and cables	—	—	—	—	7,021	3.7	5,639	80.3	21,330	5.8	5,899	27.7
Subtotal	—	—	—	—	10,323	5.4	7,309	70.8	45,580	12.4	12,168	26.7
Total	**178,373**	**100.0**	**15,059**	**8.4**	**190,948**	**100.0**	**24,655**	**12.9**	**366,010**	**100.0**	**43,533**	**11.9**

During the Track Record Period, except for the production of certain aluminium wires and cables which were undertaken by (i) Guangyuan Tongchuang, our joint venture for the period from 14 July 2017 (being the date of its establishment) up to 15 April 2019 when it became our non-wholly owned subsidiary; and (ii) our other subcontractors, we manufactured all wires and cables with our in-house production facilities.

Our sales of classic aluminium wires and cables increased significantly by RMB162.6 million or 2.0 times, from RMB81.1 million for FY2018 to RMB243.7 million for FY2019. The increase was mainly attributable to the increase in our sales of steel reinforced aluminium bare cables and aluminium medium and low voltage power cables by RMB155.0 million and RMB12.2 million respectively, partially offset by the decrease in our sales of aluminium overhead power cables and aluminium wires for electrical equipment by RMB2.5 million and RMB2.1 million, respectively. Such increase for the FY2019 was mainly benefited from the Tongchuang Equity Acquisition in April 2019 as Guangyuan Tongchuang contributed revenue of RMB136.6 million (FY2018: nil) derived from classic aluminium wires and cables. For details, see "Financial Information of our Group — Revenue — Revenue and average selling price by product type" in this prospectus. The higher gross profit margin under this segment for FY2019 as compared to the previous periods was mainly contributed by the consolidation of Tongchuang Plant after the Tongchung Equity Acquisition, thereby saving our subcontracting cost.

Special wires and cables were new products we rolled out in FY2018 and we generated gross profit of RMB7.3 million and RMB12.2 million for FY2018 and FY2019, with corresponding gross profit margin of 70.8% and 26.7%, respectively. The high gross profit margin of such product segment as compared to classic wires and cables was mainly due to the use of new processing techniques and the use of raw materials with higher requirements. The gross profit margin of special wires and cables decreased during FY2019 which was mainly because the orders we received during FY2018 required higher technical specifications for their applications in Changhong's factory renovation and construction, as a result of which, we were able to set a higher mark-up for the products sold to the relevant customer.

Classic wires and cables

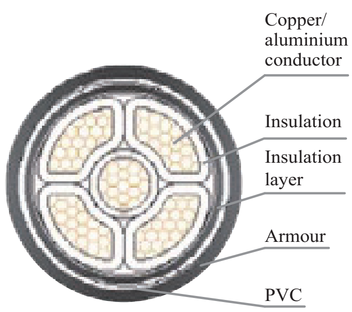
Our classic finished wires and cables are made of copper and aluminium materials. Based on their applications and functions, our classic finished wires and cables are sub-divided into (i) power cables; and (ii) wires for electrical equipment.

(i) Power cables (電力電纜) (above 1kV)

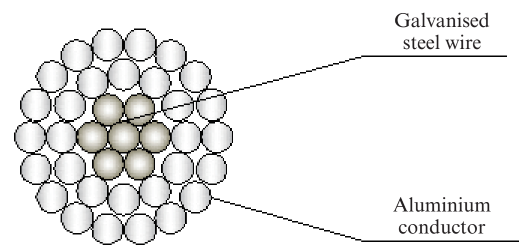
Power cables are principally used for power transmission and distribution systems (overhead and underground) in the power and other general industries. Compared to wires, cables usually have a more complex structure and larger diameters and are assemblies of one or more conductors with outer protective coverings and possible filling, insulating and protective materials. In general, the higher voltage requirement, the longer the radius of the products and hence higher product value and unit price. We manufacture and supply a wide range of medium to low voltage power cables with voltage requirement ranging from 1kV to 15kV, with conductors made of different metals including copper or aluminium, and carry various technical features such as steel reinforced, flame retardant, fire resistant, LSZH, environmentally friendly and water resistant.

Examples of power cables sold by us include copper power cables, aluminium overhead power cables, steel reinforced aluminium bare cables and aluminium medium and low voltage power cables. The typical cross-sectional structure of copper power cable and steel reinforced aluminium bare cable is depicted in the diagrams below:

Copper power cable

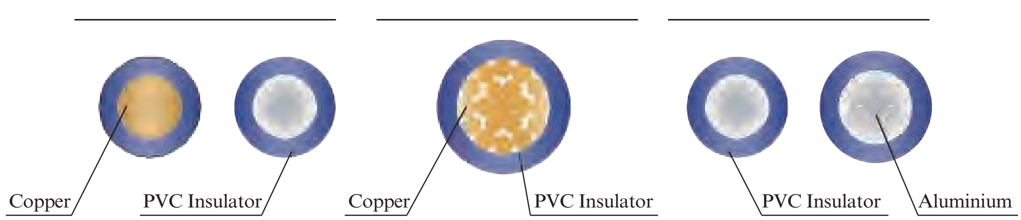


Steel reinforced aluminium bare cable



(ii) Wires for electrical equipment (電氣裝備用電線) (below 1kV)

Wires for electrical equipment are principally used to supply and distribute electricity for a wide range of applications, including lighting systems, control, and household appliances. Our products under this category vary in the voltage capacities and the metal (i.e. copper or aluminium) used to produce conductors, depending on their applications. We offered wires for electrical equipment with voltage requirement ranging from 450V to 750V. The typical cross-sectional structure of the wires for electrical equipment is depicted in the diagrams below:



BV Type **BVR Type** **BLV Type**

Notes:

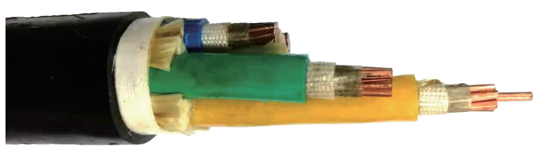
- BV Type — the single-cored wires insulated with PVC materials which are commonly used for the renovation or interior decoration of households.
- BVR Type — the multi-cored copper wires insulated with PVC materials which are commonly used as connecting wires of power distribution cabinet.
- BLV Type — the aluminium wires insulated with PVC materials which are commonly used for outdoor electrical equipment.

Special wires and cables

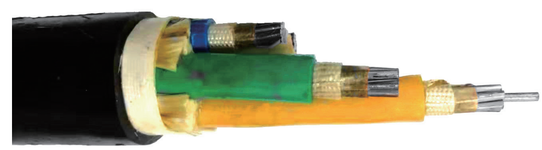
Our special wires and cables are sub-divided into (i) power cables; and (ii) wires for electrical equipment.

Our special wires and cables comprise both copper based and aluminium based products which usually possess environmentally friendly, high fire resistance and/or energy saving features and hence our special wires and cables are normally applied in special environments such as environments that demand for higher levels of energy saving or fire resistance requirements.

Set forth below are the pictures of our special products:



Special copper cable



Special aluminium cable

Since August 2018, we have begun to offer special wires and cables with environmentally friendly features to Changhong Group through winning a contract from a competitive bidding. A framework agreement was also entered into between the Changhong Group and our Group in July 2019. Sales were concluded by Changhong Group through placing purchase order under the framework agreement. Our sales to Changhong Group amounted to RMB10.3 million and RMB45.6 million in FY2018 and FY2019 respectively. In March 2020, we have also entered into a framework agreement with Changhong Group for the supply of special wires and cables with a total contract value of RMB55.0 million for the period until the end of 30 December 2020. Different from other wires and cables, the insulation layer of the environmentally friendly wires and cables offered by us is made of special materials which prevent emission of harmful air pollutant under high temperature. Environmentally friendly wires and cables are not only better for the environment but also a safer option. Fire resistant materials are also used to enhance the safety of the environmentally friendly wires and cables. We had obtained two patents in the development of the special wires and cables, namely, one type of "Aluminium Alloy eco-friendly flame retardant and fire-resistant power cable"* (一種鋁合金環保阻燃耐火電力電纜) and one type of "Aluminium Alloy Eco-friendly Flame Retardant and Fire-resistant Cable"* (一種鋁合金環保阻燃耐火電纜). The technologies involved are applicable to the production of both aluminium and copper special wires and cables we sold to Changhong Group. In FY2018, the copper and aluminium special wires and cables were tailor-made for the purpose of construction and renovation of factory and replacement of electrical equipment of Changhong Group and with higher technical specifications required and our Directors consider that the use of patent technologies enhanced the customer confidence in the products we tailor-made and produced for Changhong Group for its specified purposes. We therefore generated a higher gross profit margin from their sales as compared to classic wires and cables. For further details, see the paragraph headed "Research and Development" in this section.

OEM sales

During the Track Record Period, we mainly sold finished wires and cables under our own brand. In addition, we also produced and sold wires and cables (which mainly include aluminium overhead power cables and steel reinforced aluminium bare cables) on OEM basis. Such production orders were subcontracted by us to Guangyuan Tongchuang before Tongchuang Equity Acquisition and the OEM orders had been undertaken by Tongchuang Plant after Tongchuang Equity Acquisition. Under this model, wires and cables manufactured by us will carry our customers' brand names and/or logos. We may need to procure raw materials that conform to our OEM customers' specifications. We are also required to follow their specifications on the quality control standards. For FY2017, FY2018 and FY2019, we had two, seven and eight OEM customers, respectively, which are well-established wires and cables companies. We supplied products to these customers to satisfy their orders in Sichuan Province and/or Southwestern Regions where it is not economical for them to directly ship products from their home production bases.

The following table sets forth the breakdown of sales of finished wires and cables by production model for the indicated periods:

Sales of finished wires and cables by production model	**FY2017**		**FY2018**		**FY2019**	
	Revenue *RMB'000*	*%*	**Revenue** *RMB'000*	*%*	**Revenue** *RMB'000*	*%*
Saftower Brand	168,846	94.7	134,205	70.3	203,989	55.7
OEM	9,527	5.3	56,743	29.7	162,021	44.3
Total	**178,373**	**100**	**190,948**	**100**	**366,010**	**100**

Semi-finished wires

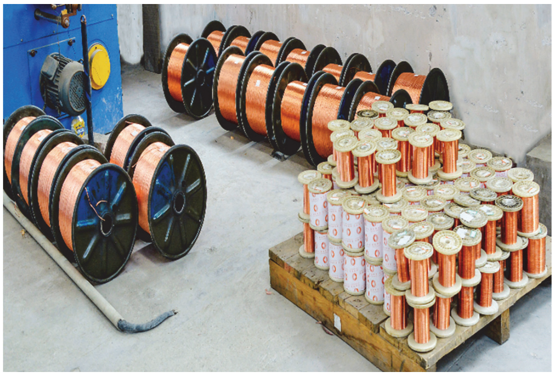
We process and sell semi-finished wires (which comprise aluminium rods and bare copper wires). Compared to our finished products, semi-finished wires normally only have undergone partial processing and require further processing such as insulation of materials (e.g. PVC or XLPE) and outer sheath which adds additional layer of plastic or thermoplastic materials on to the wires in order to become finished products for direct application and usage.

- Bare copper wires — they are wires made of copper as conductor without any insulation layer. They are used in overhead electrical transmission and distribution, for grounding electrical systems where high conductivity and flexibility are required.

- Aluminium rods — they are wires made of aluminium as conductor without any insulation layer. They are used in the production of finished aluminium wires and cables.

Set forth below are the pictures of our products under this segment:

Bare copper wires



Aluminium rods

The following table sets forth the breakdown of our revenue and gross profit by types of semi-finished wires for the indicated periods:

	FY2017				FY2018				FY2019			
	Revenue	% to total revenue under this segment	Gross profit	Gross profit margin	Revenue	% to total revenue under this segment	Gross profit	Gross profit margin	Revenue	% to total revenue under this segment	Gross profit	Gross profit margin
	RMB'000		*RMB'000*	*%*	*RMB'000*		*RMB'000*	*%*	*RMB'000*		*RMB'000*	*%*
Bare copper wires (銅絲)	11	0.02	—	—	26,276	12.6	272	1.0	51,151	18.7	413	0.8
Aluminium rods (電工圓鋁杆)	67,777	99.98	(663)*(Note)*	N/A	182,191	87.4	6,269	3.4	222,372	81.3	8,622	3.9
Total	**67,788**	**100.0**	**(663)**	**N/A**	**208,467**	**100.0**	**6,541**	**3.1**	**273,523**	**100.0**	**9,035**	**3.3**

Note: During the early stage of operation of Guangyuan Plant in 2017, our inventory cost and production cost were higher than the sales of aluminium rods due to the competitive pricing we adopted in such product segment, resulting in a gross loss.

The typical production process of our semi-finished wires involves drawing, softening, testing and packing. As the production of semi-finished wires involves similar production technique as finished wires and cables, we accepted purchase orders from customers and processed such products to maximise our market exposure and enlarge our market share.

Aluminium products

Aluminium products currently traded by us include aluminium strips and ingots:

- Aluminium strips — they are generally known for its durability and quality, and widely used in construction industry.

- Aluminium ingots — they are the main raw material for producing aluminium products. Aluminium ingots possess malleable and lightweight features.

The following table sets forth the breakdown of our revenue and gross profit by types of aluminium products for the indicated periods:

	FY2017				FY2018				FY2019			
	Revenue	% to total revenue under this segment	Gross profit	Gross profit margin	Revenue	% to total revenue under this segment	Gross profit	Gross profit margin	Revenue	% to total revenue under this segment	Gross profit	Gross profit margin
	RMB'000		*RMB'000*	*%*	*RMB'000*		*RMB'000*	*%*	*RMB'000*		*RMB'000*	*%*
Aluminium products												
Aluminium strips	16,134	100.0	—	—	116,789	84.3	3,936	3.4	4,541	10.0	121	2.7
Aluminium ingots	—	—	—	—	21,802	15.7	377	1.7	40,794	90.0	1,049	2.6
Total	**16,134**	**100.0**	**—**	**—**	**138,591**	**100.0**	**4,313**	**3.1**	**45,335**	**100.0**	**1,170**	**2.6**

In view of our long history of business presence in wire and cable manufacturing industry and our solid relationship with upstream aluminium suppliers in the PRC, we began the trading of aluminium products through Guangyuan Saftower since November 2017, after our Guangyuan Plant commenced operation.

According to Frost & Sullivan, Guangyuan is one of the three aluminium producing regions in Sichuan Province. The establishment of Guangyuan Plant allows us to have direct access to aluminium and related materials. We believe that it is in our commercial interest to leverage on the geographical advantage of abundant aluminium resources of Guangyuan and engage in the trading of aluminium products based on the purchase orders received from customers to diversify our income source. We also believe that our aluminium trading business increased our purchase from aluminium suppliers and would allow us to develop and strengthen our business relationship with them.

We believe that our customers under this segment chose to procure aluminium from us because of our sourcing network and long-standing relationship with upstream suppliers that secured us a stable supply of aluminium. Our in-depth industry experience also assisted them in identifying a suitable supplier to fulfil their procurement requirement, and our ability to grant our aluminium customers (except for those who are required to pay upon delivery) a credit term of up to seven days could alleviate their immediate cashflow pressure and support their short-term capital needs who otherwise would normally need to make payment prior to or upon delivery or to pay deposit if they purchase directly from supplier or on the market. We consider that the trading of aluminium products is incidental to our main operation as aluminium is one of our key raw materials for wires and cables and we order aluminium from time to time to support our manufacturing activities.

At the early stage of development of this segment, we did not record profit from our trading of aluminium products for FY2017 since we were desirous to quickly establish our presence and develop customer base in Guangyuan. For FY2018 and FY2019, since we have commenced stable business relationship with aluminium customers and as the number of purchase orders increased, we recorded gross profit margin of 3.1% and 2.6%, respectively under this segment. Save for FY2017 where we sold aluminium products at cost, we generally fix the selling price of aluminium products with our customers with reference to the market prices of aluminium quoted on open markets plus an agreed mark-up fee.

Going forward, we will be allocating more resources onto the manufacturing segment for better allocation of our working capital. As such, we expect that revenue to be contributed by this segment will reduce in the near future.

Others

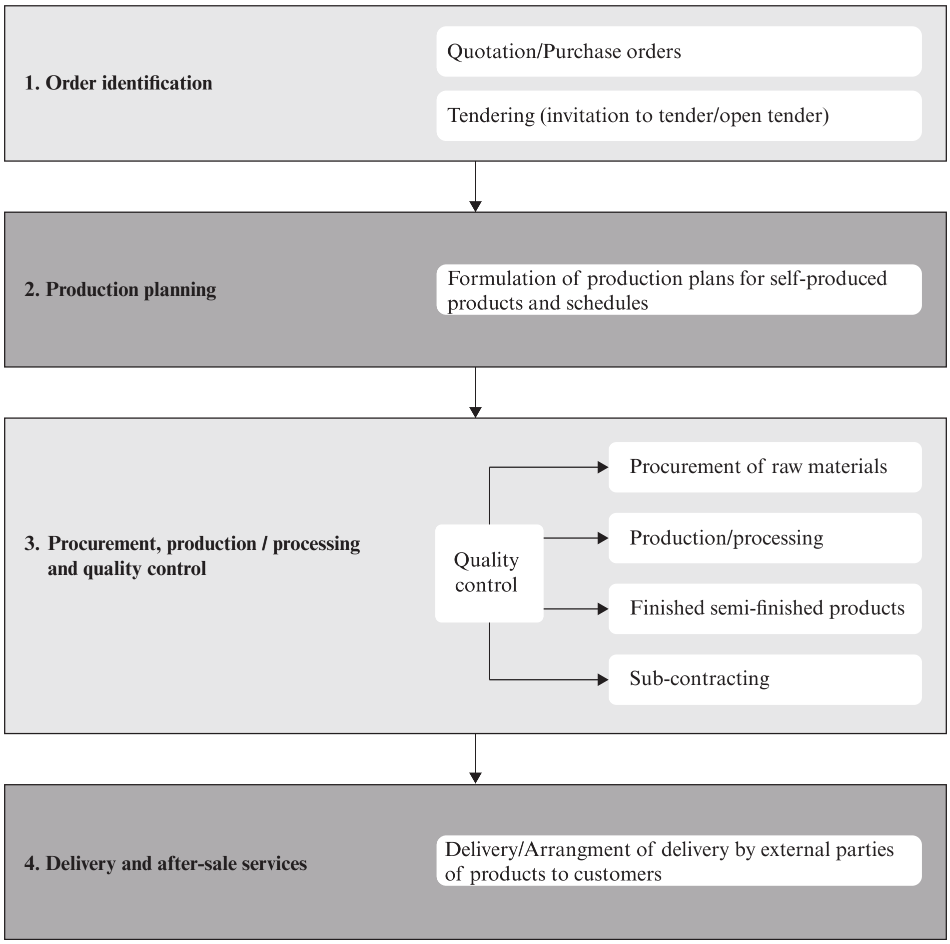
Cable accessories

Apart from wires and cables and aluminium products, for FY2018 and FY2019, we expanded our product offerings to include the supply of cable accessories (such as cable connectors) to our customers on demand. We believe that this is a value-added service to our customers by saving their efforts to source cable accessories separately. Our customers will be able to purchase wires and cables as well as cable accessories all-in-one-go by placing orders with us. We sourced cable accessories from external suppliers. For FY2018 and FY2019, revenue derived from our cable accessories amounted to RMB14.7 million and RMB0.7 million, representing 2.7% and 0.1% of our total revenue, respectively.

BUSINESS OPERATION

Wires and cables (classic and special)

The following diagram illustrates the normal operation flow of our wire and cable business:



1. Order identification

Quotation and purchase orders

We receive purchase orders directly from customers who have prior relationship with us or have admitted us onto their suppliers list. See the paragraph headed "Customers" in this section. The terms of these purchase orders generally include product specifications, quantity, delivery schedule, price and settlement terms.

Our sales department will perform preliminary work after collecting the tender documents, for example, liaising with our customers to obtain detailed project information, if necessary. Our sales department will conduct review and assessment on our capability of fulfilling the order requirements, including the costs for producing/ processing the products required, and prepare our proposal. The assessment result will be approved by the head of our sales department for contracts with a contract sum of below RMB1 million or finance department and/or our chairman for contracts with a contract sum of above RMB1 million.

After obtaining internal clearance, we will issue a sales order confirmation to the customer or enter into a supply contract with the customer to conclude the sale and proceed to procurement.

Revenue derived from direct quotation/orders accounted for 97.5%, 91.6% and 98.9%, respectively, of our total revenue for FY2017, FY2018 and FY2019.

Tendering (invitation to tender and open tender)

For the supply of products to state-invested enterprises, we may be required to undergo the tendering process. We either receive invitation to tender from our customers or participate in open tender for the supply of our wires and cables for a particular project. The invitation letters to tender or the open tender, generally specify the product specifications, quantity, delivery schedule, technical requirements, price and settlement terms.

(a) *Preparation and submission* — our sales department will work with our production team to assess orders' details. Process is similar to the technical review for direct quotation.

(b) *Customer's tender review and assessment* — after receiving our tenders, our potential customer may raise queries on the terms of our proposal, and we will respond to such queries within a specified timeframe. If our tender is successful, the customer will enter into a supply contract with us. We normally will procure raw materials from our suppliers for the production or processing of wires and cables after entering into contract with our customers.

We submitted seven, 21 and 12 tenders for projects for FY2017, FY2018 and FY2019, respectively, and five, 13 and seven of such tendered projects were awarded to us. Our success rate for tenders were 71.4%, 61.9% and 58.3%, respectively, for FY2017, FY2018 and FY2019. Revenue recognised from our tendered projects accounted for 2.5%, 8.4% and 1.1%, respectively, of our total revenue for FY2017, FY2018 and FY2019.

2. *Production planning*

Upon receipt of purchase orders from our customers, our production department will formulate production plans and schedules in accordance with the requirements and order information provided by our sales department. We may fulfil part of our purchase orders with the existing finished wires and cables in our warehouses.

3. *Procurement, production/processing and quality control*

Based on our production plans and schedules, our procurement team will procure the necessary raw materials and our production department will proceed with the production based on the requirements specified in the order. To ensure the quality of raw materials and finished products comply with our specifications and requirements, we will inspect and perform testing on the incoming raw materials, perform quality inspection at various stages of the production process, as well as sample checking and testing on our finished products. For further details, see the paragraph headed "Quality Control" in this section.

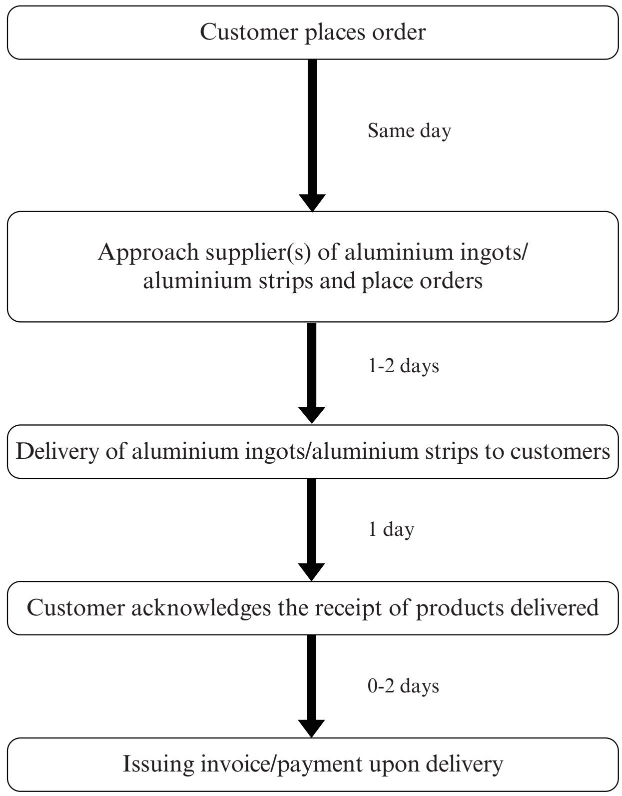
4. *Delivery*

Products manufactured or processed by us will be packed and stored in our warehouses before delivery. We generally agree to repair or replace our products if they are defective upon delivery or before acceptance of the goods by our customers. We would provide credit terms to our customers upon request. For details of our credit and payment terms, see the paragraph headed "Customers — Payment terms and credit policy" in this section.

Typically, we will arrange for transportation of our wires and cables to our customers. For further details, see the paragraph headed "Logistics and Transportation" in this section.

Trading of aluminium products

The typical process of trading of aluminium products are as follows:



Under this segment, we place purchase order of aluminium products with our supplier after receipt of the purchase orders from our customer or after entering into sales contract with our customer. For FY2017, FY2018 and FY2019, we had three, 12 and 13 trading customers, respectively, and these customers are primarily engaged in the manufacturing of aluminium products or trading business, and a majority of them are situated in Sichuan Province or neighbouring regions such as Chongqing Municipality.

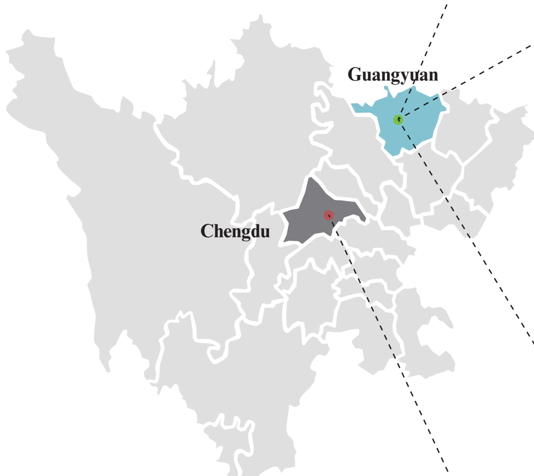
Our customer's purchase of aluminium products is not governed by long-term contract, and we cannot assure that customers under this segment will not procure aluminium products directly from our suppliers or other sources. For details, see "Risk Factors — Risks Relating to Our Business — Our revenue is mainly derived from sales to customers without long-term contracts, and the demand for our products is significantly dependent on our customers' business and the performance of their respective industry or market" in this prospectus.

We generally send invoices to our customers and recognise revenue upon delivery of our products to them. The agreement signed with our customer provides that if our customer is not satisfied with the quality of aluminium products, our customer can request for product replacement within 10 days, depending on the types of products sold. We bear all delivery charges associated with replacement of our products. During the Track Record Period, we did not experience any material product returns from customers of aluminium products. Otherwise, products are sold by us outright and without recourse and product return is not allowed except for quality reason.

We usually order aluminium products from our suppliers for trading after we have received a purchase order from our customer or a sales contract is entered into. Therefore, our exposure to risk on price fluctuations and inventory risk under this segment is manageable. Products ordered by us will be directly delivered to our customers' address or the destination specified by them. For details of the major terms of our sales of aluminium products, see the paragraph headed "Customers — Salient terms of our customer contracts" in this section.

PRODUCTION FACILITIES

The following pictures illustrates the locations of our production plants in Sichuan Province and their addresses as at the Latest Practicable Date:



Guangyuan Plant
Address: Sichuan-Zhejiang Park, Yuanjiaba Office, Guangyuan Economic Development Zone, Lizhou District, Guangyuan, Sichuan Province, the PRC

Tongchuang Plant
Address: No. 9 Huaide Road, Sichuan-Zhejiang Cooperative Industrial Park, Economic Development Zone, Guangyuan, Sichuan Province, the PRC

Shuneng Plant
Address: A workshop located within the production plant of Aostar situated at Yuanjiaba Industry Development District, Guangyuan, Sichuan Province, the PRC

Chengdu Plant
Address: No. 88 Qingma Road, Modern Industrial Park (South Area), Pidu District, Chengdu, Sichuan Province, the PRC

Our production plants

We assign the production tasks to our four production plants. The key information of the four production plants as at 31 December 2019 are set out as follows:

Name of the production plant (% of ownership)	**Chengdu Plant (100%)**	**Guangyuan Plant (100%)**	**Tongchuang Plant (56.67%)**	**Shuneng Plant (100%)** *(Note 1)*
1. Year of commencement of production	June 2004	April 2017	September 2017	April 2019 *(Note 4)*
2. Approximate area (sq.m.)	Site area: 18,061.8	Site area: 65,027.87 *(Note 2)*	Gross floor area: 6,067.34 *(Note 2)*	Gross floor area: 1,268.5 *(Note 5)*
3. Types of primary products to be produced or processed	(i) Finished classic copper wires and cables — *Copper power cables (銅製電力電纜)* — *Copper wires for electrical equipment (銅製電氣裝備用電線)* (ii) Special copper wires and cables — *Special copper power cables (銅製特種電力電纜)* — *Special copper wires for electrical equipment (銅製特種電氣裝備用電線)* Special aluminium wires and cables — *Special aluminium medium and low voltage power cables (鋁製特種中低壓電力電纜)* — *Special aluminium wires for electrical equipment (鋁製特種電氣裝備用電線)* (iii) Semi-finished products — *Bare copper wires (銅絲)*	Semi-finished wires — *Aluminium rods (電工圓鋁桿)*	Finished classic aluminium wires and cables — *Aluminium overhead power cables (鋁製架空電纜)* — *Steel reinforced aluminium bare cables (鋁製鋼芯鋁絞線)*	Unprocessed aluminium rods
4. Sales model	Saftower Brand	Saftower Brand	OEM *(Note 3)*	Intra-group sales to Guangyuan Tongchuang and Saftower Brand *(Note 7)*
5. Number of production line	5	3	4	1
6. Number of production staff	64 *(Note 6)*	4 *(Note 6)*	36	12

Notes:

(1) Upon completion of the capital reduction of Guangyuan Shuneng on 18 November 2019, Shuneng Plant became wholly-owned by us.

(2) Tongchuang Plant is located within the factory site of Guangyuan Plant, occupying a gross floor area 6,067.34 sq.m. of Guangyuan Plant.

(3) After Tongchuang Equity Acquisition, Tongchuang Plant has become part of our production facilities. The OEM sales mode refers to our production for external customers carried out on OEM basis.

(4) Shuneng Plant was at the trial production stage for FY2019 and is expected to commence commercial production by third quarter of 2020.

(5) Shuneng Plant is located within the factory site of Aostar. See the paragraph headed "Agency Service Arrangements — Our relationship with Aostar" in this section.

(6) Four production staff of Chengdu Plant were seconded to work in Guangyuan Plant.

(7) With an attempt to develop potential customer relationship, Guangyuan Shuneng conducted sales of semi-finished wires produced by Guangyuan Plant to an external customer in FY2019.

Chengdu Plant — We established our Chengdu Plant in 2004. During the Track Record Period, we operated our Chengdu Plant for manufacturing and warehouse uses, and housed a total of five automatic production lines for (i) power cables and wires; and (ii) copper wires for electrical equipment under our own brand, as well as bare copper wires, a type of our semi-finished wires.

Guangyuan Plant — We commenced the construction of our Guangyuan Plant in 2015 and began the production in April 2017. Our Guangyuan Plant housed three production lines for the production of semi-finished wires which are aluminium rods.

Tongchuang Plant — Tongchuang Plant is established and owned by Guangyuan Tongchuang, which has become our non-wholly owned subsidiary since 16 April 2019. For further details, see "Guangyuan Tongchuang" in this prospectus. Tongchuang Plant commenced commercial production in September 2017 and mainly manufactures finished aluminium wires and cables for us. It also manufactures aluminium overhead power cables and steel reinforced aluminium bare cables for external customers on OEM basis.

Shuneng Plant — In April 2019, we, through Guangyuan Shuneng, established Shuneng Plant which is a new workshop located within the production plant of Aostar. For the background of Aostar, our business partner under the aluminium agency service arrangements, see the paragraph headed "Agency Service Arrangements" in this section. Shuneng Plant is a vertical integration of our production capability for unprocessed aluminium rods, which are used to support the aluminium wires and cables production by our Tongchuang Plant. As at the Latest Practicable Date, Shuneng Plant was at the trial production stage.

Production capacity

Owing to the diversity of our downstream industries and different technical and performance requirements of our customers, our production machinery has different set up of the production line to cater for the different processes in the manufacturing of wires and cables of different characteristics and features.

The table below sets out our production capacities, production volumes and approximate utilisation rates of our production lines for each category of our principal products by each production plant for FY2017, FY2018 and FY2019:

		FY2017			FY2018			FY2019		
	Key production lines	Annual Production Capacity (Note 2) (300 days)	Annual Production Volume	Approximate Utilisation Rate (Notes 3 and 10)	Annual Production Capacity (Note 2) (300 days)	Annual Production Volume	Approximate Utilisation Rate (Notes 3 and 10)	Production Capacity (Note 2) (300 days)	Production Volume	Approximate Utilisation Rate (Notes 3 and 10)
Chengdu Plant										
— Copper power cables (銅電纜)	1	1,020 km (Note 2)	646 km	63.3%	1,020 km	1,032 km	101.2%	1,020 km	836 km	82.0%
— Copper wires (銅電線)	3	24,000 km	34,374 km	143.2% (Note 5)	24,000 km	22,311 km	93.0%	24,000 km	18,575 km	77.4%
— Bare copper wires (銅絲)	1	900 tonnes (Note 2)	—	—	900 tonnes	598 tonnes	66.4%	900 tonnes	1,192 tonnes	132.5%
Average				**103.3%**			**86.9%**			**97.3%**
Guangyuan Plant (Note 11)										
— Aluminium rods (鋁杆)	3	13,500 tonnes	5,319 tonnes	**39.4%** (Note 4) **(59.1% if annualised)**	13,500 tonnes	14,336 tonnes	**106.2%**	13,500 tonnes	14,896 tonnes	110.3%
Tongchuang Plant (Note 12)										
— Aluminium overhead power cables (架空電纜)	1	4,500 km	55 km	1.2% (Note 4) (4.1% if annualised)	4,500 km	4,342 km	96.5%	4,500 km	2,924 km	52.0%
— Steel reinforced aluminium bare cables (鋁製鋼芯鋁絞線)	3 (Note 8)	7,800 tonnes	830 tonnes	10.6% (Note 4) (35.5% if annualised)	7,800 tonnes	6,332 tonnes	81.2% (Note 9)	10,725 tonnes	16,335 tonnes	152.3%
Average				**5.9% (19.8% if annualised)**			**88.8%**			**102.1%**

Notes:

(1) Length (km) and weight (tonne) are two major measurements of units generally adopted by the market in accordance with the national standard. In general, products without coating of other materials would be measured in weight (tonne), whereas products coating with other materials would be measured in length (km). Cables accessories sold were in measurement of various units subject to the requirements from customers, therefore average selling price was not applicable.

(2) The maximum annual production capacities for power cables, wires and semi-finished wires were calculated on the theoretical basis of 20 hours operation per day, 300 working days per year.

(3) Approximate utilisation rates were determined by reference to the actual production output measured in km/tonne computed as a percentage of the maximum production capacity measured in km/tonne in the relevant period.

(4) The approximate utilisation rate of Guangyuan Plant and Tongchuang Plant was low in FY2017 because both plants were in their early stage of development. During FY2017, Guangyuan Plant and Tongchuang Plant had theoretical basis of 200 and 90 days of operation calculated from their commencement of production, respectively.

(5) The approximate utilisation rate for copper wires at Chengdu Plant for FY2017 reached 143.2% as a result of increased sales order and we increased our production hours and utilised other production line facilities as well to fulfill these customers' demands.

(6) The approximate utilisation rate for bare copper wires at Chengdu Plant for FY2019 reached 132.5% as a result of our increased sales order from wires and cables manufacturers requesting bare copper wires for further processing and we increased our production hours and utilised other production line facilities as well to fulfill these customers' demands.

(7) The approximate utilisation rate for aluminium overhead power cables at Tongchuang Plant for FY2019 was 52.0% as a result of re-allocation of capacities to produce steel reinforced aluminium bare cables in view of its increased sales order.

(8) Tongchuang Plant installed and commenced operation of a new production line for steel reinforced aluminium bare cables in April 2019 which increased the production line for steel reinforced aluminium bare cables from two to three, and its production capacity for FY2019 is computed based on the basis of 225 days of operation accordingly.

(9) The approximate utilisation rate for steel reinforced aluminium bare cables at Tongchuang Plant reached 81.2% and 152.3% for FY2018 and FY2019, respectively, and such increase was primarily due to our increased sales orders from Sichuan Saftower for OEM manufacturing in 2018 and Guangyuan Tongchuang increased sales of steel reinforced aluminium bare cables.

(10) Due to switching cost and arrangement of machinery, normally the unutilised production capacity of each plant could not be easily adjusted to accommodate the production of other products.

(11) As we intend to construct additional production site and install three new additional production lines at Guangyuan Plant, we expect that Guangyuan Plant will become capable of producing steel reinforced aluminium bare cables, aluminium overhead power cables and classic aluminium medium and low voltage cables with a maximum annual production capacity of 3,900 tonnes, 4,500 km and 4,500 km, respectively, upon completion of the expansion. For details, see "Future Plans and Use of Proceeds — Use of Proceeds — Expanding our existing production facilities and production plant" in this prospectus.

(12) Between April 2017 and July 2017 prior to the establishment of Guangyuan Tongchuang, the production lines and machinery belonged to Guangyuan Saftower. Guangyuan Saftower utilised those machineries and its own equipment later to produce and sell classic aluminium wires and cables of RMB48.9 million for FY2017 which was not taken into account as the production by Tongchuang Plant in the table above.

Intra-group sales and purchases during the Track Record Period

Save for the related parties transactions as disclosed in Note 35 to Appendix I to this prospectus, we also have other intra-group sales and purchases such as unprocessed aluminium rods sold by Guangyuan Shuneng to Guangyuan Tongchuang. In terms of product types, the intra-group transactions can be categorised into mainly three types: (i) sales and purchase of finished wires and cables; (ii) sales and purchase of aluminium products; and (iii) sales and purchase of equipment and machinery. Our Directors are of the view that the pricing and terms for the intra-group transactions between our Group companies were on normal commercial terms and determined on an arm's length basis. Our PRC Legal Advisers confirmed that our Group companies are complied with relevant tax laws and regulations in the PRC.

Machinery and equipment

Our production plants are equipped with various machines and equipment to cater for different stages of the production activities. For FY2017, FY2018 and FY2019, our capital expenditure on acquiring machinery and equipment amounted to RMB35.9 million, RMB1.4 million and RMB16.7 million, respectively, in addition to RMB18.9 million which was contributed by Guangyuan Tongchuang (for Tongchuang Plant) after Tongchuang Equity Acquisition. We incurred significant capital expenditure in FY2017 mainly because of the construction and establishment of production facilities at Guangyuan Plant.

Chengdu Plant

The following sets forth the major machines and equipment that are material to the production of Chengdu Plant as at 31 December 2019:

Machines and equipment	No. of machines	Year of acquisition	Cost of acquisition	Useful life	Carrying value as at 31 December 2019	Remaining useful life range
			RMB'000	*years*	*RMB'000* *(Note)*	*years*
Power distribution transformer (電壓器配電設備)	2	2013	4,650	10	1,595	3
Plastic extruding machine (擠塑機)	8	2009–2017	2,775	10	1,735	0–8
Wire drawing machine (拉絲機設備)	5	2012–2018	1,662	10	1,116	2–9
Stranding equipment (絞制設備)	2	2012–2017	1,120	10	798	2–8
Continuous interlocking armouring machine (連續互鎖鎧裝機)	1	2014	535	10	234	4
Cabling machine (成纜設備)	3	2009–2014	407	10	112	0–5

Note: Pursuant to the accounting policies adopted by our Group, depreciation of our machineries and equipment is calculated using straight-line basis.

Guangyuan Plant

The following sets forth the major machines and equipment that are material to the production of Guangyuan Plant as at 31 December 2019:

Machines and equipment	No. of machines	Year of acquisition	Cost of acquisition	Useful life	Carrying value as at 31 December 2019	Remaining useful life range
			RMB'000	*years*	*RMB'000* *(Note)*	*years*
Plastic extruding equipment (擠塑設備)	6	2017	4,325	10	3,400	8
Physical foaming units (物理發泡機組)	1	2017	2,650	10	2,083	8
Inspection equipment (檢測設備)	1	2017	1,154	10	907	8
Cabling machine (成纜設備)	1	2017	1,154	10	1,053	8
Metal casting equipment (金屬編製設備)	4	2017	513	10	403	8
High speed metal armouring machine (高速金屬鎧裝機)	1	2017	393	10	309	8

Note: Pursuant to the accounting policies adopted by our Group, depreciation of our machinery and equipment is calculated using straight-line basis.

Tongchuang Plant

The following sets forth the major machines and equipment that are material to the production of Tongchuang Plant as at 31 December 2019:

Machines and equipment	No. of machines	Year of acquisition	Cost of acquisition	Useful life	Carrying value as at 31 December 2019	Remaining useful life range
			RMB'000	*years*	*RMB'000* *(Note)*	*years*
Stranding equipment (絞制設備)	7	2017–2019	5,146	10	4,806	8–10
Wire drawing machine (拉絲機設備)	4	2017–2019	4,669	10	4,358	8–10
Cabling machine (成纜設備)	1	2017	2,169	10	1,978	8
Power distribution transformer (電壓器配電設備)	7	2017	2,496	10	2,312	8
Inspection equipment (檢測設備)	9	2017	377	10	317	8
High speed aluminium alloy drawing machine (高速鋁合金拉絲機)	1	2019	442	10	439	10
Plastic extruding equipment (擠塑設備)	1	2019	528	10	524	10

Note: Pursuant to the accounting policies adopted by our Group, depreciation of our machinery and equipment is calculated using straight-line basis.

Shuneng Plant

The following sets forth the major machines and equipment that are material to the production of Shuneng Plant as at 31 December 2019:

Machines and equipment	No. of machines	Year of acquisition	Cost of acquisition	Useful life	Carrying value as at 31 December 2019	Remaining useful life range
			RMB'000	*years*	*RMB'000* *(Note)*	*years*
Aluminium alloy casting and rolling production line (高強度鋁合金連鑄連軋生產線)	1	2019	3,938	10	3,935	10
Melting furnace (熔煉靜置爐)	2	2019	903	10	899	10
Lifting equipment (起重設備)	1	2019	504	10	497	10
Environmental dust removing equipment (環保除塵設備)	1	2019	407	10	376	10

Note: Pursuant to the accounting policies adopted by our Group, depreciation of our machinery and equipment is calculated using straight-line basis.

In general, we will conduct an overhaul and all other maintenance and repair work of our machinery and equipment from once per week to twice a month, depending on the types of machinery and equipment. In addition, we will carry out preventive maintenance practices such as maintaining inventory of consumable parts.

Licences

As advised by our PRC Legal Advisers, as at the Latest Practicable Date, we had obtained all necessary licences and certificates which are material for operating our production facilities in each of our Chengdu Plant, Guangyuan Plant, Tongchuang Plant and Shuneng Plant.

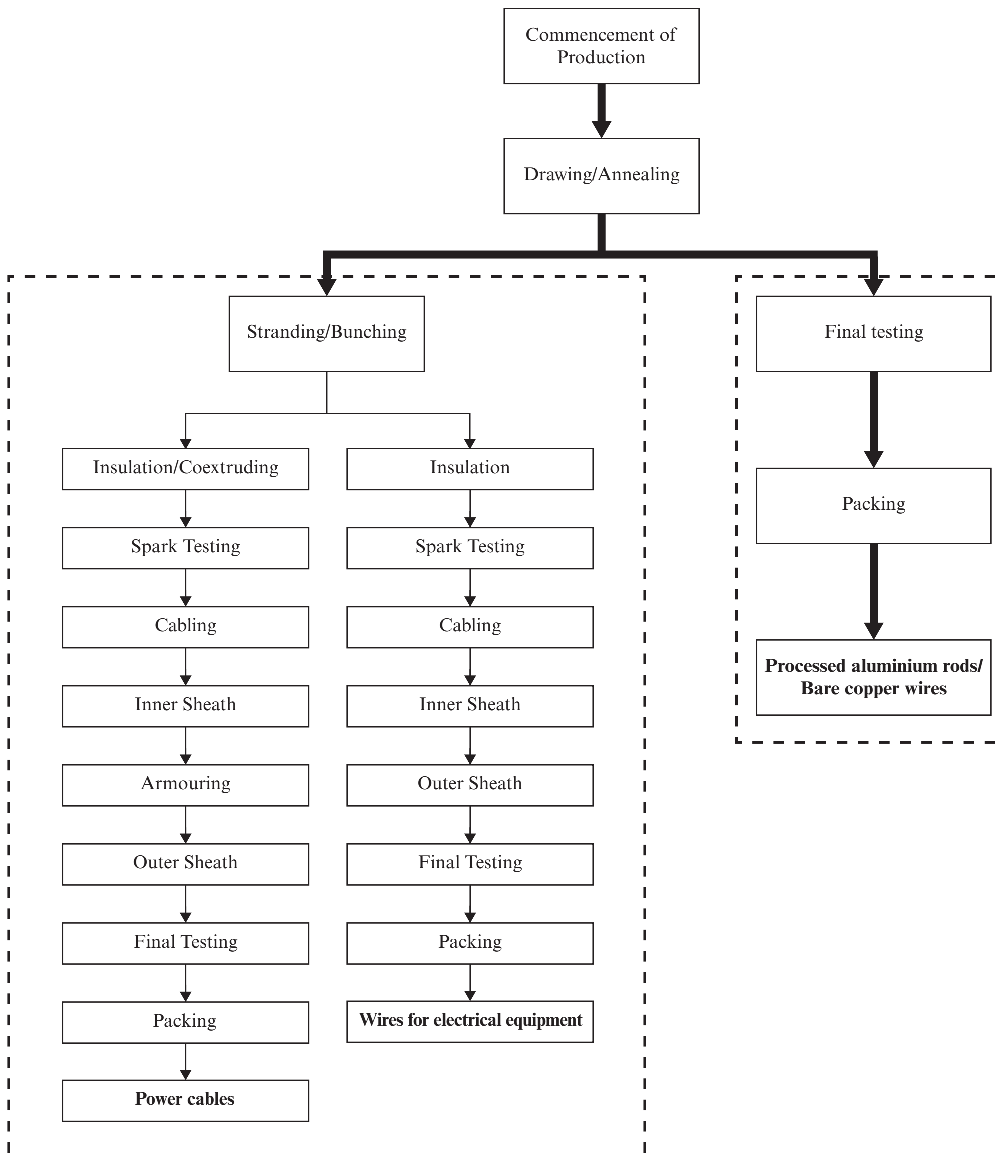
Facilities operation

During the Track Record Period and up to the Latest Practicable Date, we did not experience any significant interruptions in our business and operations nor any prolonged suspension of manufacturing operations arising from failure or breakdowns of machinery or equipment, which may significantly affect our financial position.

PRODUCTION PROCESS

Depending on the complexity of the production process, our production lead time for finished wires and cables typically takes within one months. The production lead time for our semi-finished wires typically takes two to five days. The typical production processes of our (i) finished wires and cables; and (ii) semi-finished wires are set out as follows:

(i) Finished wires and cables *(ii) Semi-finished wires*



Our products generally follow a similar manufacturing process as described below:

Drawing — Drawing is the process of producing wires of various sizes. Aluminium or copper rods are first pulled through drawing machines and stretched into wires during the drawing process. When the rods are forced through a series of dies, the metal cross-section is also compressed in order to meet the size and shape specifications of our products.

Annealing — The annealing process is required for the copper and aluminium wires to enhance their flexibility and capability of conducting electricity. During the annealing process, the copper and/or aluminium wires are simultaneously heated and subsequently crystallised by cool water in order to soften the copper and/or aluminium wires and to increase their flexibility and electrical conductivity in accordance with our products specifications.

Stranding/bunching — Stranding (or bunching) is the process of stranding together several aluminium wires or copper wires to increase the size of the cables and add flexibility to the wires and cables, which makes installation easier.

Insulation — The insulation process is the application of electrical insulating material, such as PVC (a thermoplastic material) or XLPE (a thermosetting material), to conductors after the stranding process to enhance the safety of power transmission.

Spark testing — This process involves the testing of any spark generated from the cables after the insulation process in order to ensure our cable products are well insulated and safe to use.

Inner sheath (if required) — Inner sheathing is where a layer of plastic or polymeric material, such as PVC, is wrapped onto the cable assembly to hold the insulated cores together to prepare the cable for the armouring process. The inner sheath functions as a protective layer for the lay-up cores and also for the armour wires or tapes to sit on.

Armouring — A layer of plastic or rubber composite is wrapped onto the cable assembly to hold the insulated cores together. We may add specific features to the cable such as fire-resistance and waterproof qualities.

Outer sheath — The final step involves adding an additional layer of plastic or thermoplastic materials such as PVC on to the cable as an outer sheath to protect the finished products from chemical erosion. The details of the cable such as the voltage rating, manufacturers' name and year of manufacture will be embossed on the outer sheath.

Final testing — As part of our quality control processes, a final electrical and mechanical testing is carried out on each drum of cables produced by us with an aim to ensure that they conform to the specifications and performance requirements of our products.

Packing — Our power cable products are wound into coils, wooden or steel drums before they are being despatched according to our customers' instructions. The cable's details and classification are marked on the flange of the cable drum or coil for ease of identification.

The production of our cables products of rated voltage of 1,000V or above are required to go through production processes including cabling, inner sheath or armouring. The production of our bare wire products follows a much simpler process, which only involves the drawing, annealing, testing and packing processes as set forth above.

During the Track Record Period, we delegated certain of our production to Guangyuan Tongchuang as well as external subcontractors. See the paragraph headed "Subcontracting Arrangements" in this section for further details.

CUSTOMERS

Our products are directly sold by us mainly to power companies, manufacturing enterprises, construction and renovation companies as well as trading companies which purchase products from us for onward sale on their own accounts. A very small proportion of our products are sold to walk-in customers. Aluminium products are sold by us to traders for onward sale or to manufacturing enterprises for further processing or production of end-products.

For FY2017, FY2018 and FY2019, we had over 500, 500 and 350 customers, respectively. Among these customers, we have been developing business relationship with state-owned or state-invested companies which have good credit profile and established business network. We are also actively seeking strategic cooperation with local state-owned players in the power system construction industry in Sichuan Province, which we believe, could extend our business presence and generate more sales opportunities. We are also keen to develop business relationship with listed companies to enlarge our customer base and generate higher profits form selling premium products to them. See the paragraph headed "Sales and Marketing — Strategic cooperation with local state-owned players in the power system construction industry and listed companies" in this section for details. To become an eligible supplier of certain customers, especially the state-owned or state-invested companies, we may be required to go through a stringent review process. For example, a detailed report on our product performance, patents and certificates obtained, in-house production facilities and production capacity will be required to submit for potential customer's consideration. Our relationship with customers which are state-owned or listed companies demonstrated our reliability and ability in fulfilling their stringent technical requirements. The following table sets out a breakdown of our revenue by the nature of our customer's principal business based on our understanding for the indicated periods:

Customer's principal business	FY2017		FY2018		FY2019	
	Revenue	% to total revenue	Revenue	% to total revenue	Revenue	% to total revenue
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Power companies	6,145	2.3	41,371	7.5	56,101	8.2
Manufacturing enterprises *(Note)*	65,394	24.9	270,450	49.0	403,743	58.9
Construction and renovation companies	41,258	15.7	124,387	22.5	80,851	11.8
Trading companies	149,193	56.9	116,048	21.0	140,942	20.6
Walk-in customers	305	0.2	400	—	3,893	0.5
Total:	**262,295**	**100.0**	**552,656**	**100.0**	**685,530**	**100.0**

Note: For FY2017, FY2018 and FY2019, our customers which are manufacturing enterprises mainly include (i) other wires and cables manufacturers who purchased finished wires and cables on OEM basis or purchased semi-finished wires for their further processing; and (ii) manufacturers from various industries who acquired finished wires and cables mainly for their upgrade or renovation on production facilities.

Our customers are all situated in the PRC, and a majority of them are situated in Sichuan Province. The following table sets out a breakdown of our revenue by geographical market for the indicated periods:

Geographical market	FY2017		FY2018		FY2019	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Sichuan Province	208,375	79.4	343,701	62.2	477,569	69.7
Chongqing Municipality	25,220	9.6	92,885	16.8	40,180	5.8
Henan Province	9,997	3.8	41,930	7.6	—	—
Jiangsu Province	9,558	3.6	50,325	9.1	72,622	10.6
Shanghai Municipality	3,306	1.3	7,338	1.3	2,035	0.3
Zhejiang Province	208	0.1	4,586	0.8	73,138	10.7
Others *(Note)*	5,631	2.2	11,891	2.2	19,986	2.9
Total:	**262,295**	**100.0**	**552,656**	**100.0**	**685,530**	**100.0**

Note: "Others" mainly include Jiangxi Province and Hunan Province.

Our five largest customers

Our five largest customers for FY2017, FY2018 and FY2019 are all located in the PRC. For FY2017, FY2018 and FY2019, revenue derived from our five largest customers in aggregate accounted for 53.1%, 39.5% and 39.4%, respectively, of our total revenue, and revenue derived from our largest customer for the same period accounted for 19.6%, 13.0% and 10.3%, respectively, of our total revenue for the same periods. We regard the customers that have a common controlling shareholder or are within the same group of companies as a single customer group.

The following table set out the details of our five largest customers for FY2017, FY2018 and FY2019:

For FY2017

Ranking	Customer	Duration of business relationship (year)	Nature of business activities	Types of product(s) sold by us	Credit period	Aggregate amount	% to total revenue
						RMB'000	
1	Tianzhu *(Note 1)*	2017–2018	A state-owned company with 51.25% shareholding ultimately owned by SASAC of Guangyuan City (廣元市人民政府國有資產監督管理委員會) and its major business activity involves sale of construction materials and electric cables	Finished wires and cables	Two months upon acceptance of products	51,475	19.6
2	Sichuan Nengtou Materials Industry Group Co., Ltd. (四川能投物資產業集團有限公司)	2017–2019	A state-invested enterprise that provides a material procurement platform for its group companies	Finished wires and cables and semi-finished wires	Two days upon acceptance of products	42,443	16.2
3	Chongqing Dexindi *(Note 2)*	2017–2018	A private company whose major business activity involves sale of wires and cables and construction and renovation materials	Semi-finished wires	Two days upon acceptance of products	21,078	8.1
4	Sichuan Non-ferrous Metal Sand Mineral Processing Co., Ltd. (四川有色金砂選礦藥劑有限公司)	2016–2017	A state-invested enterprise whose major business activity involves sale of mining chemicals, mineral products and construction materials	Finished wires and cables	45 days upon acceptance of products	14,228	5.4
5	Zhengzhou Xingyang Longji Aluminium Industry Co., Ltd. (鄭州市滎陽龍基鋁業有限公司)	2017–2018	A private company whose major business activity involves processing and sale of aluminium	Aluminium products	Payment upon delivery	9,997	3.8
	Sub-total					139,221	53.1
	Others					123,074	46.9
	Total					**262,295**	**100.0**

For FY2018

Ranking	Customer	Duration of business relationship (year)	Nature of business activities	Types of product(s) sold by us	Credit period	Aggregate amount	% to total revenue
						RMB'000	
1	Sichuan Nengtou Materials Industry Group Co., Ltd. (四川能投物資產業集團有限公司)	2017–2019	A state-invested enterprise that provides a material procurement platform for its group companies	Finished wires and cables, semi-finished wires and aluminium products	Two days upon acceptance of products	71,567	13.0
2	Zirao (廣元紫饒貿易有限公司)	2017–2019	A private company whose major business activity involves sale of metal materials, wires and cables and construction materials	Finished wires and cables and semi-finished wires	Payment upon delivery	41,513	7.5
3	Customer A *(Note 3)*	2008–2019	A state-owned company whose major business activity involves investment, construction and operation of power grids	Finished wires and cables and semi-finished wires	Payment are made in four stages and the last stage (being 10% of invoice amount) to be paid within 60 days of application for payment by the customer	40,364	7.3
4	Xiangyu Chongqing Co., Ltd. (象嶼重慶有限責任公司)	2018–2019	A subsidiary of a state-owned company listed on Shanghai Stock Exchange (stock code: 600057). Its major business activity involves distribution of commodity and distribution of building materials	Aluminium products	84% of invoice amount to be paid within two days upon acceptance of products and balance to be paid upon approval of quality	37,001	6.7
5	Chongqing Guochu Non-ferrous Metal Co., Ltd. (重慶國儲有色金屬有限公司)	2018–2019	A state-owned company whose major business activity involves sale of metal materials, construction materials and chemical products	Aluminium products	Payment upon acceptance of goods	27,614	5.0
	Sub-total					218,059	39.5
	Others					334,597	60.5
	Total					**552,656**	**100.0**

For FY2019

Ranking	Customer	Duration of business relationship (year)	Nature of business activities	Types of product(s) sold/provided by us	Credit period	Aggregate amount	% to total revenue
						RMB'000	
1	Customer C	2019	A company listed on Shanghai Stock Exchange. Its major business activity involves the manufacturing and sale of wires and cables	Finished wires and cables on OEM basis	10% deposit; up to 90% after delivery; balance of 10% to be paid within three months	70,965	10.3
2	Customer A	2008-2019	A state-owned company whose major business activity involves investment, construction and operation of power grids	Finished wires and cables and semi-finished wires	Payment are made in four stages and the last stage (being 10% of invoice amount) to be paid within 60 days of application for payment by the customer	56,111	8.2
3	Sichuan Jiuzhou Wire and Cable Co., Ltd. (四川九洲線纜有限責任公司) *(Note 4)*	2018-2019	A state-invested enterprise whose major business activity involves the manufacturing and sale of wires and cables	Semi-finished wires	Payment upon delivery	51,556	7.5
4	Changhong Group	2018-2019	A state-owned company and Changhong whose major business activity involves investment and sale of electrical appliances	Finished wires and cables	Payment upon delivery	46,448	6.8
5	Zirao (廣元紫饒貿易有限公司)	2017-2019	A private company whose major business activity involves sale of metal materials, wires and cables and construction materials	Finished wires and cables, semi-finished wires	Payment upon delivery	45,240	6.6
	Sub-total					270,320	39.4
	Others					415,210	60.6
	Total					**685,530**	**100.0**

Notes:

(1) Tianzhu was our largest customer for FY2017 and also one of our five largest suppliers for FY2018. For further details, see the paragraph headed "Overlapping Major Customers and Suppliers" in this section.

(2) Chongqing Dexindi was established on 24 April 2015 and 51% interest of which was owned by Mr. Dang Jun, a Controlling Shareholder, a member of our senior management and the elder brother of Mr. Dang Fei, until April 2016, when Mr. Dang Jun transferred his equity interest to Ms. Yu Xuelin, mother of Mr. Dang Jun and Mr. Dang Fei. Ms. Yu Xuelin subsequently transferred her

equity interest to Mr. Sheng Dong, an Independent Third Party, who is currently the sole shareholder of Chongqing Dexindi, in November 2018. Mr. Dang Jun and Ms. Yu Xueling did not pay up any registered capital in Chongqing Dexindi and did not receive any dividend during the period when they were shareholders of Chongqing Dexindi. Mr. Dang Jun and Ms. Yu Xuelin did not involve in the management of Chongqing Dexindi during the same period. Chongqing Dexindi purchased semi-finished wires from our Group since May 2017. Revenue generated from Chongqing Dexindi amounted to RMB21.1 million, RMB3.2 million and nil for FY2017, FY2018 and FY2019, respectively, see "Related Party Disclosures" in Accountants' Report set out in Appendix I to this prospectus. For FY2017, FY2018 and FY2019, the transactions between our Group and Chongqing Dexindi were conducted on an arm's length basis.

(3) During FY2017, FY2018 and FY2019, we conducted business with 12 companies under Customer A, among which sales to Litai Energy (including its branch offices), an indirect wholly-owned subsidiary of Customer A, amounted to RMB0.8 million, RMB26.4 million and RMB16.9 million for FY2017, FY2018 and FY2019 respectively.

(4) We conducted business with Sichuan Jiuzhou Wire and Cable Co., Ltd. and its subsidiary.

For illustrative purpose, as if Tongchuang Equity Acquisition were completed since the beginning of FY2017 and had Guangyuan Tongchuang's financial statements been combined into our Enlarged Group's financial statements, it would have the following impact on our five largest customers for FY2017, FY2018 and FY2019:

FY2017 — Our fourth largest customer for FY2017 would be replaced by Henan Piaoxin Aluminium Co., Ltd* (河南標新鋁業有限公司) (the second largest customer of Guangyuan Tongchuang for FY2017). Such customer is an aluminium manufacturer located in Henan Province with approximately two-year business relationship with our Enlarged Group, contributing revenue of RMB17.9 million for FY2017. No other change of our top five customers of our Enlarged Group for FY2017 will arise from the combination effect.

FY2018 — Our second largest customer for FY2018 would be replaced by Tibet E-commerce Co., Ltd* (西藏電子商務有限公司) (the second largest customer of Guangyuan Tongchuang for FY2018). Such customer is a state-owned company engaged in construction materials trading business focusing Western China market with approximately one-year business relationship with our Enlarged Group, contributing revenue of RMB58.6 million for FY2018.

If Guangyuan Tongchuang's sales are grouped under our sales to state-owned power companies, revenue derived from Customer A will be RMB48.1 million in aggregate for FY2018, which will be higher than that of Zirao of RMB41.5 million. No other change of our top five customers of our Enlarged Group for FY2018 will arise from the combination effect.

FY2019 — No changes of our top five customers of our Enlarged Group for FY2019 will arise from the combination effect.

We generally send invoices to our customers after we have delivered wires and cables or aluminium products (as the case may be) to and accepted by our customers. As substantially all our customers of wires and cables and aluminium products are located in the PRC, payments are mainly settled by RMB by way of direct bank transfer and/or bank's acceptance bills.

Except for Chongqing Dexindi which was owned by Mr. Dang Jun as to 51% until 19 April 2016 and subsequently by Ms. Yu Xuelin as to 51% until 8 November 2018, none of our Directors, their respective close associates or any Shareholders (who, to the best knowledge of our Directors, owned more than 5% of the issued share capital of our Company as at the Latest Practicable Date) had any interest in any of our five largest customers of our Group for FY2017, FY2018 and FY2019. Ms. Yu Xuelin is the mother of Mr. Dang Jun and Mr. Dang Fei, our Controlling Shareholders. Save for Chongqing Dexindi, our Directors have confirmed that our five largest customers for FY2017, FY2018 and FY2019 are Independent Third Parties.

Salient terms of our customer contracts

In line with industrial practice, we do not enter into any long-term agreement with our customers. We generally enter into contract with our customer when our quotation is accepted or our tender bid is successful.

The salient terms of a typical supply contract entered into with our major customers (including OEM customers) of wires and cables are summarised below:

Key terms		Description
Duration of the term	:	The contract is normally entered into as per order basis and does not specify the duration of the term.
Specifications	:	The contract specifies the type and class of products ordered and the specifications such as quantity, price per unit etc.
Quantity	:	The quantity of the ordered products is expressed in tonnes or metres. There is no minimum purchase quantity in the contract.
Quality	:	The contract specifies the skills and standard required. Our customers shall inspect the products delivered and lodge any complaint on product quality within a fixed period. Product warranty is generally given for one year (for some contracts it could be two years).
Contract price	:	The contract provides for the unit price and total contract sum. The total amount of contract sum normally includes the fee for transportation cost. See the paragraph headed "Customers — Pricing policy" in this section.

Key terms		Description
Payment terms	:	Payments are mainly settled by way of direct bank transfers or bank's acceptance bills. All payments are made in RMB. We may require an initial deposit of up to 30% of the total contract sum to be paid upon signing of the contract, with the remaining balance to be paid before or after delivery of products, depending on the credit terms. We will issue our value-added tax invoice to the customers. We generally offer a credit period of up to 90 days, except for Aostar, which we granted a credit term of 365 days.
Delivery	:	We are normally responsible for delivery to places designated by our customers. Our selling price is normally inclusive of our transportation expenses.

The salient terms of a typical supply contract with our customers of aluminium products (which are similar to those for wires and cables) are summarised below:

Key terms		Description
Duration of the term	:	The contract is normally entered into as per order basis and does not specify the duration of the term.
Specifications	:	The contract specifies the type and class of the aluminium products and specifications.
Quantity	:	The contract normally specifies the volume of aluminium required to be delivered for a particular period. The quantity of the products is expressed in tonnes. There is no minimum purchase quantity specified in the contract.
Quality	:	The contract specifies the product standard and required quality. The contract may also specify the weight allowance for any shortfall in the volume of the products delivered to our customers.
Contract price	:	Selling price is generally fixed by reference to the market price of aluminium quoted on the open markets and our cost of purchase, plus an agreed mark-up fee. For details, see the paragraph headed "Customer — Pricing policy" in this section.

Key terms		Description
Payment terms	:	Payments made by customers are mainly settled by way of direct bank transfers and acceptance bills. All payments are made in RMB. We will issue our value-added tax invoice to the customers. We generally offer credit period up to seven days.
Delivery	:	We are normally responsible for delivery to places designated by our customer. Our selling price is normally inclusive of transportation expenses.

Sustainability of the business operations and financial performance of our Group

For FY2017, FY2018 and FY2019, three, five and two of our top five customers purchased aluminium products and semi-finished wires from us. In addition, with our enhanced production capability in Guangyuan City, we have been focusing on developing relationship with potential strategic customers. As such, notwithstanding that some of our major customers for FY2017, FY2018 and FY2019 are relatively new, our Directors believe that our Group will be able to sustain the current level of operations and financial performance for, among others, the following reasons:

- *We are a well-established and reliable supplier of wires and cables* — Based in Sichuan Province, we have more than 15 years of accumulated experience in the wire and cable manufacturing industry in the PRC with proven track record. Recently, in August 2019, Guangyuan Tongchuang received a purchase order from Customer C (an OEM customer listed on the Shanghai Stock Exchange) for the supply of steel reinforced aluminium bare cables with a contract sum of RMB48.4 million. In July 2019 and March 2020, we entered into a framework agreement with Changhong Group for the supply of special wires and cables with a total contract sum of RMB50.0 million and RMB55.0 million. Since August 2019 and March 2020, we have been receiving orders placed by Changhong Group under the framework agreement for the supply of special wires and cables. Our Directors believe that with our experience and proven track record, we will be able to continue securing future business relationships and spreading our brand influence;

- *We have successfully extended our footprint in developing strategic customers, which will fuel our future growth* — Our Group has been admitted as qualified supplier and is continually developing relationship with strategic customers with a view to further enhancing our order scale and stability. We will continue extending our footprint and enlarging our customer base to maintain our growth momentum and diversify our source of revenue;

- *We have long history of operation under the same management* — Our Group was founded in 2004 with over 15 years of operating history. We have been, and will continue to be, managed by our executive Directors and senior management, including Mr. Dang Fei and Mr. Wang who both have over 15 years' experience in the industry. Our experienced executive Directors and senior management team would continue to identify business opportunity and formulate sound business strategy that are instrumental to our future growth; and

- *We are operating in an industry which has positive market outlooks* — According to F&S Report, China's wires and cables market is expected to grow at a CAGR of 2.4% from 2019 to 2024 reaching RMB2,271 billion, whereas wires and cables market of Sichuan Province, our Group's principal market, is expected to grow at a CAGR of 2.9% for the same period with market size increasing to RMB75.6 billion in 2024. Aluminium wires and cables market in Sichuan Province is also expected to grow at a CAGR of 6.9% to RMB10.7 billion in 2024.

Pricing policy

For wires and cables, we generally fix their prices on a cost-plus basis. Since our product offering consists of different specifications, physical properties and technical requirements, the pricing of each batch of wires and cables is negotiated with, and determined by us and our customer on a case-by-case basis. As major raw materials for production of wires and cables (i.e. aluminium and/or copper) are commodities, for the price of wires and cables (for both tendering contract or bilateral order from customers), we will first consider the market prices of copper and aluminium before we provide quotations to our customers or proceed with the tendering process in order to mitigate the impact of any price fluctuation of the relevant raw materials.

In addition, we consider a number of other factors when determining the prices of wires and cables, which include: (i) product specifications, functional and quality requirements, complexity of the manufacturing process, lead time and delivery schedules required by our customers; (ii) the quantity of products ordered; (iii) the price for similar products offered by our competitors; (iv) payment terms; (v) the profit margin we intend to achieve; and (vi) the credit history and years of relationship with our customers. In general, our product cycle is short and within one month. Our inventory turnover days was 23 days, nine days and nine days for FY2017, FY2018 and FY2019. As a result of our "cost-plus" pricing strategy, our relatively short product life cycle and our practice of not entering into long-term supply contract with customer, our Directors believe that we have the ability to pass any significant increase in the cost of raw materials to our customers. For a detailed sensitivity analysis on our profit by reference to the change in the cost of raw materials, see "Financial Information of our Group — Key Factors Affecting Our Results of Operation — Availability and cost of raw materials" in this prospectus. For our analysis on the exposure to commodity price risk, see the paragraph headed "Procurement and Suppliers — Commodity price risk exposure" in this section.

For the trading of aluminium products, as we realise profit from the difference in the purchase and selling prices of the same batch of products, we fix the price with reference mainly to the unit price of aluminium products offered by our upstream suppliers and the market prices of aluminium quoted on open markets plus an agreed mark-up fee, which is also subject to the considerations as set out in the paragraph above. In FY2017, to quickly establish our presence and customer base in this segment, we have adopted a more aggressive approach to our product pricing by fixing our selling price at cost of our purchase to capture market opportunity. As we have maintained stable business relationship with some customers of aluminium products, who were satisfied with the quality of the aluminium products sold by us, the number of purchase orders increased which lowered our procurement cost and we were responsible for the logistics expenses in FY2018, the customers agreed to the price increase proposed by our Group in FY2018 after a year of successful cooperation. As a result of the foregoing, we were able to improve our pricing and profitability and realise gain from the sales of aluminium products in FY2018.

Payment terms and credit policy

We allow our customers to settle payments by bank transfer or bank's acceptance bills. For wires and cables, we generally send invoices to our customers and recognise revenue after acceptance of products by our customers. For aluminium products, since we normally require our suppliers to deliver the products directly to the address designated by our customers, we generally send invoices to our customers and recognise revenue when our customers acknowledge acceptance of products.

For wires and cables, we generally offer a credit period of up to 90 days. For aluminium products, we generally offer a credit period of up to seven days.

We place great emphasis on managing our credit risks:

- ***Customer credibility assessment*** — In considering whether we should provide any credit terms to our customer, we will assess our customer or potential customer's credit quality by collecting feedback from our sales department, finance department and general manager and conducting searches on their past legal dispute record. Under our policy, we may also conduct credit assessment interviews with our customers to ascertain their creditworthiness as well as reviewing the value of any assets pledged in favour of us as security.

- ***Receivables management*** — Our Group has a policy to manage outstanding receivables. Debtors ageing analysis is prepared periodically for sales teams to follow up the corresponding debtors and record the follow up actions taken. Our Group measures the loss allowance for trade receivables at an amount equal to lifetime expected credit losses in accordance to financial reporting standards requirements using a provision matrix by reference to past default experience of the debtor, current market conditions and other relevant factors. As at 31 December 2017, 2018 and 2019, our trade and bills receivables amounted to RMB27.9 million, RMB66.9 million and RMB148.0 million, respectively. As at the Latest Practicable Date, 45.8% of our Group's total trade receivables outstanding as at 31 December 2019 had been settled. Our trade receivables turnover days were 34 days, 32 days and 57 days, respectively, for FY2017, FY2018 and FY2019. For detailed discussions of our trade and bills receivables turnover days and ageing analysis during the Track Record Period, see "Financial Information of our Group — Current Assets and Liabilities — Trade and bills receivables" in this prospectus.

- ***Overdue monitoring*** — It is our policy to review overdue balances and our receivable balances on an ongoing basis and appropriate assessment is made by our management team to determine whether or not provision for impairment of trade receivables should be made. To monitor the amount of overdue trade and bills receivables, our finance department reviews overdue payments from time to time and prepares a monthly ageing report showing the customers' overdue amounts. In the event of overdue, we may proceed to take follow-up actions to collect the overdue trade receivables, such as communicating with the relevant department of the customer responsible for processing payments.

For FY2017, FY2018 and FY2019, RMB0.3 million, RMB0.6 million and nil was made for impairment of trade and bills receivables, respectively.

PROCUREMENT AND SUPPLIERS

Raw materials

Our major raw materials include primarily copper materials (comprising mainly copper rods), aluminium materials (comprising mainly aluminium rods) and PVC materials. Our cost of raw materials, in aggregate, accounted for 84.6%, 54.3% and 84.3%, respectively, of our total cost of sales for FY2017, FY2018 and FY2019, respectively. Apart from procuring aluminium as major raw materials for manufacturing the conductors of our wires and cables, we also purchase aluminium products for trading.

Our procurement team comprised 17 members as at 31 December 2019 and was led by Ms. Luo, our executive Director. For further details of Ms. Luo, see "Directors and Senior Management — Directors" in this prospectus. For wires and cables, our procurement decisions were generally based on the purchase orders received from our customers and the expected sales volume in a given period. With the assistance of our production team, our procurement team confirms and receives a report from our accounts department which contains information about the availability of our existing inventory and the lead time of raw materials, and proceeds to make procurement plan and order the required raw materials from our approved suppliers. Before we place order, we usually obtained quotations from more than one supplier. Such practice allows us to enhance the bargaining power on price and avoid over-reliance on any single supplier. Our procurement team also monitors the commodity prices quoted on open markets. In the event that we notice there is any significant fluctuation in commodity prices, we will adjust our product price accordingly.

Commodity price risk exposure

As the key component of our raw materials are copper and aluminium, our Group was exposed to risk of commodity price fluctuations during the Track Record Period. The table below sets forth the range of monthly average market price fluctuation of copper and aluminium during the Track Record Period according to Frost & Sullivan:

	Maximum monthly decrease	Maximum monthly increase
Copper	–5.5%	+6.7%
Aluminium	–6.9%	+10.7%

For illustrative purpose only, if we assume a general increase of 7% and 11% (being the maximum monthly increase rate of the relevant commodity for FY2017, FY2018 and FY2019) of the commodity price of copper and aluminium, respectively, and we are not able to pass on such risk of price changes to our customers entirely, the hypothetical financial impact on our gross profit and gross profit margin would be as follow:

	FY2017	Hypothetical effect after commodity price increase	FY2018	Hypothetical effect after commodity price increase	FY2019	Hypothetical effect after commodity price increase
Gross profit *(RMB'000)*	14,396	(5,537)	38,356	12,019	53,874	6,789
Gross profit margin *(%)*	5.5	Loss	6.9	2.2	7.9	1.0

We do not enter into long-term supply or sales contracts. For our sales based on quotation, we usually fix the raw material price with suppliers on the same day when we receive orders from our customers so that we are able to minimise the risk of raw material price fluctuation and lock our profit margin. We also maintain certain level of inventory of popular products or raw materials in order to fulfil immediate demand from our customers on a timely manner.

For our sales under tender projects, our pricing term is markup plus market price of the relevant raw materials quoted on the day of placing orders on open market so as to minimise our exposure to raw material price fluctuations. Therefore, our Group was able to pass down any increase in raw material costs to our customers during the Track Record Period and we believe that we are able to continue to minimise the commodity price risk exposure in the future.

In the event that we could not transfer the risk of commodity price fluctuations on to our customers or manage our inventory turnover days, the impact of the exposure of such risk on our financial performance could be material. For details, see "Financial Information of our Group — Key Factors affecting our Results of Operation — Availability and cost of raw materials" in this prospectus. However, given that our revenue derived from tender projects (which usually have fixed price terms) accounted for less than 10% of our total revenue for FY2017, FY2018 and FY2019, the production cycle of our Group was relatively short, and the inventory turnover days of our Group was shorter than one month, we did not experience any material loss due to the increase in market price of commodity to the extent that we cannot pass down to our customers.

The table below sets forth a breakdown of our cost of sales for the indicated periods:

	FY2017		FY2018		FY2019	
	RMB'000	*% of cost of sales*	*RMB'000*	*% of cost of sales*	*RMB'000*	*% of cost of sales*
Raw materials						
Copper	57,186	23.1	91,230	17.7	110,512	17.5
Aluminium	144,818	58.4	181,370	35.3	357,722	56.6
PVC	5,998	2.4	5,049	1.0	10,020	1.6
Other material	1,660	0.7	1,812	0.3	54,246	8.6
Sub-total	209,662	84.6	279,461	54.3	532,500	84.3
Aluminium product	16,134	6.5	133,079	25.9	44,166	7.0
Finished products from sub-contractors	13,688	5.5	92,857	18.0	39,342	6.2
Others *(Note)*	8,415	3.4	8,903	1.8	15,648	2.5
Total	**247,899**	**100.0**	**514,300**	**100.0**	**631,656**	**100.0**

Note: Others mainly include staff cost, depreciation, sales tax and extra charge, utility, repair and maintenance and other miscellaneous fees.

We procure all of our principal raw materials and products for trading in the PRC. For copper and aluminium, during the Track Record Period, we mainly procured them from Sichuan Province, and we believe that they are readily available in the PRC. Our Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, we did not experience significant quality issues, significant delays or shortages of major raw materials, which could materially and adversely affect our business operation.

We did not engage in any hedging activity to manage the price fluctuation of copper or aluminium during the Track Record Period and we do not plan to engage in any hedging activity in the foreseeable future. Our procurement department will closely monitor the price of the raw materials and will adjust its procurement plans accordingly in order to minimise our exposure to fluctuations in prices and supply of raw materials and aluminium products for trading.

Suppliers

For FY2017, FY2018 and FY2019, we sourced major raw materials from over 120, 90 and 140 suppliers, respectively. Our suppliers comprise suppliers of raw materials and subcontractors. Our major suppliers are corporate entities which are principally engaged in the production and/or sale of copper and aluminium materials or provision of subcontracting services in the PRC.

Our relationship with each of our five largest suppliers for FY2017, FY2018 and FY2019 ranged from one year to 11 years. For FY2017, FY2018 and FY2019, our purchase from our five largest suppliers in aggregate amounted to RMB225.2 million, RMB428.4 million and RMB547.5 million, respectively, accounting for 94.2%, 85.9% and 89.6%, respectively, of our total purchase for the same periods. For FY2017, FY2018 and FY2019, our purchase from our largest supplier amounted to RMB138.9 million, RMB161.2 million and RMB405.2 million, respectively, accounting for 58.1%, 32.3% and 66.3%, respectively, of our total purchase for the same periods. We regard the suppliers that have a common controlling shareholder or are within the same group of companies as a single supplier group.

The following table set out the details of our five largest suppliers for the indicated periods:

For FY2017

Ranking	Supplier	Duration of business relationship (year)	Nature of business activities	Types of product(s) provided by our suppliers	Credit Period	Aggregate amount	% of total purchase for the year
						RMB'000	
1	Zhonglv *(Note 1)*	2014–2019	A private company whose major business activity involves production of aluminium rods and aluminium alloy rods	Aluminium materials	30 days upon delivery	138,895	58.1
2	Guangyuan Tongchuang *(Note 2)*	2017–2019	A private company, owned as to 40% by our Group prior to 15 April 2019, whose major business activity involves sale of wires and cables and aluminium products	Copper materials and subcontracting services for wires and cables	Two months upon acceptance of products	45,901	19.2
3	Jinjin (四川津津銅業有限公司) *(Note 3)*	2008–2019	A private company whose business involves the processing and sale of copper	Copper materials	Seven days upon acceptance of products	23,963	10.0
4	Supplier A *(Note 4)*	2013–2019	A listed group of companies whose business involves production and trading of copper	Copper materials	Same day upon delivery	8,453	3.5
5	Chengdu Xingda Copper Industry Co., Ltd. (成都星達銅業有限公司)	2017–2019	A private company whose major business activity involves sale of copper products and wires and cables	Copper materials	Same day upon delivery	7,987	3.4
	Sub-total					225,199	94.2
	Others					13,925	5.8
	Total					**239,124**	**100.0**

For FY2018

Ranking	Supplier	Duration of business relationship (year)	Nature of business activities	Types of product(s) provided by our suppliers	Credit Period	Aggregate amount	% of total purchase for the year
						RMB'000	
1	Zhonglv *(Note 1)*	2014–2019	A private company whose major business activity involves production of aluminium rods and aluminium alloy rods	Aluminium materials	Five days upon delivery	161,154	32.3
2	Guoda (廣元國大科技有限公司)	2017–2019	A private company whose major business activity involves sale of aluminium rods and aluminium alloy rods	Aluminium materials	Same day upon delivery	113,297	22.7
3	Guangyuan Tongchuang *(Note 2)*	2017–2019	A private company, owned as to 40% by our Group prior to 15 April 2019, whose major business activity involves sale of wires and cables and aluminium products	Copper materials and subcontracting services for wires and cables	Two months upon acceptance of products	94,473	19.0
4	Tianzhu *(Note 5)*	2017–2018	A state-owned enterprise with 51.25% shareholding by SASAC of Guangyuan City (廣元市人民政府國有資產監督管理委員會) and its major business activity involves sale of construction materials and electric cables	Aluminium materials	Five days upon delivery	31,767	6.4
5	Chengdu Yinfeng Copper Co., Ltd. (成都市銀豐銅業有限公司)	2009–2019	A private company whose major business activity involves the processing and sale of copper rod and copper wire	Copper materials	Same day upon delivery	27,668	5.5
	Sub-total					428,359	85.9
	Others					70,349	14.1
	Total					**498,708**	**100.0**

For FY2019

Ranking	Supplier	Duration of business relationship (year)	Nature of business activities	Types of product(s) provided by our suppliers	Credit Period	Aggregate amount *RMB'000*	% of total purchase for the period
1	Zhonglv *(Note 1)*	2014–2019	A private company whose major business activity involves production of aluminium rods and aluminium alloy rods	Aluminium materials	Invoice issued every month	405,170	66.3
2	Sichuan Xinruixin Metal Resources Co., Ltd. (四川鑫瑞欣金屬材料有限公司)	2019	A private company whose major business activity involves sale and production of metal materials	Copper materials	Seven days upon acceptance of products	56,279	9.2
3	Chengdu Yinfeng Copper Co., Ltd. (成都市銀豐銅業有限公司)	2009–2019	A private company whose major business activity involves the processing and sale of copper rod and copper wire	Copper materials	Seven days upon acceptance of products	34,847	5.7
4	Guangyuan Tongchuang (up to 15 April 2019) *(Note 2)*	2017–2019	A private company, owned as to 40% by our Group prior to 15 April 2019, whose major business activity involves sale of wires and cables and aluminium products	Copper materials and subcontracting services for wires and cables	Two months upon acceptance of products	28,018	4.6
5	Guoda (廣元國大科技有限公司)	2018–2019	A private company whose major business activity involves sale of aluminium rods and aluminium alloy rods	Aluminium materials	Invoice issued every month	23,141	3.8
	Sub-total					547,455	89.6
	Others					63,854	10.4
	Total					**611,309**	**100.0**

Notes:

(1) Zhonglv was our largest supplier for FY2017, FY2018 and FY2019 and one of our customers in FY2017 and FY2018. For further details, see the paragraph headed "Overlapping Major Customers and Suppliers" in this section.

(2) Guangyuan Tongchuang has become our non-wholly owned subsidiary since 16 April 2019. For further details, see "Guangyuan Tongchuang" in this prospectus.

(3) Jinjin was one of our largest supplier in FY2017 and one of our customers in the same year. For further details, see the paragraph headed "Overlapping Major Customers and Suppliers" in this section.

(4) During FY2017, FY2018 and FY2019, four subsidiaries of Supplier A were our suppliers. Thus, for illustrative purpose, purchases made with these subsidiaries were consolidated.

(5) Tianzhu was our largest customer in FY2017 and one of our five largest suppliers in FY2018. For further details, see the paragraph headed "Overlapping Major Customers and Suppliers" in this section.

Guangyuan Tongchuang was our second, third and fourth largest supplier for FY2017, FY2018 and FY2019 (whose cost of purchase was accounted for up to 15 April 2019), respectively. For illustrative purpose, as if Tongchuang Equity Acquisition were completed since the beginning of FY2017 and had Guangyuan Tongchuang's financial statements been combined into our Enlarged Group's financial statements, purchase from Guangyuan Tongchuang would be eliminated in the enlarged group's combined account, resulting in a new five largest supplier as follows:

FY2017 — Our second largest supplier during FY2017 will be replaced by Guoda (the largest supplier of Guangyuan Tongchuang for FY2017) with three-year relationship with our Enlarged Group, and our Enlarged Group's total purchase from such supplier amounted to RMB46.6 million for FY2017. No other changes of our five largest suppliers of our Enlarged Group for FY2017 will arise from the combination effect.

FY2018 — We would have a new fifth largest supplier being Supplier A (the tenth largest supplier of Guangyuan Tongchuang for FY2018 and the fourth largest supplier of our Group for FY2017), and our Enlarged Group's total purchase was RMB17.3 million for FY2018. Ranking of Tianzhu and Chengdu Yinfeng Copper Co., Ltd. will swap because of the purchase of Guangyuan Tongchuang combing into the Enlarged Group. No other changes of our five largest suppliers of our Enlarged Group's for FY2018 will arise from the combination effect.

FY2019 — We would have a new fifth largest supplier, Henan Gongyi Qiangli Metal Products Co., Ltd. (鞏義市強力金屬製品有限公司) (the third largest supplier of Guangyuan Tongchuang for the period ended 15 April 2019), and our Enlarged Group's total purchase was RMB17.0 million for FY2019. Such supplier is engaged in the manufacturing of steel wires located in Henan Gongyi City and has an approximately two-year relationship with our Enlarged Group. No other changes of our five largest suppliers of our Enlarged Group for FY2019 will arise from the combination effect.

Save for Guangyuan Tongchuang, none of our Directors, their respective close associates or any Shareholder (who, to the best knowledge of our Directors, owns more than 5% of the issued share capital of our Company as at the Latest Practicable Date) had any interest in any of our five largest suppliers for FY2017, FY2018 and FY2019. Save for Guangyuan Tongchuang, all of our five largest suppliers for FY2017, FY2018 and FY2019 are Independent Third Parties.

Selection of suppliers

Our procurement department maintains a list of approved suppliers. We select new suppliers based on a number of criteria including their product quality, pricing, supply capability and business track record with us. For suppliers of aluminium materials, we tend to procure the required materials from suppliers who are situated in close proximity to our production plants to minimise the delivery expenses and shorten the time of delivery. We communicate with potential suppliers and review their background information as part of our initial assessment. For existing suppliers, their performance is assessed based on criteria such as quality of goods, pricing, reliability and responsiveness to enquiries and complaints.

Salient terms of our supply contracts

It is not our practice to enter into any long-term contract with our suppliers. We believe that our major raw materials are standardised products and their supply is relatively stable and sufficient in the market, which allows us to exercise better control over the costs by signing contracts or placing orders with our suppliers whenever we need to make purchase.

The key contract terms with our suppliers generally include, amongst others, the following:

Key terms		Description
Duration of the term	:	The contract usually remains effective for one year or upon delivery of raw materials.
Specification and quantity	:	The contract or purchase order generally specifies the type of material to be purchased and the price per unit (such as tonne).
Delivery	:	The raw materials ordered are usually directly delivered to our production sites. The costs of transportation are generally borne by the supplier.
Contract price	:	Most of the contracts are lump sum fixed price contracts. The total amount of contract sum normally includes fee for packaging, quality control, transportation cost, after sale service, VAT.
Payment terms	:	The credit period granted by our suppliers to us for our purchase generally ranges from nil to 120 days. We may be required by our suppliers to pay a 20% deposit for orders of raw materials that are over 10 tonnes.
Product return	:	Upon the arrival of the raw materials and accessories at our indicated location, we will examine the same. Any defective raw materials and accessories will be delivered back to the relevant suppliers and they will bear the costs of delivery incurred in the product return.

Credit period granted by our suppliers of copper and aluminium is up to 60 days after they have issued invoices to us. We settle purchase payments in RMB. Some suppliers issue invoice to us on a monthly basis. We normally settle the invoices by way of bank transfer and/or banks acceptance bills.

During the Track Record Period and up to the Latest Practicable Date, we were in material compliance with the terms of supply contracts entered into with our major suppliers, and we had not experienced nor were we aware of any circumstance leading to early termination of the supply contract or contractual disputes with or claims by our major suppliers.

SUBCONTRACTING ARRANGEMENTS

For FY2017, FY2018 and FY2019, we subcontracted the production of certain wires and cables by engaging external subcontractors and Guangyuan Tongchuang who possessed the required skills and capacity to undertake the work. We outsourced the production as and when (i) our production capacity was not sufficient to satisfy our customers' order; or (ii) we are not able to undertake the production of high voltage cables on our own as we do not possess the relevant production facilities. For FY2017, FY2018 and FY2019, we engaged three, three and five subcontractors (including Guangyuan Tongchuang), respectively, to provide subcontracting services for us in respect of certain wires and cables and high voltage cables. These subcontractors are mostly situated in Sichuan Province, and are principally engaged in the manufacturing and/or sale of wires and cables. We had maintained around one to three years of business relationship with them. We select the relevant subcontractor candidate(s) by reference to their price, capacity, work quality, qualification and related work experience.

We generally do not enter into any long-term agreements with our subcontractors. We enter into agreements with our subcontractors on project basis. The standard terms included in the contracts with our subcontractor are the scope of services, products specifications and subcontracting fee. The subcontracting fee is determined based on the technical complexity of the subcontracted work, time of delivery and work amount.

Guangyuan Tongchuang was one of our subcontractors of OEM products including aluminium overhead power cables and steel reinforced aluminium bare cables during FY2017, FY2018 and FY2019. For details of the reason for entering into a subcontracting arrangement with Guangyuan Tongchuang, see the paragraph headed "Overlapping Major Customers and Suppliers" in this section. Our subcontracting cost paid to Guangyuan Tongchuang for FY2017, FY2018 and up to 15 April 2019 amounted to RMB28.8 million, RMB78.8 million and RMB28.0 million, respectively, which accounted for 12.1%, 15.8% and 4.6%, respectively, of our total purchase. See the paragraph headed "Overlapping Major Customers and Suppliers" in this section.

Our subcontracting cost paid to other external subcontractors (excluding Guangyuan Tongchuang) for FY2017, FY2018 and FY2019 amounted to RMB3.6 million, RMB6.8 million and RMB11.4 million, respectively, which accounted for 1.5%, 1.4% and 1.9% of our total purchase, respectively.

Save for Guangyuan Tongchuang, none of our Directors, their respective close associates or any Shareholders (who, to the best knowledge of our Directors, owns more than 5% of the issued share capital of our Company as at the Latest Practicable Date) had any interest in any of our major subcontractors for FY2017, FY2018 and FY2019. Our Directors have confirmed that save for Guangyuan Tongchuang, other subcontractors engaged by us for FY2017, FY2018 and FY2019 are Independent Third Parties.

During the Track Record Period and up to the Latest Practicable Date, we did not experience any material dispute with our subcontractors.

OVERLAPPING MAJOR CUSTOMERS AND SUPPLIERS

Tianzhu

Tianzhu was our largest customer in FY2017 which was also one of our five largest suppliers for FY2018. It is held as to 51.25% by Guangyuan Investment Holding (Group) Co., Ltd. which in turn is wholly-owned by SASAC of Guangyuan City (廣元市人民政府國有資產監督管理委員會). The major business activity of Tianzhu involves the sale of construction materials and electric cables. We, as supplier, sold finished aluminium wires and cables to Tianzhu in 2017 and we, as customer, sourced unprocessed aluminium rods from Tianzhu for processing activities in 2018. From 2019, we ceased sourcing unprocessed aluminium rods form Tianzhu because we purchased from other suppliers. For FY2017, FY2018 and FY2019, our purchase of aluminium materials from Tianzhu amounted to nil, RMB31.8 million and nil, respectively, representing nil, 6.4% and nil, respectively, of our total purchase. Our sales of finished aluminium wires and cables to Tianzhu for FY2017, FY2018 and FY2019 amounted to RMB51.5 million, nil and nil, respectively, representing 19.6%, nil and nil, respectively, of our total revenue for the same periods.

The following table sets out our sales to and purchases from Tianzhu in FY2017, FY2018 and FY2019:

	FY2017				FY2018				FY2019			
	Sales amount *RMB'000*	As a percentage of our total sales	Gross profit *RMB'000*	Gross profit margin	Sales amount *RMB'000*	As a percentage of our total sales	Gross profit *RMB'000*	Gross profit margin	Sales amount *RMB'000*	As a percentage of our total sales	Gross profit *RMB'000*	Gross profit margin
Sales to Tianzhu	51,475	19.6%	(20)	N/A	—	—	—	—	—	—	—	—
	Purchase amount *RMB'000*	As a percentage of our total purchase			Purchase amount *RMB'000*	As a percentage of our total purchase			Purchase amount *RMB'000*	As a percentage of our total purchase		
Purchases from Tianzhu	—	—			31,767	6.4%			—	—		

Guangyuan Tongchuang

Guangyuan Tongchuang was one of our five largest external suppliers which was also one of our external customers for FY2017, FY2018 and up to 15 April 2019. On 15 April 2019 we completed the Tongchuang Equity Acquisition, and starting from 16 April 2019 we owned 56.67% equity interest in Guangyuan Tongchuang. To leverage on its production facilities and financial capabilities to source production materials, we, as customer, purchased from Guangyuan Tongchuang copper materials (for production of Chengdu Plant), aluminium products (for trading) and finished wires and cables (through subcontracting arrangement). For details, see the paragraph headed "Subcontracting Arrangements" in this section. As a result, Guangyuan Tongchuang was taken as our external supplier for FY2017, FY2018 up to 15 April 2019. Guangyuan Tongchuang has ceased the sourcing of copper for Sichuan Saftower since May 2018. Our purchase from Guangyuan Tongchuang for FY2017, FY2018 and up to 15 April 2019 in aggregate was RMB45.9 million, RMB94.5 million and RMB28.0 million respectively, representing 19.2%, 18.9% and 4.6%, respectively, of our total purchase.

Apart from being a supplier, for FY2017, FY2018 and up to 15 April 2019, Guangyuan Tongchuang purchased from us semi-finished wires for further production and processing. Our sales to Guangyuan Tongchuang for FY2017, FY2018 and up to 15 April 2019 were RMB12,000, RMB0.2 million and RMB0.7 million, respectively.

The following table sets out our sales to and purchases amount from Guangyuan Tongchuang in FY2017, FY2018 and FY2019:

	FY2017				FY2018				FY2019			
	Sales amount *RMB'000*	As a percentage of our total sales	Gross profit *RMB'000*	Gross profit margin	Sales amount *RMB'000*	As a percentage of our total sales	Gross profit *RMB'000*	Gross profit margin	Sales amount *RMB'000*	As a percentage of our total sales	Gross profit *RMB'000*	Gross profit margin
Sales to Guangyuan Tongchuang *(Note)*	12	—	2	16.7%	244	0.05%	19	7.8%	709	0.1	211	29.8%
	Purchase amount *RMB'000*	As a percentage of our total purchase			Purchase amount *RMB'000*	As a percentage of our total purchase			Purchase amount *RMB'000*	As a percentage of our total purchase		
Purchases from Guangyuan Tongchuang *(Note)*	45,901	19.2%			94,473	18.9%			28,018	4.6%		

Note: The calculation was up to 15 April 2019 as Guangyuan Tongchuang became a subsidiary of our Group since 16 April 2019 and its financial results were consolidated to our Group since then.

Our sales to Guangyuan Tongchuang did not contribute significant gross profit to our Group for FY2017, FY2018 and FY2019. Our Directors are of the view that the pricing and terms for the transactions between our Group and Guangyuan Tongchuang for FY2017, FY2018 and FY2019 were determined on an arm's length basis, and were comparable to the market price and those of our Group's transactions with other customers/suppliers in respect of the same or similar products, respectively. For further details on the business of Guangyuan Tongchuang, see "Guangyuan Tongchuang — Business of Guangyuan Tongchuang" in this prospectus.

Jinjin

Jinjin was one of our largest suppliers in FY2017 which was also our customer in the same year. It is a private company whose business activity involves the processing and sale of copper materials. We, as customer, purchased bare copper wires from Jinjin and we, as supplier, sold finished wires and cables to Jinjin in FY2017. For FY2017, FY2018 and FY2019, our purchase of copper materials from Jinjin amounted to RMB24.0 million, RMB9.4 million and nil, respectively, representing 10.0%, 1.9% and nil, respectively, of our total purchases. We ceased sourcing copper materials from Jinjin since 2019 as Jinjin ceased manufacturing business. Our sales of finished wires and cables to Jinjin for FY2017, FY2018 and FY2019 amounted to RMB75,000, nil and nil, representing 0.03%, nil and nil, respectively, of our total revenue for the same periods. The sale of finished wires and cables to Jinjin was an one-off transaction.

The following table sets out our sales to and purchases amount from Jinjin in FY2017, FY2018 and FY2019:

	FY2017				FY2018				FY2019			
	Sales amount	As a percentage of our total sales	Gross profit	Gross profit margin	Sales amount	As a percentage of our total sales	Gross profit	Gross profit margin	Sales amount	As a percentage of our total sales	Gross profit	Gross profit margin
	RMB'000		*RMB'000*		*RMB'000*		*RMB'000*		*RMB'000*		*RMB'000*	
Sales to Jinjin	75	0.03%	13	17.3%	—	—	—	—	—	—	—	—
	Purchase amount	As a percentage of our total purchase			Purchase amount	As a percentage of our total purchase			Purchase amount	As a percentage of our total purchase		
	RMB'000				*RMB'000*				*RMB'000*			
Purchases from Jinjin	23,963	10.0%			9,426	1.9%			—	—		

Zhonglv

Zhonglv was our largest supplier for FY2017, FY2018 and FY2019 which was also our customer for FY2017 and FY2018. It is a private company whose business activity involves the production of aluminium rods and aluminium alloy rods. We, as customer, purchased unprocessed aluminium rods from Zhonglv and we, as supplier, sold mainly aluminium scrap and wires and cables to Zhonglv. For FY2017, FY2018 and FY2019, our purchase of unprocessed aluminium rods from Zhonglv amounted to RMB138.9 million, RMB161.2 million and RMB405.2 million, respectively, representing 58.1%, 32.3% and 66.3%, respectively of our total purchase. Our sales of aluminium scrap and wires and cables to Zhonglv for FY2017, FY2018 and FY2019 amounted to RMB0.7 million, RMB1,000 and nil, representing 0.3%, 0.0001% and nil, respectively, of our total revenue for the same periods.

The following table sets out our sales to and purchases amount from Zhonglv for FY2017, FY2018 and FY2019:

	FY2017				FY2018				FY2019			
	Sales amount *RMB'000*	As a percentage of our total sales	Gross profit *RMB'000*	Gross profit margin	Sales amount *RMB'000*	As a percentage of our total sales	Gross profit *RMB'000*	Gross profit margin	Sales amount *RMB'000*	As a percentage of our total sales	Gross profit *RMB'000*	Gross profit margin
Sales to Zhonglv *(Note)*	663	0.3%	10	1.5%	1	0.0002%	—	—	—	—	—	—
	Purchase amount *RMB'000*	As a percentage of our total purchase			Purchase amount *RMB'000*	As a percentage of our total purchase			Purchase amount *RMB'000*	As a percentage of our total purchase		
Purchases from Zhonglv *(Note)*	138,895	58.1%			161,154	32.3%			405,170	66.3		

Zirao

Zirao was one of our five largest customers for FY2018 and FY2019 which was also one of our suppliers in FY2017. It is a private company whose major business activity involves sale of metal materials, wires and cables and construction materials. We, as customer, purchased aluminium ingots from Zirao and we, as supplier, sold finished wires and cables and semi-finished wires to Zirao for FY2018 and FY2019. For FY2017, our purchase of aluminium ingots from Zirao amounted to RMB0.56 million, representing 0.23% of our total purchase. Our sales of finished wires and cables and semi-finished wires to Zirao for FY2018 and FY2019 amounted to RMB41.5 million and RMB45.2 million, representing 7.5% and 6.6%, respectively, of our total revenue for the same periods.

Guoda

Guoda was one of our five largest suppliers in FY2018 and FY2019 which was also one of our customers in FY2018. It is a private company whose major business activity involves sale of aluminium rods and aluminium alloy rods. We, as customer, purchased aluminium materials from Guoda and we, as supplier, sold copper wires for electrical equipment to Guoda in FY2018. For FY2018 and FY2019, our purchase of aluminium materials from Guoda amounted to RMB113.3 million and RMB23.1 million, representing 22.7% and 3.8%, respectively, of our total purchase for the same periods. Our sales of copper wires for electrical equipment to Guoda for FY2018 amounted to less than RMB1,000.

The following table sets forth our gross profit and gross profit margin from our sales to overlapping major customers and suppliers and to other customers for the indicated periods:

	FY2017			FY2018			FY2019		
	Revenue	Gross profit	Gross profit margin	Revenue	Gross profit	Gross profit margin	Revenue	Gross profit	Gross profit margin
	RMB'000	*RMB'000*	*%*	*RMB'000*	*RMB'000*	*%*	*RMB'000*	*RMB'000*	*%*
Overlapping major customers and suppliers	52,225	5	0.01	41,759	1,564	3.8	45,949	1,878	4.1
Other customers	210,070	14,391	6.9	510,897	36,792	7.2	639,581	51,996	8.1
	262,295	**14,396**	**5.5**	**552,656**	**38,356**	**6.9**	**685,530**	**53,874**	**7.9**

For FY2017, FY2018 and FY2019, the overlapping major customers and suppliers did not have significant contribution to our financial performance. For FY2017, FY2018 and FY2019, our sales to overlapping major customers and suppliers generated gross profit of RMB5,000, RMB1.6 million and RMB1.9 million respectively, representing 0.03%, 4.1% and 3.5%, respectively, of our total gross profit. For FY2018 and FY2019, we recorded a lower gross profit margin from our sales to overlapping major customers and suppliers as compared to our sales to other customers mainly because the products sold to overlapping major customers and suppliers were mostly semi-finished aluminium wires (i.e. aluminium rods), which carried a lower gross profit margin than finished wires and cables. For FY2018 and FY2019, we recorded a gross profit margin of 3.8% and 4.1%, respectively, from our sales to overlapping customers and suppliers, which were similar to our overall gross profit margin from sales of aluminium rods at 3.4% and 3.9%, respectively, for the same period. For FY2017, we mainly sold classic finished aluminium wires to overlapping major customers and suppliers. Yet, the gross profit margin from our sales to overlapping major customers and suppliers was thin at 0.01% mainly because we had adopted a competitive pricing in sales of aluminium wires and cables during FY2017 before we established our market presence and expanded our customer base in Guangyuan.

Directors' confirmation

Our Directors have confirmed that our sales to and our purchases from such overlapping customer-supplier were conducted in the ordinary course of business, under normal commercial terms, on an arm's length basis, and at prices that are no less favourable than that from Independent Third Parties. To the best knowledge of our Directors, save as disclosed above, we did not have any overlap between our other major customers and major suppliers for FY2017, FY2018 and FY2019 and up to the Latest Practicable Date, and save as Guangyuan Tongchuang, our other overlapping customers and suppliers as disclosed above are Independent Third Parties.

AGENCY SERVICE ARRANGEMENTS

Background of our agency service arrangements

Guangyuan is one of the three largest aluminium production markets in Sichuan Province with rich proved reserve of bauxite (鋁土礦), which represented 15% of that of Sichuan Province in 2017, according to Frost & Sullivan. Accordingly, the aluminium industry has been the key segment of Guangyuan's economy. Being a pillar of the industry and one of the most important local manufacturers and upstream suppliers of liquid aluminium (鋁水) and aluminium ingots, which are produced through electrolysis of aluminium oxide, in Guangyuan, Aostar has been receiving a solid support from the local government. Products (i.e. liquid aluminium) from Aostar are mainly supplied to downstream manufacturers for producing aluminium products, such as aluminium ingots, aluminium bar, aluminium rods, which are widely used in construction, renovation and fitting out sectors. Aostar has a production scale of 100,000 tonnes of electrolytic aluminium per annum.

For quite a long period of time, the business and financial conditions of local aluminium suppliers have been badly affected by the over-supply of aluminium in the PRC. Aostar, an upstream player in the aluminium industry in Guangyuan, experienced financial difficulty due to a significant decline of aluminium price as a result of the imbalance of the supply and demand of aluminium. Thus, back in 2014, Guangyuan City government took an initiative to promote the healthy development of the local aluminium industry and support the upstream player's financial position, including Aostar. These initiatives included coordinating with financial institutions and local enterprises to offer business and financial support to Aostar.

When we first established Guangyuan Saftower in 2015, we became acquainted with Aostar through the introduction of Guangyuan City government. To respond to SASAC of Guangyuan City's initiatives to strengthen the aluminium supply chain and foster the development of aluminium industry by offering the financial support to Aostar, which is one of the most important local manufacturers and upstream suppliers of liquid aluminium and aluminium ingots, we, as one of the market players of aluminium industry in Guangyuan, sourced aluminium oxide for Aostar between 2015 and 2016, and Guangyuan Saftower entered into a supplemental agreement with Aostar and Guizhou Galuminium in 2018 whereby Guangyuan Saftower was added as a party to supplement the aluminium oxide purchase agreement dated 11 December 2017 between Aostar and Guizhou Galuminium and Guangyuan Saftower agreed to execute the purchase of aluminium oxide from Guizhou Galuminium on behalf of Aostar in 2018.

On 11 December 2018, Guangyuan Saftower entered into a supply agreement with Aostar under which Aostar, as buyer, agreed to purchase from us the target purchase quantity of aluminium oxide of 60,000 tonnes in 2019, reimburse the price of aluminium oxide paid by us plus an agency fee. Under the agreement, we are entitled to claim against Aostar for any shortfall in the aforesaid target purchase quantity committed by Aostar, except that such shortfall was caused by *force majeure* events or the suspension or reduction of production of Aostar. On 14 December 2018, Guangyuan Saftower entered into a supply agreement with Guizhou Galuminium which set out, among others, the aluminium oxide agreed to be supplied by Guizhou Galuminium for 2019, the total target purchase (which mirrored the supply agreement entered into between us and Aostar on 11 December 2018), pricing and payment terms. The agreement set out the obligation of Guangyuan Saftower to commit the total target purchase in the amount of 60,000 tonnes per year from Guizhou Galuminium (the "**2019 Target Purchase**"), failing which Guangyuan Saftower shall be contractually liable to Guizhou Galuminium for the shortfall at RMB300 per tonne (the "**Default Clause**"). The performance of the 2019 Target Purchase was stated to be subject to the occurrence of *force majeure* events or the suspension or reduction of production by ultimate user (i.e. Aostar) (the "**2018 Aluminium Oxide Supply Agreement**"). Subsequent to the agreement between Aostar and Guizhou Galuminium, we entered into a tripartite agreement with Aostar and Guizhou Galuminium which mirrored substantially the same terms of purchase under 2018 Aluminium Oxide Supply Agreement, stating the role of Guangyuan Saftower as buyer to execute the purchase from Guizhou Galuminium on behalf of Aostar, and providing for the joint and several liability of Guangyuan Saftower with Aostar in the event of breach of the 2019 Target Purchase. A supplemental agreement dated 1 April 2019 was entered into between Guangyuan Saftower and Guizhou Galuminium which, among others, supplemented the payment terms in respect of the purchase by Guangyuan Saftower since April 2019 and supplemented the Default Clause in respect of the purchase (the "**2018 Supplemental Aluminium Oxide Supply Agreement**") to the effect that, if any of the parties fails to purchase/supply the 60,000 tonnes aluminium oxide in 2019, the dispute shall be settled by way of negotiation (the "**Dispute Resolution Clause**"). The 2018 Aluminium Oxide Supply Agreement and the tripartite agreement entered into with Aostar and Guizhou Galuminium did not explicitly provide that any liabilities arising from a breach of contract shall only be borne by Aostar. Nevertheless, as disclosed below, while we are currently involved in a claim by Guizhou Galuminium in respect of an alleged breach of the 2019 Target Purchase, our PRC Legal Advisers and the litigation counsel advised that, in the context of the Agency Service Arrangement, the liabilities for any breach of contract shall be ultimately borne by Aostar according to the Contract Law of the PRC (《中華人民共和國合同法》) (the "**PRC Contract Law**"). Further, Aostar under a separate supply agreement dated 11 December 2018 entered into with us agreed to compensate us for any shortfall in its committed purchase amount of 60,000 tonnes for FY2019. On the other hand, our liability to take up the shortfall in the 2018 Aluminium Oxide Supply Agreement is stated to be subject to the proviso that the occurrence of such shortfall was not the result of any *force majeure* events or the suspension or reduction of production by Aostar. As advised by our PRC Legal Advisers, notwithstanding the arrangement between us and Aostar in respect of any potential liability arising from the alleged breach of the 2019 Target Purchase, we are at liberty to conduct negotiations with Guizhou Galuminium in accordance with the Dispute Resolution Clause under the agreement between us and Guizhou Galuminium and the acceptance or objection of the negotiation results need consent from Hong Sheng which subsequently provided indemnity in favour of Guangyuan Saftower in this regard. For details, see "Compliance and Litigation — Litigation" in this section.

We also entered into agreements with Chongqing Nanchuan, another designated raw materials supplier in 2018 which set out, among others, the aluminium oxide agreed to be supplied by Chongqing Nanchuan, pricing and payment terms. There is no total purchase target under our agreements with Chongqing Nanchuan. As a result of the entering into of these agreements with Aostar, Guizhou Galuminium or Chongqing Nanchuan (as the case maybe), we, as an agent, agreed to assist Aostar, being the ultimate purchaser of aluminium oxide, paying the purchase price to the raw material suppliers designated by Aostar, who in turn, agreed to reimburse the price of aluminium oxide paid by us plus an agency fee (as set out in the table below) (the "**Agency Service Arrangements**").

We financed the purchase of aluminium oxide by the borrowing from Tongsheng Guochuang during the Track Record Period. As an investment platform of the Guangyuan City government, Tongsheng Guochuang did not engage in the aluminium manufacturing industry directly but was involved in the investment in the market players as a passive investor. To our Directors' best knowledge, information and belief, as an investment platform, sourcing of aluminium oxide is not in line with the business scope of Tongsheng Guochuang. To echo SASAC of Guangyuan City's initiative to support Aostar, Tongsheng Guochuang provided financing support to us and earned interest income under such arrangement, and in turn we facilitated Aostar's purchase of raw materials as an agent to enhance its liquidity and built up our relationship with upstream suppliers and brought in agency fee income to our Group. We entered into the Agency Service Arrangements after considering that, with a production scale of 100,000 tonnes of electrolytic aluminium per annum, Aostar has sufficient and stable demand of aluminium oxide from downstream players, it is important for Aostar, as an important upstream supplier, to be able to maintain a stable supply of liquid aluminium to local players, and such service will further our business network with upstream suppliers, allow us to earn agency fee from Aostar and consolidate our presence in aluminium supply market in Guangyuan where we are also one of the market players. In addition, Aostar pledged its machinery and equipment (electrolytic tanks) as security in favour of us which was to secure its payment obligation under the Agency Service Arrangements. Accordingly, our Directors are of the view that the credit risk arising from our Group's historical sales to Aostar should be sufficiently covered by the security offered by Aostar and hence manageable.

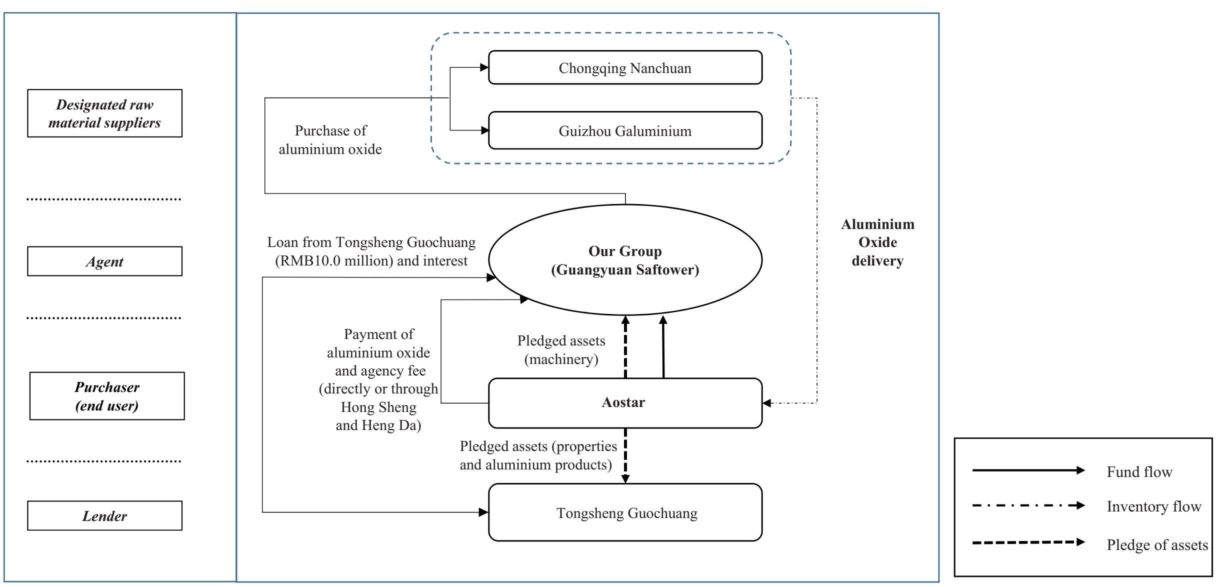
Under the Agency Service Arrangements, Guangyuan Saftower entered into a loan agreement with Tongsheng Guochuang on 11 May 2018, under which Tongsheng Guochuang as lender agreed to lend to Guangyuan Saftower as borrower a loan in an amount of RMB10 million (the "**Old Tongsheng Loan**") for a term up to 10 August 2018 at an interest rate initially set at 15% per annum. The Old Tongsheng Loan was subsequently renewed pursuant to several agreements dated 10 August 2018, 14 November 2018, 14 January 2019, 14 March 2019 and 2 July 2019, respectively. Pursuant to the loan renewal agreement dated 2 July 2019, the interest rate of the Old Tongsheng Loan was reduced to 8% per annum. On 29 September 2019, Guangyuan Saftower as borrower and Tongsheng Guochuang as lender entered into a new loan agreement also for an amount of RMB10 million on substantially the same term (save as the security required) as the Old Tongsheng Loan (the "**Current Tongsheng Loan**"). The Current Tongsheng Loan is for an initial term of three months up to 28 December 2019, and is secured by the corporate guarantee provided by Sichuan Saftower. According to the loan agreement dated 29 September 2019, the permitted use of the Current Tongsheng Loan is not limited only to providing financing under the Agency Service Arrangements but can also be used as our general working capital. The term of the Current Tongsheng Loan was subsequently renewed pursuant to two agreements dated 28 December 2019 and 28 March 2020 respectively and RMB0.5 million was repaid on 21 January 2020. On 13 May 2020, based on mutual agreement with Tongsheng Guochuang, we repaid the Current Tongsheng Loan in full.

Since March 2019, Guangyuan Hong Sheng Aluminium Technology Company Limited* (廣元市宏盛鋁業科技有限公司) ("**Hong Sheng**") and Guangyuan Heng Da Aluminium Company Limited* (廣元恒大鋁業有限公司) ("**Heng Da**"), both being Independent Third Parties, made the payment under the Agency Service Arrangements with our Group for Aostar, according to the confirmation signed by each of Hong Sheng and Heng Da. Hong Sheng made the payment under the Agency Service Arrangement with our Group for Aostar mainly because Hong Sheng undertook certain contracting works for Aostar and Aostar engaged Hong Sheng to purchase aluminium oxide from us and Hong Sheng settled the amount with our Group directly. Heng Da purchased raw materials from Aostar such as liquid aluminium and Aostar utilised its trade receivables from Heng Da to settle the amount with our Group under the Agency Service Arrangement.

Agency Service Arrangements

The following diagram illustrates the details of the Agency Service Arrangements:

Aluminium oxide (AL_2O_3) agency service arrangements



As advised by our PRC Legal Advisers, the entering into of the Agency Service Arrangements and our use of the Old Tongsheng Loan and the Current Tongsheng Loan to finance our purchase of aluminium oxide under such arrangements are legal under the PRC laws.

Set out below are the key parties involved in and the salient terms of the Agency Service Arrangements:

Ultimate purchaser	Aostar
Raw material purchased	Aluminium oxide (AL_2O_3) (氧化鋁)
Agent	Guangyuan Saftower
Designated suppliers of raw materials	(i) Guizhou Galuminium Aluminium-oxide Co., Ltd.* 貴州廣鋁氧化鋁有限公司 ("**Guizhou Galuminium**"); (ii) Chongqing Nanchuan Pioneer Alumina Co., Ltd.* 重慶市南川區先鋒氧化鋁有限公司 ("**Chongqing Nanchuan**") and its parent company (the above are collectively referred to as the "**Designated Suppliers**"), both of which are Independent Third Parties to our Group
Term of the agreement	1 January 2018 to 31 December 2018; 1 January 2019 to 31 December 2019
Total target purchase	60,000 tonnes per year (in respect of transaction with Guizhou Galuminium)
Agency fee rate	Fixed at RMB80.0 per tonne of the aluminium-oxide purchased by us (in respect of transaction with Guizhou Galuminium)
Credit granted by us to the ultimate purchaser	Purchase price will become immediately payable for every 3,000 tonnes of purchase
Inventory risk	Aostar bears the inventory risk
Lender of the Old Tongsheng Loan and the Current Tongsheng Loan	Tongsheng Guochuang, the substantial shareholder of Guangyuan Tongchuang
Assets pledged to the lender of the Old Tongsheng Loan by Aostar in favour of our Group	Land and buildings owned by Aostar in aggregate of GFA of 701.6 sq.m. and aluminium products produced by Aostar *(Note 1)*
Interest rate	15% per annum *(Note 2)*
Assets of Aostar pledged to our Group as collateral of receivables from Aostar under the Agency Service Arrangement	17 units of electrolytic tank (電解槽)

Note: 1 The pledged assets for the Old Tongsheng Loan had been discharged as at the Latest Practicable Date. The Current Tongsheng Loan was secured by the corporate guarantee provided by Sichuan Saftower and was fully repaid on 13 May 2020.

Note 2: Tongsheng Guochuang agreed to reduce the interest rate to 8% per annum with effect from 1 July 2019.

Financial impacts to our Group

The table below summarises the transactions under the Agency Service Arrangements:

	FY2018	FY2019
	RMB'million	*RMB'million*
Gross purchase amount (net of tax)	133.1	103.4
Agency fee income*(Note 1)*	3.3	3.1
Finance costs incurred	1.0	1.1
External financing utilised	—	10.0

	As at 31 December	
	2018	2019
	RMB'million	*RMB'million*
Other receivables	14.7	10.0
Other receivable turnover days*(Note 2)*	20 days	43 days

Note:

1. Recognised as "Other income" in our consolidated financial statements.

2. We calculated other receivable turnover days by dividing average other receivables by gross purchase amount and agency fee income and multiplied by 365 days for FY2018 and FY2019.

We determine the classification of income from the transactions under the Agency Service Arrangements based on a continuing assessment of various factors according to *HKFRS 15 Revenue from Contracts with Customers*. Under such transactions, we facilitate the trading of aluminium oxide between the purchaser and designated supplier on a net basis as agent. Since our Group (i) has no ability to direct the use of, and to obtain substantially all of the remaining benefits from the aluminium oxide during the transaction; (ii) has no ability to determine the prices of aluminium oxide; and (iii) the inventory risk was borne by the ultimate purchaser, our Group recognises the income arising from the Agency Service Arrangements under "Other income and gains" and recognises income in the amount of commission to which we expect to be entitled in exchange for arranging for the aluminium oxide provided by the other party, in the net amount of considerations. Also, as we do not consider the Agency Service Arrangements as our principal business, we do not classify the income derived therefrom as our revenue.

Apart from aluminium oxide, we sold on a non-recurring basis aluminium and copper wires and cables and cable accessories to Aostar directly in November 2018, which were outside the Agency Service Arrangements and set out as follows:

	FY2018 *RMB'million*	**FY2019** *RMB'million*
Sales (net of tax)	17.6	—
Gross profit	3.4	—
Gross profit margin (%)	19.3%	—

	As at 31 December 2018 *RMB'million*	**As at 31 December 2019** *RMB'million*
Trade receivables (inclusive of tax)	20.4	13.4
Trade receivables turnover days*(Note 1)*	212 days	N/A*(Note 2)*

Note:

1. We calculate trade receivable turnover days by dividing average trade receivables by revenue and multiplied by 365 days for FY2018 and FY2019.

2. In FY2019, we did not record sales to Aostar. The trade receivables of RMB13.4 million due from Aostar as at 31 December 2019 was carried from the sales recorded during FY2018. Hence, trade receivables turnover days is not applicable.

Our relationship with Aostar

Aostar is a company established in the PRC on 9 June 2000, which is principally engaged in the manufacturing and sale of electrolytic aluminium ingots, alloy and liquid aluminium in the PRC. As at the Latest Practicable Date, Aostar was owned as to 51.18% by 珠海市德祥投資有限公司* (Zhuhai Decheng Investment Co., Ltd.) ("**Zhuhai Decheng**") and the remaining 48.82% by various individuals who are all independent third parties. Zhuhai Decheng is ultimately wholly owned by three individuals, namely Yan Tiejun (顏鐵軍), Yan Hongjun (顏紅軍) and Yan Haijun (顏海軍), who are all Independent Third Parties. The business scope of Zhuhai Decheng is project investment and project consultancy services. We began the Agency Service Arrangements with Aostar since January 2018, when we entered into the supplemental agreement with it and Guizhou Galuminium, one of the Designated Suppliers. Since March 2019, we entered into the supply contract for aluminium oxide with Hong Sheng and Heng Da who made the payment to us for the purchase of aluminium oxide for Aostar. In addition, Hong Sheng is one of our suppliers of primary aluminium (原鋁) for Guangyuan Shuneng, and our purchase of primary aluminium from it amounted to RMB3.7 million for FY2019.

Apart from aluminium oxide, we sold aluminium and copper wires and cables and cable accessories to Aostar directly in November 2018, which amounted to RMB17.6 million (net of tax) and recorded a gross profit of RMB3.4 million (which represented a gross profit margin of 19.3%, which was generally in line with the average market gross profit margin of 15% to 40% during the same period according to the F&S Report) and comparable to the same/similar products our Group sold to other customers. The sale of aluminium and copper cables and cable accessories to Aostar in November 2018, which was conducted in the ordinary and usual course of business of our Group, should be distinguished from the transactions contemplated under the Agency Service Arrangements which were not our Group's principal business and were entered into to support the Guangyuan City government's initiatives to offer financial support to Aostar. We understand that Aostar purchased aluminium wires and cables for the purpose of construction of their manufacturing sites.

Our Group agreed to grant a longer credit period of 365 days to Aostar for its purchase of aluminium and copper cables and cable accessories. Our Directors have taken into account the following considerations when determining the credit period to Aostar: (i) compared to our top five customers where their payments were unsecured, Aostar pledged its machinery and equipment (electrolytic tanks) as security in favour of us which was to secure its payment obligation under both the Agency Service Arrangements and its purchases of wires and cables from our Group during FY2018. Accordingly, the credit risk arising from our Group's historical sales to Aostar should be sufficiently covered by the security offered and hence, manageable; (ii) Aostar had business relationship with our Group since 2015 and we had sufficient understanding of its business condition and ability to fulfil its payment obligation; and (iii) Aostar is one of the most important local manufacturers and upstream suppliers of liquid aluminium and aluminium ingots and has good industry standing. Our Directors contemplated that there existed a potential benefit in relation to building up of our Group's business network in Guangyuan through establishing a closer business tie with Aostar which may benefit us in the long run to continue to expand our business network in Guangyuan after the establishment of Guangyuan Saftower since 2015; and (iv) the sale of aluminium and copper cables and cable accessories to Aostar was in the ordinary and usual course of business of our Group, and the selling price offered to Aostar was generally no less favourable than those offered to our Group's other customers.

In light of the above, our Directors are of the view that the sale of aluminium and copper wires and cables and cable accessories to Aostar even with a longer credit period compared to that granted to the five largest customers was in our Group's commercial interest and that the credit period of 365 days was granted on an arm's length basis. Further, at the time of determining the credit period, our Directors did not contemplate that the grant of a longer credit period was to support Guangyuan City government's initiatives to offer financial support to Aostar. Instead, it was granted based on our assessment of the credit risk involved as well as the commercial decision to further our relationship with Aostar in Guangyuan.

Aostar had already pledged its machinery and equipment (electrolytic tanks) as security in favour of us to secure its payment obligation under both the Agency Service Arrangements and its purchases of wires and cables during FY2018 (valued at RMB42.7 million based on the valuation conducted by an independent valuer as at 31 August 2019). Aostar has also pledged its other asset as a security under a counter-guarantee agreement with an independent financing guarantee company in respect of our payment obligation under a loan borrowed by our Group from a commercial bank. For details, see "Financial Information of our Group — Indebtedness" in this prospectus.

As at 31 December 2019, a total of RMB23.4 million was due from Aostar, which comprised trade receivables of RMB13.4 million relating to its purchase of aluminium and copper wires and cables and cable accessories from us and other receivables of RMB10.0 million relating to the payment of aluminium oxide by us on its behalf under the Agency Service Arrangements. We have taken measures to further ensure the payment by Aostar for both of these trade receivables and other receivables.

In respect of the trade receivables, on 8 October 2019, Aostar entered into a settlement agreement with Sichuan Saftower which states the following repayment schedule to settle RMB20.4 million relating to its purchase of aluminium and copper wires and cables and cable accessories: (i) settlement of RMB2.0 million before 10 October 2019; (ii) settlement of RMB1.0 million before 30 October 2019; (iii) settlement of RMB2.0 million at the end of every calendar month from November 2019 to June 2020; and (iv) settlement of the remaining balance of RMB1.4 million on 30 July 2020 (the "**Settlement Agreement**"). On 10 October 2019 and 1 November 2019, Aostar settled RMB2.0 million and RMB1.0 million in accordance with the Settlement Agreement. As at 31 December 2019, Aostar had settled RMB7.0 million in accordance with the repayment schedule under the Settlement Agreement.

For the first two months of 2020, Aostar did not settle RMB4.0 million in accordance with the Settlement Agreement as the operation of its customers was suspended during this period due to the outbreak of COVID-19. Given the impact of COVID-19 on the enterprises across the PRC including Aostar, on 4 March 2020, Sichuan Saftower and Aostar entered into a supplemental settlement agreement pursuant to which Sichuan Saftower and Aostar revised the repayment schedule of the remaining balance of RMB13.4 million relating to its purchase of aluminium and copper wires and cables accessories under the Settlement Agreement, and Aostar shall resume the settlement of RMB2.0 million on the last day of each month since June 2020 up to November 2020 and the remaining balance of RMB1.4 million on 31 December 2020 (the "**First Supplemental Settlement Agreement**"). On 3 April 2020, Guangyuan Saftower, Sichuan Saftower and Aostar entered into a second supplemental settlement agreement to further revise the First Supplemental Settlement Agreement pursuant to which Aostar shall settle RMB2.0 million on the last day of each month since April 2020 up to 30 September 2020 and the remaining balance of RMB1.4 million on or before 30 October 2020 (the "**Second Supplemental Settlement Agreement**"). The entering into of the Second Supplemental Settlement Agreement was witnessed by Economy and Commerce Bureau of Guangyuan Economic and Technological Development Zone* (廣元經濟技術開發區經濟商務局).

In respect of the other receivables under the Agency Service Arrangements of RMB10.0 million, as an additional measure to affirm and secure our legal interests in such outstanding amount due from Aostar and the assets pledged by Aostar and to facilitate future enforcement of our rights if necessary, in October 2019, Guangyuan Saftower filed a claim against Aostar from the People's Court of Lizhou District of Guangyuan City (廣元市利州區人民法院) and obtained a civil judgment in its favour in December 2019, under which the aforesaid court, amongst others, confirmed the entitlement of Guangyuan Saftower to recover the amount due from Aostar under the Agency Service Arrangements, endorsed its preferential rights over the pledged assets of Aostar, and ordered repayment by Aostar under the Agency Service Arrangements and default interest within 10 days after the judgment. As the primary reason for Guangyuan Saftower to initiate to claim against Aostar was to secure our interest by taking a pre-emptive measure to seek court's assurance on our legal rights, we did not demand immediate repayment from Aostar following the judgment and had been negotiating with Aostar for a repayment arrangement. After negotiation, under the Second Supplemental Settlement Agreement, in addition to the above, Aostar further agreed to fully settle the outstanding amount of RMB10.0 million of other receivables due under the Agency Service Arrangements by the end of April 2020 and Guangyuan Saftower agreed to waive the default interest accrued on such amount if such repayment is made on time. In early June 2020, we were informed that Aostar had filed a notice to appeal to the Guangyuan Intermediate People's Court (廣元市中級人民法院) against the judgment given by the same court in favour of Guangyuan Saftower in December 2019. We received the court notice of the appeal after the appointment of a debt restructuring administrator (the "**Administrator**") by Aostar for debt restructuring. In view that (i) the outstanding amount due from Aostar under the judgment has been fully settled in April 2020; (ii) no new information had been submitted to the court; and (iii) according to the confirmation signed by the Administrator, the appeal will be withdrawn, our PRC Legal Advisers are of the view that such appeal is not expected to have any material impact to our Group.

Our Directors believe that the entering into of the First Supplemental Settlement Agreement and the Second Supplemental Settlement Agreement which are to give additional grace period to Aostar to settle the outstanding balance due to us within a realistic timeframe is a reasonable response to the change in overall economic conditions in the PRC since the outbreak of COVID-19 and is in the interest of our Company and Shareholders as a whole, and upon full performance of the Second Supplemental Settlement Agreement by Aostar, the delay in the settlement of the amounts due from Aostar due to outbreak of COVID-19 during the first quarter 2020 is not expected to have a material impact to our overall financial position for FY2020. By the end of April 2020, Aostar has repaid RMB2.0 million of trade receivables and RMB10.0 million of other receivables to us, being the agreed repayment amounts under the Second Supplemental Settlement Agreement for the trade receivables and the other receivables under the Agency Service Arrangements, respectively. By the end of May 2020, Aostar has further repaid RMB2.0 million of trade receivables to us under the Second Supplemental Settlement Agreement for the trade receivables. In addition, on 16 June 2020, Aostar, with the consent from the Administrator, had repaid RMB9.4 million to us, and as a result of which, all amount due from Aostar to us as at 31 December 2019 had been fully settled. In consideration of the full repayment of all amounts due from Aostar, all the assets previously pledged by Aostar as security in favour of Guangyuan Saftower will be released. According to the confirmation signed by the Administrator (appointed in March 2020), and as confirmed by our PRC Legal Advisers, the repayment of Aostar to our Group under the Second Supplemental Settlement Agreement during the restructuring process of Aostar since March 2020 is valid, fair and legally binding.

In addition to the above, Aostar entered into a lease agreement with Guangyuan Shuneng for the lease of a property located at the production plant of Aostar for a term of five years from 1 May 2017 to 30 April 2022 at an annual rent of RMB150,000. Guangyuan Shuneng entered into such lease with Aostar for the reason that Aostar ceased using such property and we considered the location of such property which was adjacent to the facilities of Aostar for liquid aluminium (a material required for producing unprocessed aluminium rods) could facilitate Guangyuan Shuneng's production of unprocessed aluminium rods by reducing the transportation time of key raw materials.

Our Directors are of the view that the facilities from Tongsheng Guochuang, a state-owned enterprise, and the pledged assets from Aostar minimise our credit risk in case Aostar defaults in its payment obligation. As confirmed by Frost & Sullivan, it is not uncommon in the aluminium industry that upstream players seeking financing support from local government or downstream players to facilitate their purchase.

To our Directors' best knowledge, information and belief, other than disclosed above, the directors and shareholders of each of Aostar, Hong Sheng and Heng Da have no connection with our Directors, Shareholders, senior management and any other connected person of our Group. The Agency Service Arrangements with our Group could improve Aostar's liquidity and the aluminium wires and cables sold by our Group were suitable for their construction of manufacturing sites. In addition, the property leased by Aostar is convenient to support the production of Shuneng. As a result, the business relationship between Aostar and our Group is becoming closer as a result of the above business arrangements, and as such, Aostar is considered as a close business partner of our Group. Our Directors have confirmed that the transactions under the Agency Service Arrangements and the Old Tongsheng Loan and the Current Tongsheng Loan were entered into on an arm's length basis.

Our Group ceased the Agency Service Arrangements in December 2019 upon the expiration of the terms of the aluminium oxide purchase agreement. Based on the mutual agreement with Tongsheng Guochuang, we also repaid the Current Tongsheng Loan in full on 13 May 2020.

In March 2020, Guizhou Galuminium, the designated supplier from whom we purchased aluminium oxide for Aostar under the Agency Service Arrangements, filed a civil claim against Guangyuan Saftower, in which Guangyuan Saftower was alleged to have breached the contract for the failure to fulfil in full the 2019 Target Purchase under the 2018 Aluminium Oxide Supply Agreement (as supplemented by the supplemental supply agreement dated 1 April 2019 entered into with Guizhou Galuminium) and claimed for damages in the sum of RMB6.4 million, which represented the alleged shortfall of the 2019

Target Purchase. As at the Latest Practicable Date, we were in the process of negotiation with Guizhou Galuminium. For details, see "Compliance and Litigation — Litigation" in this section.

INVENTORY MANAGEMENT

Our inventory comprises mainly raw materials, work-in-progress and finished goods. Our production centre manager is responsible for monitoring the inventory level to meet the production requirements and minimise any waste on inventory or obsolete inventory for our production facilities. As at 31 December 2017, 2018 and 2019, our inventories amounted to RMB15.2 million, RMB8.5 million and RMB20.8 million, respectively. The inventory is maintained to meet customers' urgent orders and production needs.

Raw materials and finished products

We have inventory policies for different types of products. For wires and cables, we formulate our procurement plan at the beginning of each month and budget for purchases of the raw materials that we frequently use in our production, based on our projected production plans for the next two weeks. This is to avoid accumulation of excessive inventories and to meet our continuous production needs. We also closely monitor the materials level of our finished goods to minimise the inventory level. We determine the minimum inventory level of our products based on our customers' past orders and current demand.

For aluminium products, during the Track Record Period, we usually ordered products from our supplier after we had received the purchase orders from or entered into contract with our customers, and the products ordered with our suppliers were normally delivered directly to the address specified by our customers. Therefore, we were not required to keep inventory of aluminium products for trading during the Track Record Period.

We retrieve our inventory on a first-in, first-out principle and proper approvals are required for inventory retrievals. Throughout the year, we perform stock takes on a monthly basis and perform inventory ageing analysis from time to time to ensure that inventories are properly managed and that there is no unnecessary accumulation of aged inventories. During the Track Record Period, we did not experience any damage or loss of stocks or have any ageing stocks that would have a material impact on our business operations or financial conditions.

Our inventory turnover days for FY2017, FY2018 and FY2019 were 23 days, nine days and nine days, respectively. No allowance for slow-moving inventories of our Group was made for FY2017, FY2018 and FY2019.

Warehouses

As at the Latest Practicable Date, we operated three warehouses located in Sichuan Province, of which two warehouses were located in Chengdu and one warehouse was located in Guangyuan. For further details, see the paragraph headed "Properties" in this section.

We continuously monitor the inventory in our warehouses by employing a warehouse management system to track inventory movement and location. Our staff in the production department needs to fill in the request form before obtaining material for production from our warehouse.

LOGISTICS AND TRANSPORTATION

For procurement of raw materials, our suppliers are normally responsible for the delivery of raw materials to our warehouse. For our sale of wires and cables, we are normally responsible for the delivery of our products to the site designated by our customers, and our selling price is normally inclusive of the transportation expenses to be incurred by us. For trading of aluminium products, our customers normally will designate the delivery destination, and we will inform our suppliers to directly deliver the products to the address provided by our customers.

During the Track Record Period, we outsourced our delivery and logistics functions to external service providers who were Independent Third Parties to deliver our products to and from our warehouses. These external logistics service providers are responsible for any damage to the raw materials or our finished products during the transportation and shall compensate us for the loss suffered as a result. For FY2017, FY2018 and FY2019, we had engaged five, eight and 11 logistics service providers, and our transportation expenses amounted to RMB0.4 million, RMB3.5 million and RMB6.2 million, respectively, during the same periods.

During the Track Record Period and up to the Latest Practicable Date, we did not experience any material disruption or damage to products in the delivery process.

SALES AND MARKETING

Branding

Save for those products sold on OEM basis, we market our wires and cables under our "Saftower Brand". Our brand was awarded "Chengdu City Well-known Trademark" by Chengdu AIC from December 2013 to December 2018 and "Sichuan Famous Brand Product Title" by the Sichuan Provincial People's Government (四川省人民政府) from March 2017 to March 2019. As we are not principally engaged in retail business, we have not undertaken any advertisements to general public. We believe that through our over 15 years of operations, together with our marketing efforts as illustrated below, our brand has already been perceived as reliable, safe and high-quality among our customers.

Marketing and sales

As at 31 December 2019, we had 32 full-time employees in our sales and marketing team, which was led by Mr. Luo, our executive Director. Our marketing department collects information on potential clients and projects through various sources and we analyse the information and organise our bids for specific projects; the sales department signs and executes sales contracts; and the services team provides services before, during and after our sales to customers.

We adopt a customer-oriented approach to marketing. Our sales and marketing personnel visits our customers and contact them through phone calls to ensure direct and efficient communication with our customers and obtain customers' feedback. For wires and cables, we identify sales opportunity through receiving customer's request for quotation or through participating in the tendering process, or through referrals. We also actively identify business opportunity with wire and cable manufacturers to manufacture products for them on an OEM basis, which can generate a stable source of revenue. For tendering, our sales team will keep a close track on the news and information about tenders organised by state-owned or state-invested companies and the local government from time to time. For details of the tendering process, see the paragraph headed "Business Operation — Wires and Cables — 1. Order identification" in this section.

In addition, we are maintaining a website ***www.saftower.cn*** which serves as a marketing platform for our products and conveys latest information on our major products, enabling our customers or potential customers to have a better understanding of our product profiles. We also use the display area at Chengdu Plant as our showroom to exhibit our major or latest line(s) of wires and cables to potential customers.

Strategic cooperation with local state-owned players in the power system construction industry and listed companies

To extend our footprint in the power system construction industry, we have been actively seeking strategic cooperation with local state-owned players in the power system construction industry in Sichuan Province. For FY2018, Litai Energy, a subsidiary of Customer A, a provincial state-owned power company and is principally engaged in construction of power infrastructure in Sichuan, became one of our major customers. We initially started relationship with companies in the power system construction industry since 2008. To enhance our cooperation with Litai Energy and local state-owned players in the power system construction industry, we entered into a five-year framework cooperation agreement on materials supply with Litai Energy in October 2018, pursuant to which, Litai Energy agreed to promote our products among the subsidiaries of provincial state-owned power company within Sichuan Province. During FY2017, FY2018 and FY2019, we had business relationship with 12 power system construction companies under Customer A, and revenue contributed by them in aggregate accounted for 2.3%, 7.5% and 8.2%, respectively, of our total revenue for FY2017, FY2018 and FY2019. We believe that our cooperation with state-owned players in the power system construction industry in Sichuan Province will increase the coverage and visibility of our products, and their demand for wires and cables would generate more sales opportunities to us, thereby driving our future growth.

In addition, we are keen to develop business relationship with listed companies. For example, we sold products to Xiangyu Chongqing Co., Ltd.* (象嶼重慶有限責任公司) (the fourth largest customer for FY2018), Customer B (the sixth largest customer on OEM basis for FY2019), Changhong Group (a customer of special wires cables for FY2018 and FY2019) and Customer C (the largest customer on OEM basis for FY2019). Revenue from the listed companies named above in aggregate accounted for nil, 11.2% and 25.4%, respectively, of our total revenue for FY2017, FY2018 and FY2019. Please also see the paragraph headed "Customers" in this section.

Seasonality

During the Track Record Period, save for Chinese New Year holiday in around January and February during which we and our business partners will slowdown the business activities, we did not record any significant changes in the amount of sales which attributed to seasonal factors.

QUALITY CONTROL

We have developed an effective quality control system with an aim to demonstrate our ability to provide products that meet customer, regulatory and statutory requirements. In addition, as some wires and cables supplied by us were used for public work projects that require stringent quality assurance for power supply and distribution systems, we place significant emphasis on product quality. For example, during the Track Record Period, we had provided power cables for a water treatment plant in Pengzhou City, power cables upgrade projects in a rural area in Sichuan Province and railway projects in Chengdu.

We conduct regular review on and are constantly improving our quality control system in order to meet industry standards and to satisfy or exceed our customers' expectations. As at 31 December 2019, we had a team of eight quality management personnel and some of them have over 10 years of experience in the wire and cable industry.

We conduct our quality testing and inspections during each major step of the production process. We have adopted the following quality control measures to ensure we produce quality products:

Supplier qualification

Raw materials are purchased only from qualified suppliers after evaluation of their track record, pricing, timely delivery, financial condition, production capacity and market reputation. We review the performance of our suppliers annually to ensure that they maintain a high standard.

Raw material inspection and testing

We inspect and test raw materials from our suppliers in accordance with our "inspection and testing" quality procedures, which is formulated in accordance with the ISO 9001 standards. The objective for such inspections and testings are to verify that the purchased raw materials, technical requirements, exterior conditions and other requirements are suitable for the production process. Such inspections and testings are conducted through a sampling process by our quality control personnel.

Our quality procedures require tests on mechanical and physical features (such as, the elongation test, tensile-strength, tension and compression test), electrical features (such as conductivity, resistance and resistivity tests), exterior conditions and other quality control requirements for raw materials.

Production quality control

We conduct quality control tests at each stage of the production process, namely the "in-process inspection". The objective is to ensure that the products meet the quality requirements (including cable diameter, thickness, voltage testing and insulation), and that quality issues can be identified and resolved in time.

Our "in-process inspection" requires that we test samples of unfinished products both visually and with devices (such as micrometres and overhead projector). Unfinished products will flow to next stage of the manufacturing process after they pass the inspection.

Final inspection and testing

We conduct quality testing on finished products to ensure that they comply with our customers' specifications and the national industrial standards. Based on the finished products specifications, we take samples from the finished products for testing.

As a testament to our commitment to a quality management system and quality products, we have obtained the following certifications:

Name of Certifications	Ranges of products applied	Significance/ Recognition	Issuing Authorities	Validity
ISO9001	PVC insulated cables and wires of rated voltages up to and including 450/750V, plastic insulated control cables, rated voltage of 0.6/1kV power cables with extruded insulation, and aerial insulated cables	Quality management	China Quality Certification Centre (中國質量認證中心)	4 June 2018 – 11 June 2021
ISO14001	Cables and wires	Environmental management	China Quality Certification Centre (中國質量認證中心)	14 June 2018 – 13 June 2021
OHSAS18001	Cables and wires	Occupational health and safety	China Quality Certification Centre (中國質量認證中心)	14 June 2018 – 13 June 2021

During the Track Record Period and up to the Latest Practicable Date, we had not encountered any significant return of our products by our customers due to quality issues, nor had we encountered any material product liability claim against us.

RESEARCH AND DEVELOPMENT

Our research and development team

Our Directors believe that research and development is crucial to maintaining our competitiveness in offering customers products that meet their continually evolving requirements. As at 31 December 2019, we had a task force of 15 staff members from different departments who were responsible for collaborating with external institutions to develop new products, and enhance the quality and performance of our existing products. Six members of our research and development task force hold either a college degree or diploma or graduated from vocational high school and have accumulated between five and 24 years of experience in the wire and cable industry. Our research and development expenses amounted to RMB850,000, RMB803,000 and RMB1,381,000, respectively, for FY2017, FY2018 and FY2019. Our research and development efforts can be broadly classified as product development and product quality improvement.

Product development

Compared to copper or aluminium power cables, aluminium alloy power cables, categorised under aluminium medium and low voltage power cables, are higher value-added products. In April 2018, we entered into a collaboration agreement with Southwest United Equity Exchange* (西南聯合交易所) for studying the application of aluminium alloy power cables in the new energy sector. We paid RMB400,000 to equity exchange under such collaboration agreement. In February 2019, the aluminium alloy power cables studied under such collaboration passed the type test conducted by Quality Inspection and Test Center for Equipment of Electric Power* (電力工業電氣設備品質檢驗測試中心). We have offered aluminium alloy power cables to a few customers, most of which have been principally engaging in power transmission and transformation or construction business since FY2019. Revenue derived from our sales of aluminium alloy power cables amounted to RMB6.6 million for FY2019.

Since August 2018, we have rolled out special wires and cables with environmentally friendly features, and sold such products to a strategic customer, namely Changhong Group, which amounted to RMB10.3 million and RMB45.6 million for FY2018 and FY2019, respectively. Such products were developed for Changhong Group and manufactured according to their specifications and technical requirements. We applied two patent technologies in the development of the special wires and cables, namely, one type of "Aluminium Alloy Eco-friendly Flame Retardant and Fire-resistant Power Cable"* (一種鋁合金環保阻燃耐火電力電纜) and one type of "Aluminium Alloy Eco-friendly Flame Retardant and Fire-resistant Cable"* (一種鋁合金環保阻燃耐火電纜).

Product quality improvement

We collaborate with external institutions in the PRC to strengthen our research and development capabilities. In August 2015, we entered into a two-year agreement on the research project of High-strength Rare Earth Alloy Cable* (高強稀土鋁合金電纜) with the Chengdu University of Technology and a technology company. The project aims at developing new technology to enhance the properties of conductor and developing new materials of insulator for power cables. We had incurred RMB90,000 to fund this project. Pursuant to the above collaborative agreement, the ownership and intellectual rights of the research outcome would solely belong to us.

As at the Latest Practicable Date, we had obtained 58 registered patents in the PRC which are material to our business, and we were applying for 13 patents in the PRC. For further details, see "Statutory and General Information — B. Further information about the business of our Group — 2. Intellectual Property Rights" in Appendix V to this prospectus.

AWARDS AND CERTIFICATIONS

We have been granted a number of awards by various government authorities and other organisations. Some of our significant awards are summarised as follows:

Validity period/ Issuance date	Awards	Awarded company	Significance/ Recognition	Awarding Authorities
December 2013 to December 2018	Chengdu City Well-known Trademark (成都市著名商標) *(Note)*	Sichuan Saftower	Recognition of our brand awareness in Chengdu	Chengdu AIC
June 2014	Chengdu Enterprise Technology Centre Certification (成都市企業技術中心)	Sichuan Saftower	Recognition of our technology department as Chengdu Enterprise Technology Centre	Chengdu Economic and Information Commission (成都市經濟和資訊化委員會)
May 2016 to 2019	Social Welfare Enterprise Certificate (社會福利企業證書)	Sichuan Saftower	Recognition of our contribution in Pidu District	Pidu District Civil Affairs Bureau (郫都區民政局)

Note: The award was effective from December 2013 to December 2018. Pursuant to the circular published by the Standing Committee of Chengdu Municipal People's Congress on 3 April 2018, the issuance of such certificate has ceased since April 2018.

Validity period/ Issuance date	Awards	Awarded company	Significance/ Recognition	Awarding Authorities
December 2016 to December 2019	High and New Technology Enterprise (高新技術企業)	Sichuan Saftower	Recognition of our high and new technology	• Science and Technology Department of Sichuan Province (四川省科學技術廳) • Finance Department of Sichuan Province (四川省財政廳) • Sichuan State Administration of Taxation (四川省國家稅務局) • Sichuan Province Local Taxation Bureau (四川省地方稅務局)
March 2017 to March 2019	Sichuan Famous Brand Product Title (四川名牌產品稱號)	Sichuan Saftower	Recognition of our brand awareness in Sichuan Province	Sichuan Provincial People's Government (四川省人民政府)
May 2017	Third-grade award of advanced enterprises for production and operation in 2016 (2016年度生產經營先進企業三等獎)	Guangyuan Saftower	Recognition of our advanced production and operation	• Guangyuan Economic and Technological Development Zone Party Working Committee (廣元經濟技術開發區黨工委) • Guangyuan Economic and Technological Development Zone Management Committee (廣元經濟技術開發區管委會)

Validity period/ Issuance date	Awards	Awarded company	Significance/ Recognition	Awarding Authorities
January 2018	Party Award for "Best Public Service" (「最佳公益」黨組織獎)	Sichuan Saftower	Recognition of our public service	• Chengdu Modern Industrial Port Working Committee (中共成都現代工業港工作委員會) • Corporate Committee of the Smart Technology Park of Pi Du District, Chengdu (中共成都市郫都區智慧科技園企業委員會)
January 2018	Award for "Advanced Member Unit" for the year of 2017 (在2017年度中被評為「先進會員單位」)	Sichuan Saftower	Recognition of our overall advancement	Pidu District Welfare Enterprise Association (郫都區福利企業聯合會)
March 2018	2017 Small and micro-sized enterprises upgrading process — Outstanding Unit (2017年小微企業升級進規 — 先進單位)	Guangyuan Saftower	Recognition of our upgrading process	• Guangyuan Economic and Technological Development Zone Working Committee (廣元經濟技術開發區黨工委) • Guangyuan Economic and Technological Development Zone Management Committee (廣元經濟技術開發區管委會)
January 2019	Guangyuan City Outstanding Private Enterprise (廣元市優秀民營企業)	Guangyuan Saftower	Recognition of outstanding performance of private enterprise	Guangyuan City People's Government (廣元市人民政府)

Validity period/ Issuance date	Awards	Awarded company	Significance/ Recognition	Awarding Authorities
November 2019 to November 2022	High and New Technology Enterprise (高新技術企業)	Sichuan Saftower	Recognition of our high and new technology	• Science and Technology Department of Sichuan Province (四川省科學技術廳) • Finance Department of Sichuan Province (四川省財政廳) • Sichuan Provincial Tax Service, State Taxation Administration (國家税務總局四川省税務局)

EMPLOYEES

The following table sets out a breakdown of the number of our employees by function as at 31 December 2017, 2018 and 2019 and the Latest Practicable Date:

Function	As at 31 December 2017	As at 31 December 2018	As at 31 December 2019 *(Note)*	As at the Latest Practicable Date
Management	9	9	16	16
Accounting and finance	3	5	8	7
Quality control	5	4	8	8
Sales and marketing	34	24	32	39
Human resources and administration	33	31	42	50
Supplies and procurement	10	9	17	17
Technical support	3	—	—	—
Production	70	73	116	117
Total	**167**	**155**	**239**	**254**

Note:

1. After completion of Tongchuang Equity Acquisition, the employees of Guangyuan Tongchuang as at 31 December 2019 were counted towards the employees of our Group.

2. As at 31 December 2019, our research and development task force consisted of 15 employees among which four were from management, two from sales and marketing department and nine from production department.

Our Directors consider that we have maintained good relationships with our employees. We have not experienced any significant problems with our employees or any disruptions to our operations due to labour disputes, nor have we experienced any difficulties in the recruitment or retention of experienced staff or skilled personnel during the Track Record Period and up to the Latest Practicable Date.

As advised by our PRC Legal Advisers, we have made contributions to the social insurance (including pension plans, medical insurance, work-related injury insurance, unemployment insurance and maternity insurance) and housing provident fund for employees in accordance with the applicable PRC laws and regulations during the Track Record Period.

The remuneration package for our employees includes salaries, commission, bonus and allowances. For FY2017, FY2018 and FY2019, our employee benefit expenses were RMB9.7 million, RMB7.7 million and RMB12.6 million, respectively. We provide management personnel and employees with on-the-job training and other opportunities to improve their skills and knowledge. Our employees will also attend external professional training on a regular basis. We sign individual labour contract with our employees. We have established a trade union. For FY2017, FY2018 and FY2019, one of our subsidiaries, namely Sichuan Saftower, employed disabled people and received preferential tax treatment and tax refund and rewards from the PRC government, which amounted to RMB4.3 million, RMB3.0 million and RMB4.1 million, respectively, for the same periods pursuant to the applicable laws and regulations of the PRC. During the same period, the number of disabled people employed by Sichuan Saftower was 56, 60 and 56, most of whom were from human resources and administration and production department as at 31 December 2019. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any major labour dispute or other labour disturbances that had a material impact on our operations.

We believe our working environment and employee development opportunities have contributed to good employer-employee relationships and overall employee retention. We recruit our employees based on factors such as their competencies work experience, educational background and our needs. We typically hire through online advertisements and internal referrals. Some new recruits are subject to a probation period of two to three months.

We believe that the quality of our employees, existing or future, is essential to our business and operation and hence, a crucial asset of our Group. Therefore, we are committed to providing all employees a safe, healthy and pleasant working environment within our organisation.

ENVIRONMENTAL AND SOCIAL MATTERS

Environmental

We are subject to general PRC laws and regulations on environmental protection, such as the Environmental Protection Law of the People's Republic of China (中華人民共和國環境保護法), Law of the People's Republic of China on Prevention and Control of Water Pollution (中華人民共和國水污染防治法), Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution (中華人民共和國大氣污染防治法), Law of the People's Republic of China on Prevention and Control of Environmental Noise Pollution (中華人民共和國環境噪聲污染防治法), Law of the People's Republic of China on Prevention and Control of Environmental Pollution by Solid Waste (中華人民共和國固體廢物污染環境防治法). For details, see "Regulatory Overview" in this prospectus.

In June 2018, we obtained the ISO14001:2015 certification, an international standard used to measure the effect of an operation on the environment, taking into account compliance with applicable laws, regulations and other environmental oriented requirements.

Our Directors confirm that our production processes generally do not generate significant chemical waste, waste water or other industrial waste. Therefore, we believe that the negative effect of our production processes on the environment is limited. Nevertheless, we have taken measures to ensure our compliance with the applicable environmental protection laws and regulations, such as (i) ensuring that sewage is treated in accordance with the national standard before discharge; (ii) separately managing general solid waste and chemical waste; and (iii) implementing noise isolation for principal machines. We believe that any adverse impact of our production processes on the environment is limited.

We have submitted a report on an environmental impact assessment to the Environmental Protection Bureau of Pidu District (郫都區環境保護局) for approval in 2014. We have passed such assessment. Thereafter, our production facilities are subjected to regular environmental protection assessment and inspections by the authorities.

We believe that we have sufficient measures to address the environmental impact relevant to our production processes. We will continue to monitor the situation to ensure continuous compliance with the relevant laws and regulations. During the Track Record Period, we recorded insignificant amounts of expenses in compliance with applicable rules and regulations for environmental matters. Our Directors do not expect any material cost of compliance with such rules and regulations to be incurred for FY2020 and going forward.

Our PRC Legal Advisers have confirmed that we had complied with all relevant environmental protection laws and regulations in material respects and had obtained all relevant necessary permits and licences material for our business and operations in the PRC during the Track Record Period and up to the Latest Practicable Date. We have not been subject to any fines or administrative action involving non-compliance with any relevant environmental regulations, nor are our Directors aware of any pending or threatened actions by an environmental regulatory authority, which might result in a material adverse effect on us.

Social responsibility and work safety

We have adopted policies on compensation and dismissal, equal opportunities, diversity, anti-discrimination, and other benefits and welfare. Our Group respects the gender, age and ethnicity of each person. Each job applicant has an equal job opportunity. All of them will be treated equally and there is no discrimination as to gender, age and ethnicity. During the Track Record Period, we have a policy of recruiting people with disabilities to echo the government's initiatives. Further, any promotion within our Group would be based solely on the employee's performance, experience and capability. As such, any factors not related to work would not have an impact on employee's promotion.

We have established work safety policies and procedures to ensure that its operations are in compliance with applicable work safety laws and regulations.

We have obtained OHSAS18001:2007 certification in June 2018 and have an internal safety manual complying with the requirements under GB/T28001–2001, which provides guidance on how to maintain a safe working environment. Our safety management team carries out regular safety inspections on our production facilities to ensure compliance with the safety measures. Protective devices are installed and warning signs are posted to ensure production equipment and machinery are operated safely. Our production staff are provided with regular training on the operation of production equipment and occupational safety gear.

As advised by our PRC Legal Advisers, during the Track Record Period and up to the Latest Practicable Date, we did not experience any material fire hazard and we were in compliance with all applicable occupational health and safety laws and regulations in all material respects.

Our Directors confirm that our Group did not experience any failure in our production equipment and machinery or other industrial accidents.

INSURANCE

We have purchased insurances for our buildings, production plants, equipment and machinery, inventory and vehicles. We also provide social insurance, covering areas such as retirement, sickness and injury of our employees. As advised by our PRC Legal Advisers, the PRC laws and regulations do not require us to maintain mandatory insurance in relation to our business operations, and we have not taken out any insurance on product liability or disruption of operations. Our Directors believe that our current insurance coverage is adequate and consistent with the general industry practice.

During the Track Record Period and up to the Latest Practicable Date, we had not made or been the subject of any insurance claim which had materially affected our financial conditions.

We will continue to review the situation and may make adjustments to our current insurance coverage as appropriate in case operational needs and/or industry practices change.

INTELLECTUAL PROPERTY

As at the Latest Practicable Date, we had 12 registered trademarks in the PRC and Hong Kong which were considered as material to our business. As at the Latest Practicable Date, we had obtained 58 patents which are material to our business in the PRC and were in the process of applying for 13 patents in the PRC. We had also registered four domain names that are material to our business. For further details, see the paragraph headed "Research and Development" in this section and "Statutory and General Information — B. Further information about the business of our Group — 2. Intellectual Property Rights" in Appendix V to this prospectus.

As at the Latest Practicable Date, we were not aware of any material infringement of any intellectual property rights of our Group which had an adverse effect on our business nor were we aware of any pending or threatened litigation or legal proceedings against us relating to the infringement of any intellectual property rights owned by third parties.

PROPERTIES

Owned properties

As at the Latest Practicable Date, we had (i) land use right certificates with respect to three parcels of land in the PRC with a total site area of 83,089.67 sq.m.; and (ii) building ownership certificates in respect of four properties with an aggregate gross floor area of 31,205.93 sq.m.

As advised by our PRC Legal Advisers, we had complied with the applicable PRC laws with respect to such owned properties in all material respects and had obtained the necessary title documents in respect of the aforementioned land and buildings. We are entitled to use the parcels of land mentioned above and we legally own all of our buildings.

The following table sets out a summary of our land parcels in the PRC as at the Latest Practicable Date:

No.	Location of land	Approximate gross floor area (sq.m.)	Current usage	Owner	Expiry Date
1.	No. 88 Qingma Road, Modern Industrial Park (South Area), Pidu District, Chengdu, Sichuan Province, the PRC (中國四川省成都市郫都區現代工業港(南片區)清馬路88號)	12,361	Manufacturing and warehouse	Sichuan Saftower	21 April 2057
2.	No. 10 Nan Street, Xin Min Chang Town, Pidu District, Chengdu, Sichuan Province, the PRC (中國四川省成都市郫都區新民場鎮南街10號)	5,700.8	Warehouse	Sichuan Saftower	25 July 2047
3.	Sichuan-Zhejiang Park, Yuanjiaba Office, Guangyuan Economic Development Zone, Lizhou District, Guangyuan, Sichuan Province, the PRC (中國四川省廣元市利州區廣元經濟開發區袁家壩辦事處川浙園區)	65,027.87	Manufacturing and warehouse	Guangyuan Saftower	14 July 2061

The following table sets out a summary of our buildings in the PRC as at the Latest Practicable Date:

No.	Location of buildings	Approximate gross floor area of the buildings (sq.m.)	Current usage	Owner
1.	Five 1- to 3-storey workshop buildings and a single storey workshop building located in No. 88 Qingma Road, Modern Industrial Park (South Area), Pidu District, Chengdu, Sichuan Province, the PRC	7,498	Workshop and warehouse	Sichuan Saftower
2.	Three 1- to 4-storey workshop buildings located at No.10 Nan Street, Xin Min Chang Town, Pidu District, Chengdu, Sichuan Province, the PRC	2,705.53	Warehouse	Sichuan Saftower
3.	The buildings comprising a 3-storey office building, a 3-storey dormitory building and four single storey workshop buildings located at Sichuan-Zhejiang Park, Yuanjiaba Office, Guangyuan Economic Development Zone, Lizhou District, Guangyuan, Sichuan Province, the PRC	20,780.14	Office, workshop, warehouse and dormitory	Guangyuan Saftower
4.	No.2001 on Level 20, Unit 1 of Block 6 and No.2 on Level 18, Unit 1 of Block 7, No.968 Zhong Xin Da Dao Si Duan, Pitong Town, Pidu District, Chengdu, Sichuan Province, the PRC	222.26	Residential (vacant)	Sichuan Saftower

For further details of our owned properties, see "Property Valuation" of Appendix III to this prospectus.

Leased properties

The following table sets out a summary of our leased properties as at the Latest Practicable Date:

No.	Location of premises	Lessor	Approximate gross floor area (sq.m.)	Current usage	Lease period	Annual rent	Notice Period
1.	A warehouse located in the production plant of Aostar	Aostar	1,268.5	Manufacturing	1 May 2017 to 30 April 2022	RMB150,000	Nil
2.	201, No.30 of Sunshine New City Gate, 189 Jinzhu West Road, Laza City, PRC	Deng Jinchang (鄧金昌) (being an Independent Third Party)	138.6	Office space	1 January 2014 to 31 December 2021	RMB15,000	One month

MARKET AND COMPETITION

According to the F&S Report, the markets of wires and cables and aluminium products in the PRC are both highly fragmented and competitive. There were over 300 wire and cable manufacturers in Sichuan Province in 2019. Going forward, the number of companies is expected to maintain at a relatively stable level with an increasing concentration rate in the next five years. Along with the domestic demand and government supporting policies, the wire and cable industry and aluminium product markets in Sichuan have generally exhibited an upward trend over the past five years. According to the F&S Report, Sichuan's wire and cable market has experienced a faster growth rate compared with the national market and is expected to grow at CAGR of 2.9% to reach RMB75.6 billion in 2024. The growth would be further underpinned by the Western Development Strategy (西部大開發戰略) that emphasises, among others, the on-going development of power industry and the production of renewable energy.

Our Directors believe that potential new entrants to the industries in which we carry on our business will face a number of barriers, including (i) the prerequisite qualifications and product certifications; (ii) substantial capital requirements; (iii) technical requirement and availability of skilled technical staff; (iv) substantial investment and time required for building; (v) sales capability and customer base in the industry; and (vi) requirement to obtain a stable supply of raw materials. According to the F&S Report, we ranked the fourth largest wire and cable manufacturers in Sichuan Province in 2019 by revenue. We believe that, with our 15 years experience, our competitive strengths as set out in the paragraph headed "Competitive Strengths" in this section, and our continual strengthening market position, we are well positioned to defend ourselves from new entrant, differentiate ourselves from competitors, seize business opportunity and expand our market share.

COMPLIANCE AND LITIGATION

Certifications

As advised by our PRC Legal Advisers, as at the Latest Practicable Date, we had obtained all material requisite licences, permits, certifications and approvals necessary for our business and operation and they were still valid and subsisting. A summary of our major certifications/permits is set out as follows:

Issuing authority	Registration/Licence	Awardee	Applications	Date of current registration	Expiry date
Pixian Environmental Protection Bureau (郫縣環境保護局)	Pollutant Discharge Permit (排放污染物許可證)	Sichuan Saftower	Discharge of Ammonia Nitrogen	12 September 2016	N/A[Note]
• Science and Technology Department of Sichuan Province (四川省科學技術廳) • Finance Department of Sichuan Province (四川省財政廳) • Sichuan Provincial Tax Service, State Taxation Administration (國家税務總局四川省税務局)	High and New Technology Enterprise Certificate (高新技術企業證書)	Sichuan Saftower	Overall products	28 November 2019	27 November 2022
China Quality Certification Centre (中國質量認證中心)	GB/T19001–2016 ISO9001:2015	Sichuan Saftower	A range of wires and cables	12 December 2018	11 June 2021
	CQC11-463401-2013	Sichuan Saftower	450/750V or below and 1KV fire-resistant wires and cables	16 November 2018	N/A
Sichuan Marketing Supervision Administration Bureau (四川省市場監督管理局)	National industrial production permit (全國工業產品生產許可證)	Sichuan Saftower	A range of wires and cables	6 March 2019	27 March 2024
China Quality Certification Centre (3C certification) (中國質量認證中心(3C認證))	China National Compulsory Product Certification (中國國家強制性產品認證證書)	Sichuan Saftower	9 categories of products	21 July 2015	21 July 2020
Chengdu Emergency Administration (成都市應急管理局)	Safety Production Standardisation Certificate — Level 3 Enterprise (Industry and Trade) (安全生產標準化證書 — 三級企業(工貿))	Sichuan Saftower	Production environment	2 April 2019	April 2022
Sichuan Bureau of Quality and Technical Supervision (四川省質量技術監督局)	National industrial production permit (全國工業產品生產許可證)	Guangyuan Tongchuang	A range of wires and cables	8 February 2018	7 February 2023
China Quality Certification Centre (3C Certification) (中國質量認證中心(3C認證))	China National Compulsory Product Certification (中國國家強制性產品認證證書)	Guangyuan Tongchuang	2 Categories of wires and cables	27 December 2017	27 December 2022/4 September 2024

Note: According to the Measures for Pollutant Discharge Permitting Administration (For Trial Implementation) implemented on 10 January 2018, we currently were not required to apply for renewal of the Pollutant Discharge Permit after expiration as at the Latest Practicable Date.

Regulatory compliance

Our Directors confirmed that, and as advised by our PRC Legal Advisers, save as the two incidents of non-compliance with the Rules for Information Disclosures by Companies Admitted to the NEEQ, there was no material non-compliance of our Group with the applicable laws and regulations during the Track Record Period and up to the Latest Practicable Date. For details, see "History, Development and Reorganisation — Non-compliance incidents with the Rules for Information Disclosures by Companies Admitted to the NEEQ 《全國中小企業股份轉讓系統掛牌公司信息披露細則》" in this prospectus.

Litigation

Potential claim against our Group

As at the Latest Practicable Date, there was one potential material civil claim against our Group and details of which are shown below.

On 14 December 2018, Guangyuan Saftower entered into the 2018 Aluminium Oxide Supply Agreement with Guizhou Galuminium to purchase aluminium oxide as agent for Aostar under the Agency Service Arrangements. In March 2020, Guizhou Galuminium filed a civil claim against Guangyuan Saftower alleging breach of contract and claiming damages in the sum of RMB6.4 million, which represented the alleged shortfall of the 2019 Target Purchase. On 9 April 2020, we received a notice from the People's Court of Qingzhen City, Guizhou Province* (貴州省清鎮市人民法院) to conduct pre-litigation mediation with Guizhou Galuminium within 30 days (subject to extension if mutually agreed by the parties). As at the Latest Practicable Date, we were in negotiations with Guizhou Galuminium.

We have engaged an independent litigation counsel in the PRC in connection with this claim and as advised by the litigation counsel and concurred by our PRC Legal Advisers, that (i) the Default Clause has been supplemented by the Dispute Resolution Clause, and that according to the 2018 Supplemental Aluminium Oxide Supply Agreement, due to any transportation issues, reduction of production or other *force majeure* events that causing Guangyuan Saftower/Guizhou Galuminium fails to purchase/supply the agreed purchase amount, Guangyuan Saftower and Guizhou Galuminium should proceed to negotiation to resolve the issues instead of relying on the Default Clause to sue and claim for damages in respect of the alleged shortfall of the 2019 Target Purchase (i.e. RMB300 per tonne for the alleged shortfall) and that Guangyuan Saftower was entitled to defend against Guizhou Galuminium in respect of the claim; and (ii) Guangyuan Saftower acted as an agent to purchase aluminium oxide for third parties (i.e. Aostar) on its own name, the liabilities for any breach of contract shall be ultimately borne by the principal to the agency relationships according to the PRC Contract Law. Therefore, the litigation counsel advised, and our PRC Legal Advisers concurred, that the risk that we will be ultimately held liable in respect of the claim is remote.

Notwithstanding the above, Aostar authorised Hong Sheng to handle the matter on its behalf with Guangyuan Saftower in relation to the claim and agreed to bear any legal consequences arising out of the matter. Hong Sheng (acting on behalf of Aostar), which undertook certain contracting works for Aostar, agreed to (i) pledge its aluminium products in favour of Guangyuan Saftower at the value not less than RMB6.4 million as an indemnity in favour of Guangyuan Saftower in respect of the liabilities (if any) arising out of the claim; and (ii) indemnify Guangyuan Saftower for any shortfall where the value of such pledged assets would be insufficient to cover such liabilities (if any). In view of the above, our Directors consider that any potential liabilities which may arise as a result of the potential litigation against Guangyuan Saftower for the alleged breach of contract will be sufficiently covered.

Except as disclosed above, as at the Latest Practicable Date, as advised by our PRC Legal Advisers, there was no pending or threatened litigation, arbitration or administrative proceeding against us or any of our subsidiaries which could have a material adverse effect on our business or financial position.

Indemnity given by our Controlling Shareholders

Our Controlling Shareholders have entered into a Deed of Indemnity whereby our Controlling Shareholders have agreed to indemnify our Group, subject to the terms of the Deed of Indemnity, in respect of all liabilities and penalties which may arise as a result of any outstanding and potential litigations and claims of our Group on or before the date on which the Share Offer becomes unconditional. Please refer to the paragraph headed "E. Other Information — 1. Tax and other indemnities" in Appendix V to this prospectus for details.

INTERNAL CONTROL

In preparation for the Listing and to further enhance our internal control system, on 31 October 2018, we engaged an independent internal control consultant to perform a review of our Group's internal control system in various key areas of our operation, including sales, procurement, human resources, financial management and information technology.

The internal control consultant conducted the first review in November 2018 and, during the course of the review, revealed a number of findings in relation to our internal control policies and procedures. After the first review, we have established a set of policies and procedures, which are reviewed and approved by the authorised management, and taken the remedial action to address the internal control deficiencies identified during the internal control review. Follow-up review was conducted and completed in July 2019, and the internal control consultant noted no material issue in relation to the adequacy and effectiveness of our internal control system after the follow-up review.

In order to strengthen our internal control system and ensure compliance with the relevant laws and regulations (including the GEM Listing Rules), our Group has also adopted or will adopt the following key measures to manage the risk relating to the operation of our Group:

(i) our Directors and audit committee will continuously monitor, evaluate and review our financial reporting, internal control and risk management systems to ensure compliance with the GEM Listing Rules and applicable legal and regulatory requirements and will refine and enhance our financial reporting, internal control and risk management systems as appropriate;

(ii) we have appointed Alliance Capital Partners as our compliance adviser upon Listing to advise us on ongoing compliance with the GEM Listing Rules;

(iii) we will continue to identify and assess our operational, business and financial risks on an ongoing basis, implement sufficient measures to minimise and mitigate such risks, and ensure that all such measures remain effective;

(iv) our finance department will continuously monitor the progress of accounting, auditing and reporting. Ms. Luo, our executive Director, is also responsible for the accounting operation and overall cooperate finance of our Group. Ms. Luo will monitor the external auditors' work progress so as to comply with the reporting deadlines;

(v) if necessary, we will arrange our Directors and senior management and relevant employees to attend training on the legal and regulatory requirements applicable to our business operations from time to time;

(vi) we will ensure our accounting and finance department is equipped with sufficient experienced personnel to handle accounting and financial reporting matters;

(vii) if necessary, we will engage external legal advisers to advise us on particular issues as necessary from time to time; and

(viii) if necessary, we will engage external professional tax adviser to advice us on particular issues and regulation development and changes as necessary from time to time.

SUMMARY OF DIRECTORS AND SENIOR MANAGEMENT

Name	Age	Present position	Date of appointment as Director	Date of joining our Group	Roles and responsibilities	Relationship with other Director(s) and/or senior management
Directors						
Mr. Dang Fei (黨飛先生)	42	Executive Director, chairman and chief executive officer of our Group	9 October 2018	24 June 2004	Overseeing the overall corporate development, strategic planning and day-to-day management of our Group's operation, and as the chairperson of our nomination committee	Younger brother of Mr. Dang Jun
Mr. Wang Xiaozhong (王小仲先生)	42	Executive Director	9 October 2018	24 June 2004	Overseeing the overall strategic planning, business development and day-to-day management of our Group's operation	Nil
Ms. Luo Xi (羅茜女士)	33	Executive Director	22 May 2019	3 August 2009 (Left on 1 March 2014 and rejoined on 4 April 2015)	Responsible for accounting operation and overall corporate finance of our Group	Nil
Mr. Luo Qiang (羅強先生)	33	Executive Director	22 May 2019	8 October 2008 (Left on 1 August 2014 and rejoined on 4 May 2016)	Responsible for sales and marketing as well as customer development of our Group	Nil
Mr. Wang Haichen (王海臣先生)	41	Non-executive Director	22 May 2019	22 May 2019	Providing advice on our Group's strategies and performance	Nil
Dr. Zuo Xinzhang (左新章博士)	37	Independent non-executive Director	10 June 2020	10 June 2020	As a member of our audit committee, remuneration committee and nomination committee	Nil
Mr. Chan Oi Fat (陳愛發先生)	41	Independent non-executive Director	10 June 2020	10 June 2020	As the chairperson of our audit committee and a member of our remuneration committee and nomination committee	Nil
Ms. Hu Xiaomin (胡曉敏女士)	38	Independent non-executive Director	10 June 2020	10 June 2020	As the chairperson of our remuneration committee and a member of our audit committee and nomination committee	Nil

Name	Age	Present position	Date of appointment as senior management	Date of joining our Group	Roles and responsibilities	Relationship with other Director(s) and/or senior management
Senior Management						
Mr. Dang Jun (黨軍先生)	44	Deputy director (行政副總監)	25 September 2007	25 September 2007	Responsible for managing members of the Communist Party within our Group	Elder brother of Mr. Dang Fei
Ms. Liu Qing (劉晴女士)	42	Deputy human resources director (人力資源副總監)	4 January 2017	15 April 2015	Responsible for managing human resources of our Group	Nil
Ms. Hu Yi (胡倚女士)	35	Deputy financial director (財務副總監)	14 December 2017	1 June 2015	Responsible for cost, tax and financial management of our Group	Nil
Mr. Liu Yongkang (劉永康先生)	48	Production director (生產總監)	1 April 2010	1 April 2010	Responsible for production operation of our Group	Nil

DIRECTORS

Our Board consists of eight Directors, comprising four executive Directors, one non-executive Director and three independent non-executive Directors.

Executive Directors

Mr. Dang Fei (黨飛先生), aged 42

Mr. Dang Fei is one of the founders of Sichuan Saftower and one of our Controlling Shareholders and has over 15 years of experience in the manufacturing, processing and sale of wires and cables since the establishment of our Group. He was appointed as our Director on 9 October 2018 and was re-designated as our executive Director on 22 May 2019. He also serves as the chairman of our Board, chief executive officer of our Group, a director of ten of our subsidiaries, namely Bida Investment, Weichi Investment, Wechi Int'l, Saftower International, Saftower Management, Guangyuan Saftower Technology, Sichuan Saftower, Guangyuan Saftower, Sichuan Liangdian and Guangyuan Shuneng. He is responsible for overseeing the overall corporate development, strategic planning and day-to-day management of our Group's operation. He is the chairperson of our nomination committee.

Mr. Dang Fei graduated from Chengdu University of Technology (成都理工大學) in June 1999 with a diploma degree majoring in business management. He obtained the qualification of Senior Professional Manager (高級職業經理人) from the National Talent Flow Centre of the Ministry of Human Resource and Social Security of the PRC* (人事部全國人才流動中心) and the Research Centre for Professional Managers (職業經理研究中心) in September 2007. Mr. Dang Fei has also achieved various accomplishments and received a number of awards. He was awarded the Outstanding Member of the Chinese People's

Political Consultative Conference Sichuan Pixian Committee* (政協郫縣委員會) (currently known as Chinese People's Political Consultative Conference Chengdu Pidu District Committee* (政協成都市郫都區委員會)) in "Four-one" event ("四個一"活動先進委員), Outstanding Entrepreneur in Sichuan Province (四川省優秀企業家) and Outstanding Young Entrepreneur in Guangyuan Economic and Technological Development Zone (廣元經濟技術開發區傑出青年企業家) in 2007, 2013 and 2018, respectively.

Mr. Dang Fei was also a member of the 9th standing committee of the Chinese People's Political Consultative Conference Sichuan Pixian Committee* (中國人民政治協商會議第九屆郫縣委員會常委) (currently known as Chinese People's Political Consultative Conference Chengdu Pidu District Committee* (政協成都市郫都區委員會)) in 2012.

Mr. Wang Xiaozhong (王小仲先生), aged 42

Mr. Wang Xiaozhong is the other co-founder of Sichuan Saftower. He was appointed as our Director on 9 October 2018 and was re-designated as our executive Director on 22 May 2019. He is responsible for overseeing the overall strategic planning, business development and day-to-day management of our Group's operation. Mr. Wang currently also serves as a director of four of our subsidiaries, namely Saftower Management, Guangyuan Saftower Technology, Sichuan Saftower and Lhasa Saftower and the supervisor of two of our subsidiaries, namely Sichuan Liangdian and Guangyuan Saftower.

Mr. Wang has over 15 years of experience in the manufacturing, processing and sale of wires and cables. Prior to the establishment of our Group in June 2004, Mr. Wang worked in the IT department of Huaxi Securities Co., Ltd.* (華西證券股份有限公司) from March 2001 to June 2002.

Mr. Wang graduated from Chengdu Institute of Meteorology (成都氣象學院) (currently known as Chengdu University of Information Technology (成都信息工程大學)) in June 2000 with a bachelor degree majoring in electronics, communication engineering.

Mr. Wang has also been a director of Chengdu Amazing Information Technology Company Limited* (成都安美勤信息技術股份有限公司), a company listed on the NEEQ (stock code: 831288), since 22 April 2014.

Ms. Luo Xi (羅茜女士), aged 33

Ms. Luo Xi was appointed as our executive Director on 22 May 2019. She is responsible for accounting operation and overall corporate finance of our Group. Ms. Luo currently also serves as a director of three of our subsidiaries, namely Saftower Management, Guangyuan Saftower Technology and Guangyuan Tongchuang.

Ms. Luo joined our Group in August 2009 as a statistical officer and served as an accountant of our Group from February 2011 to February 2014. From March 2014 to March 2015, Ms. Luo worked as the financial manager in a company called Chengdu Red Pearl Agricultural Development Company Limited* (成都紅珍珠農業開發有限公司) ("**Chengdu Red Pearl**"), which is owned as to 60% by Mr. Dang Fei and 40% by Ms. Yu Xueling (于雪琳), the mother of Mr. Dang Fei and Mr. Dang Jun. Chengdu Red Pearl is principally engaged in the plantation and sale of agricultural products. In April 2015, Ms. Luo rejoined our Group as assistant finance manager and was then promoted to the head of finance department, overseeing the accounting operation and finance of our Group.

Ms. Luo graduated from Sichuan Normal University (四川師範大學) in December 2010 with a bachelor degree majoring in E-commerce after passing the self-taught higher education exam. She obtained the Certificate of Accounting Profession (會計從業資格) from the Finance Bureau of Chengdu Jinjiang District* (成都市錦江區財政局) in October 2011 and the primary qualification in accountancy (會計初級) from Sichuan Provincial Human Resources and Social Security Department (四川省人力資源和社會保障廳) in September 2014.

Mr. Luo Qiang (羅強先生), aged 33

Mr. Luo Qiang was appointed as our executive Director on 22 May 2019. He is responsible for the sales and marketing as well as customer development of our Group. Mr. Luo currently also serves as a director of one of our subsidiaries, namely Guangyuan Tongchuang.

Mr. Luo joined our Group as a salesman in October 2008 and was promoted to deputy officer of the general office (綜合辦副主任) on 1 September 2009, where he was responsible for the human resources and daily office administration work of our Group. Mr. Luo served as the sales manager (銷售部負責人) of our Group from April 2011 to March 2013. In April 2013, he was further promoted to officer of the general office (總經辦主任), providing assistance to the general manager in managing and supervising sales and marketing of our Group. Mr. Luo left our Group in August 2014 and rejoined our Group in May 2016 serving as a marketing director of our Group and the general manager of Guangyuan Saftower and Guangyuan Shuneng. Prior to joining our Group, Mr. Luo worked for Ruida Futures Brokerage Company Limited* (瑞達期貨經紀有限公司) (currently known as Ruida Futures Company Limited (瑞達期貨股份有限公司)) as a futures broker (期貨經紀) from December 2007 to October 2008. From August 2014 to April 2016, Mr. Luo operated a few wholesale liquor shops under the name of "Yang'an Folk Winery"* (陽安民間老酒坊) in Pixian (currently known as Pidu District) and High-tech district in Chengdu, PRC.

Mr. Luo graduated from Sichuan Tianyi College (民辦四川天一學院) in June 2008, with a diploma degree majoring in international finance (securities investment). He was awarded the Excellent Communist Party Member in the District (全區優秀共產黨員) by the Communist Party Working Committee of Guangyuan Economic and Technological Development Zone* (廣元經濟技術開發區黨工委) in June 2018.

Non-executive Director

Mr. Wang Haichen (王海臣先生), aged 41

Mr. Wang Haichen was appointed as our non-executive Director on 22 May 2019.

Mr. Wang Haichen has been in the legal practice for over 15 years. He obtained a bachelor degree majoring in law from Sichuan Normal University (四川師範大學) in June 2004 after passing the self-taught higher education exam. He passed the China Judicial Examination (國家司法考試) in September 2002 and obtained his Lawyer's Practising Certificate (律師執業證書) in October 2003.

From January 2004 to December 2007, Mr. Wang Haichen worked as an attorney at Sichuan Tiancheng Law Firm* (四川天稱律師事務所). Mr. Wang Haichen was promoted to assistant chief lawyer (副主任律師) of the firm in January 2008 and assumed the office of chief lawyer (主任律師) in September 2015, responsible for overseeing the whole firm. In addition to his work at Sichuan Tiancheng Law Firm, Mr. Wang Haichen has also been serving as the vice president of Guangyuan Bar Association* (廣元市律師協會) since November 2018 and an arbitrator at Guangyuan Arbitration Association* (廣元仲裁委員會) since January 2014, respectively.

Mr. Wang Haichen has also achieved various accomplishments and received a number of awards. He was awarded the Top Ten Outstanding Young Lawyers in Guangyuan (廣元市十大優秀青年律師) by Guangyuan Bar Association in November 2016 and Excellent Lawyer of Guangyuan (廣元市優秀律師) by Guangyuan Justice Bureau* (廣元市司法局) in January 2018. In January 2018, Mr. Wang Haichen was further awarded Outstanding Lawyer of Sichuan Province (四川省優秀律師) by Department of Justice of Sichuan Province (四川省司法廳) and Sichuan Province Lawyers Association (四川省律師協會).

Since December 2018, Mr. Wang Haichen has been a director of Guangyuan Guangxin Agricultural Finance Guarantee Company Limited* (廣元市廣信農業融資擔保股份有限公司) listed on the NEEQ (stock code: 832228), which was the guarantor of the two loans with outstanding balance of RMB8.0 million in aggregate advanced by Industrial and Commercial Bank of China to Guangyuan Saftower as at the Latest Practicable Date.

Independent non-executive Directors

Dr. Zuo Xinzhang (左新章博士), aged 37

Dr. Zuo Xinzhang was appointed as our independent non-executive Director on 10 June 2020. He is a member of our audit committee, remuneration committee and nomination committee.

Dr. Zuo has over 14 years of experience in materials science. From July 2005 to May 2007, he worked as a technician at China Petroleum Seventh Construction Corporation* (中國石油天然氣第七建設有限公司). Dr. Zuo then joined Xi'an Xinyao Ceramic Composite Materials Company Limited* (西安鑫垚陶瓷複合材料有限公司) and worked as the project manager from July 2015 to November 2017, where he completed his postdoctoral research at Northwestern Polytechnical University (西北工業大學) in aerospace science and technology (航空宇航科學與技術) and obtained his postdoctoral certificate in April 2018.

Dr. Zuo obtained a bachelor degree in metal material engineering from China University of Petroleum (中國石油大學) in June 2005, a master degree and a PhD degree in material science from Northwestern Polytechnical University (西北工業大學) in April 2010 and June 2015, respectively. Dr. Zuo obtained the qualification of engineer from Xi'an Municipal Human Resources and Social Security Bureau (西安市人力資源和社會保障局) in June 2015. He further obtained the qualification of senior engineer from Department of Human Resources and Social Security of Shaanxi Province (陝西省人力資源和社會保障廳) in November 2017.

Mr. Chan Oi Fat (陳愛發先生), aged 41

Mr. Chan Oi Fat was appointed as our independent non-executive Director on 10 June 2020. He is the chairperson of our audit committee and a member of our remuneration committee and nomination committee.

Mr. Chan has extensive experience in professional accounting, auditing and corporate financial services. Mr. Chan joined Deloitte Touche Tohmatsu in September 2000 and left as a manager in January 2008.

Mr. Chan joined Ta Yang Group Holdings Limited, a company listed on the Stock Exchange (stock code: 1991), which is an investment holding company principally engaged in manufacturing input device, in January 2008 as company secretary and qualified accountant and resigned as company secretary in February 2017 but remained as the group's financial controller until March 2018. Since February 2018, Mr. Chan has been the company secretary of China Leon Inspection Holding Limited, a company listed on the Stock Exchange (stock code: 1586), which is an investment holding company principally engaged in providing inspection services of coal in the PRC. In April 2018, Mr. Chan joined SML (Hong Kong) Limited, which is a garment accessories manufacturer and seller and he was promoted to the post of chief financial officer since February 2019.

Mr. Chan has been an independent non-executive director of Shanghai Prime Machinery Company Limited, a company listed on the Stock Exchange (stock code: 2345), which is principally engaged in the design, manufacture and sale of fasteners, since June 2014.

Mr. Chan graduated from the City University of Hong Kong in November 2000 with a degree of Bachelor of Business Administration (Hons) in Accountancy. He has become a member of the Hong Kong Institute of Certified Public Accountants since October 2004 and a member of the Association of Certified Chartered Accountants since December 2003. He has also become a life member of the Hong Kong Independent Non-Executive Director Association since March 2015.

Ms. Hu Xiaomin (胡曉敏女士), aged 38

Ms. Hu Xiaomin was appointed as our independent non-executive Director on 10 June 2020. She is the chairperson of our remuneration committee and a member of our audit committee and nomination committee.

Ms. Hu has over 10 years of experience in business administration and financing. She served as investor relations officer for Honghua Group Limited, a company listed on the Stock Exchange (stock code: 196), from December 2009 to July 2011 and as the secretary of board of directors and manager of strategic development in Sichuan Zhongsheng Industry Group Company Limited* (四川中勝實業集團有限公司) from July 2011 to July 2013. She then joined Chengdu Branch of Sichuan Shuangma Cement Company Limited* (四川雙馬水泥股份有限公司成都分公司), which is listed on the Shenzhen Stock Exchange (stock code: 000935), as treasury manager from July 2013 to April 2016. She then worked as senior fund manager at Sichuan Health Care Industry Equity Investment Fund Partnership (Limited Partnership)* (四川省健康養老產業股權投資基金合夥企業) from April 2016 to July 2017. In September 2017, Ms. Hu co-founded Chengdu Fin-wisely Consulting Company Limited* (成都方思維力企業管理有限公司) engaging in corporate advisory with an Independent Third Party and worked as the general manager of the company from then to July 2018. Since July 2018, Ms. Hu has been one of the shareholders of a company engaging in fund management, namely Chengdu Jingying Zhiyuan Venture Capital Management Company Limited* (成都菁英致遠創業投資管理有限公司) and served as the general manager.

Ms. Hu obtained a bachelor degree in Business Administration from Sichuan University (四川大學) in July 2005, a master degree of Business Administration and a master degree in professional accountancy from The University of South Dakota in August 2006 and May 2008, respectively.

Ms. Hu has achieved various qualifications. She is a Chartered Financial Analyst Charter holder and she passed the exams held by Shanghai Stock Exchange to act as secretary of board of directors.

DISCLOSURE REQUIRED UNDER RULE 17.50(2) OF THE GEM LISTING RULES

Some of our Directors were directors of the following companies which were incorporated in Hong Kong or the PRC prior to their respective dissolution. The respective Directors confirmed that the companies were solvent and inactive at the time of their dissolution and that their dissolution had not resulted in any liability or obligation against them. The following are the details of the aforementioned dissolved companies:

Relevant Directors	Name of company	Place of incorporation	Principal business activity prior to cessation of business	Date of dissolution	Means of dissolution
Mr. Dang Fei and Mr. Wang	Hongkong Sandy International Group Joint-Stock Limited	Hong Kong	No operation	19 June 2015	Deregistration
Mr. Wang	Chengdu Dinghe Property Investment Company Limited* (成都鼎和置業投資有限公司)	PRC	No operation	13 January 2012	Deregistration
Mr. Wang	Chengdu Xingmin Fresh Potted Flower Company Limited* (成都興民鮮盆花有限公司)	PRC	Retail sale of flowers	21 August 2015	Deregistration
Mr. Chan Oi Fat	Diversity Partner Limited (燁協有限公司)	Hong Kong	Investment holding	10 July 2015	Deregistration

Save as disclosed above, each of our Directors has confirmed with respect to him/her that: (a) he/she has not held any current or past directorship in the last three years in any other listed company, the securities of which are listed on any securities market in Hong Kong or overseas; (b) he/she has not held other positions in our Company or any members of our Group as at the Latest Practicable Date; (c) he/she did not have any relationship with any other Directors, senior management, Substantial Shareholder or Controlling Shareholders as at the Latest Practicable Date; (d) he/she does not have any other interest in our Shares within the meaning of Part XV of the SFO, save as disclosed in the paragraph headed "C. Further Information about our Directors and Substantial Shareholders — 1. Disclosure of Interests" in Appendix V to this prospectus; (e) he/she does not have any other interest in any business which competes or is likely to compete, directly or indirectly, with us, which is discloseable under the GEM Listing Rules; and (f) to the best of the knowledge, information and belief of our Directors having made all reasonable enquiries, there was no additional information relating to our Directors or senior management that was required to be disclosed pursuant to Rule 17.50(2) of the GEM Listing Rules and no other matter with respect to their appointments that needs to be brought to the attention of our Shareholders as at the Latest Practicable Date.

SENIOR MANAGEMENT

Mr. Dang Jun (黨軍先生), aged 44, joined our Group in September 2007 as the deputy director. From then until August 2015, Mr. Dang Jun had been working in the marketing department of our Group, providing assistance to Mr. Dang Fei in carrying out the marketing strategies. From 1 September 2015 and up to the Latest Practicable Date, Mr. Dang Jun has been mainly serving as the secretary of the Communist Party branch in our Group, responsible for the daily office administration work of our Group and managing members of the Communist Party within our Group. Mr. Dang Jun currently also serves as a director of one of our subsidiaries, namely Sichuan Saftower and a supervisor of one of our subsidiaries, namely Lhasa Saftower.

Mr. Dang Jun completed a bachelor degree in Chinese studies from Sichuan Union University (四川聯合大學) (currently known as Sichuan University (四川大學)) in June 1998. From August 2001 to December 2003, Mr. Dang Jun attended CPC Sichuan Provincial Party School* (中共四川省委黨校) and obtained a bachelor degree in economic management. Before joining our Group, Mr. Dang Jun served various positions at Chengdu Bureau of Public Security, Jinniu Branch* (成都市公安局金牛區分局) from August 1998 to March 2007 and as a clerk (科員) at Chengdu Bureau of Public Security, Wuhou Branch* (成都市公安局武侯區分局) from March 2007 to August 2007. He was promoted to deputy investigator (副科級偵察員) in August 2007.

Ms. Liu Qing (劉晴女士), aged 42, joined our Group in April 2015 as the deputy human resources manager. She was promoted to deputy human resources director in January 2017, responsible for managing the human resources of our Group. Ms. Liu currently also serves as the supervisor of two of our subsidiaries namely, Guangyuan Shuneng and Guangyuan Tongchuang.

Prior to joining our Group, Ms. Liu worked as the assistant to chairman of the board (董事長助理) and deputy manager of the human resources and administration department (人事行政部門副總經理) at Chengdu Ideal Technology Development Co., Ltd. (成都理想科技開發有限公司) from March 2011 to March 2015.

Ms. Liu graduated from Sichuan Union University (四川聯合大學) (currently known as Sichuan University (四川大學)) in December 1998 with a diploma degree majoring in marketing. She obtained the qualification of Enterprise Human Resources Manager (企業人力資源管理師) from the Occupational Skill Testing Authority of Sichuan Province* (四川省職業技能鑒定指導中心) in January 2017.

Ms. Hu Yi (胡倚女士), aged 35, is the deputy financial director of our Group, assisting Ms. Luo Xi in cost, tax and financial management of our Group. Ms. Hu joined our Group in June 2015 as the deputy manager of the finance department and was promoted to deputy financial director, responsible for our finance matters in Guangyuan, in December 2017. Ms. Hu currently also serves as a director of one of our subsidiaries, namely Guangyuan Tongchuang.

Prior to joining our Group, Ms. Hu worked for Maijiale (Beijing) Technology Company Limited* (買家樂(北京)科技有限公司), as an accountant from July 2007 to July 2009, and Sichuan Hengfeng Air Compressor Company Limited* (四川恒豐空壓機有限公司) as an accountant from March 2011 to December 2014.

Ms. Hu graduated from Southwestern University of Finance and Economics (西南財經大學) in June 2018 with a diploma degree majoring in Accountancy after passing the self-taught higher education exam. She obtained the Certificate of Accounting Profession (會計從業資格) from Beijing Finance Bureau* (北京市財政局) in June 2007, the primary accountant title (會計初級職稱) in May 2009 from Beijing Municipal Human Resources and Social Security Bureau (北京市人力資源和社會保障局) and the medium level accountant title (會計中級職稱) from Sichuan Provincial Human Resources and Social Security Department (四川省人力資源和社會保障廳) in October 2013.

Mr. Liu Yongkang (劉永康先生), aged 48, joined our Group in April 2010 as the production director, responsible for the production operation of our Group. Mr. Liu currently also serves as a supervisor of three of our subsidiaries, namely Saftower Management, Guangyuan Saftower Technology and Sichuan Saftower and a director of another subsidiary, Guangyuan Tongchuang.

Prior to joining our Group, Mr. Liu worked as a technician at Chengdu Sandian Company Limited* (成都三電股份有限公司) from January 1999 to December 2009.

Mr. Liu graduated from Harbin Institute of Technology (哈爾濱工業大學) in July 1995 with a bachelor degree majoring in Polymer Science (高分子材料). He obtained the qualification of engineer from Chengdu Leading Group for Reform of Professional Titles* (成都市職稱改革工作領導小組) in November 2006.

COMPANY SECRETARY

Mr. Woo Yuen Ping (胡遠平), aged 34, was appointed as our company secretary on 22 May 2019. He is responsible for company secretarial matters of our Group.

Mr. Woo has over 10 years of experience in accounting, auditing and company secretarial fields gaining from accounting firms. From August 2008 to September 2014, Mr. Woo worked at RSM Nelson Wheeler and left as an audit assistant manager. From December 2015 to February 2019, he served as a director of Global Vision CPA Limited. Mr. Woo has been the company secretary of Dadi Education Holdings Limited, a company listed on the Stock Exchange (stock code: 8417) since March 2019 and the company secretary of Affluent Foundation Holdings Limited, a company listed on the Stock Exchange (stock code: 1757) since April 2019.

Mr. Woo graduated with a bachelor's degree of business administration in accountancy from City University of Hong Kong in November 2008. Mr. Woo was admitted in January 2012 and is currently a practising member of Hong Kong Institute of Certified Public Accountants. He has been a member of CPA Australia since April 2019.

Mr. Woo is an external service provider engaged by us as our company secretary and Mr. Wang, our executive Director, will be the key contact person with whom Mr. Woo can contact.

COMPLIANCE OFFICER

Mr. Wang is the compliance officer of our Company. For details of his background and experience, see the paragraph headed "Directors — Executive Directors" in this section.

BOARD COMMITTEES

Audit committee

We established an audit committee with written terms of reference in compliance with Rule 5.29 of the GEM Listing Rules and paragraph C.3.3 of the Corporate Governance Code pursuant to a resolution of our Directors passed on 10 June 2020. The primary duties of our audit committee are, among others, to make recommendation to our Board on the appointment, reappointment and removal of external auditor, monitor integrity of our financial statements, review significant financial reporting judgements contained in them, oversee our financial reporting, internal control, risk management systems and audit process and perform other duties and responsibilities assigned by our Board.

At present, our audit committee comprises of Mr. Chan Oi Fat, Dr. Zuo Xinzhang and Ms. Hu Xiaomin, all being our independent non-executive Directors. Mr. Chan Oi Fat is the chairperson of our audit committee.

Remuneration committee

We established a remuneration committee on 10 June 2020 with written terms of reference in compliance with Rule 5.35 of the GEM Listing Rules and paragraph B.1.2 of the Corporate Governance Code. The primary duties of our remuneration committee are, among others, to review and approve the management's remuneration proposals, make recommendations to our Board on the remuneration package of our Directors and senior management and ensure none of our Directors or their associates is involved in deciding their own remuneration.

At present, our remuneration committee comprises Ms. Hu Xiaomin, Dr. Zuo Xinzhang and Mr. Chan Oi Fat, all being our independent non-executive Directors. Ms. Hu Xiaomin is the chairperson of our remuneration committee.

Nomination committee

We established a nomination committee on 10 June 2020 with written terms of reference in compliance with paragraph A.5.2 of the Corporate Governance Code. The primary duties of our nomination committee are, among others, to review the structure, size, composition and diversity of our Board, and select or make recommendations on the selection of individuals nominated for directorships.

At present, our nomination committee comprises Mr. Dang Fei, Dr. Zuo Xinzhang, Mr. Chan Oi Fat and Ms. Hu Xiaomin. Mr. Dang Fei is the chairperson of our nomination committee.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Except for the deviation from provision A.2.1 of the Corporate Governance Code, our corporate governance practices are expected to comply with the Corporate Governance Code. Provision A.2.1 of the Corporate Governance Code stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual.

Mr. Dang Fei has been managing our Group's business and overall strategic planning since its establishment. Our Directors believe that the vesting of the roles of chairman of our Board and chief executive officer in Mr. Dang Fei is beneficial to the business operations and management of our Group as it provides a strong and consistent leadership to our Group and that the current management has been effective in the development of our Group and implementation of business strategies under the leadership of Mr. Dang Fei. In allowing the two roles to be vested in the same person, our Directors believe both positions require in-depth knowledge and considerable experience of our Group's business and Mr. Dang Fei is the most suitable person to occupy both positions for effective management of our Group. Accordingly, our Company has not segregated the roles of the chairman of our Board and chief executive officer as required by Code Provision A.2.1 of the Corporate Governance Code.

Board Diversity Policy

We have adopted a board diversity policy on 10 June 2020, which sets out the approach of which our Board could achieve a higher level of diversity. We recognise the benefits of having a diversified Board. In summary, our board diversity sets out that when considering the nomination and appointment of a Director, with the assistance of our nomination committee, our Board would consider a number of factors, including but not limited to the skills, knowledge, professional experience and qualifications, cultural and educational background, age, gender and diversity of perspective that the candidate is expected to bring to our Board and what would be the candidate's potential contributions, in order to better serve the needs and development of our Company. Our board diversity policy also seeks to attract, retain and motivate our Directors and other staff from the widest pool of available talent. All Board appointments will be based on meritocracy and candidates will be considered against objective criteria, having due regard to the benefits of diversity on our Board.

COMPLIANCE ADVISER

Our Company has appointed Alliance Capital Partners as our compliance adviser pursuant to Rule 6A.19 of the GEM Listing Rules for the term commencing on the Listing Date and ending on the date on which our Company complies with Rule 18.03 of the GEM Listing Rules in respect of our financial results for the second full financial year commencing after the Listing Date.

Pursuant to Rule 6A.23 of the GEM Listing Rules, we shall consult with and, if necessary, seek advice from our compliance adviser on a timely basis in the following circumstances:

(a) before the publication of any regulatory announcement, circular or financial report;

(b) where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share repurchases;

(c) where we propose to use the proceeds of the Listing in a manner different from that detailed in this prospectus or where our business activities, developments or results deviate to a material extent from any forecast, estimate, or other information in this prospectus; and

(d) where the Stock Exchange makes an inquiry of us under Rule 17.11 of the GEM Listing Rules.

REMUNERATION POLICY

Our Directors and senior management receive compensation in the form of salaries, benefits in kind and/or discretionary bonuses related to their performance. We also reimburse them for expenses which are necessarily and reasonably incurred in relation to all business and affairs carried out by us from time to time or for providing services to us or executing their functions in relation to our business and operations. We regularly review and determine the remuneration and compensation package of our Directors and senior management, by reference to, among other things, market level of salaries paid by comparable companies, the respective responsibilities of our Directors and senior management and our performance.

After the Listing, our Directors and senior management may also receive options to be granted under the Share Option Scheme.

REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

During each of FY2017, FY2018 and FY2019, the aggregate emoluments paid and benefits in kind (excluding discretionary bonus and contributions to pension schemes) granted by us to our Directors were RMB258,000, RMB336,000 and RMB359,000, respectively.

For each of FY2017, FY2018 and FY2019, the aggregate remuneration including basic salaries, other benefits and contribution to retirement benefit scheme, paid to the five highest paid individuals (including our Directors) by our Group was RMB651,000, RMB548,000 and RMB674,000, respectively.

Save as disclosed in this prospectus, no other emoluments have been paid, or are payable, by us to our Directors and the five highest paid individuals in respect of each of FY2017, FY2018 and FY2019.

Under the arrangements currently in force, we estimate that the aggregate remuneration payable to, and benefits in kind receivable by, our Directors (excluding discretionary bonus) for FY2020 are expected to be RMB1.22 million. Upon completion of the Listing, our remuneration committee will make recommendations on the remuneration of our Directors taking into account the performance of our Directors and market standards and the remuneration will be subject to approval by our Shareholders. Accordingly, the historical remuneration to our Directors during the Track Record Period may not reflect the future levels of remuneration of our Directors.

During the Track Record Period, no remuneration was paid by us to, or received by, our Directors or the five highest individuals as an inducement to join or upon joining us or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration during the Track Record Period.

For additional information on Directors' remuneration during the Track Record Period as well as information on the highest paid individuals, see accountants' report set out in Appendix I to this prospectus.

SHARE OPTION SCHEME

Our Company has conditionally adopted the Share Option Scheme. Further information on the Share Option Scheme is set forth in the paragraph headed "D. Share Option Scheme" in Appendix V to this prospectus.

OUR CONTROLLING SHAREHOLDERS

Immediately after completion of the Capitalisation Issue and the Share Offer (without taking into account any Share that may be allotted and issued upon the exercise of the Offer Size Adjustment Option and the options that may be granted under the Share Option Scheme), our Company will be owned as to 43.91% by Red Fly. Red Fly is an investment holding company incorporated in the BVI with limited liability. It is owned as to 80.79% by Mr. Dang Fei and 19.21% by Mr. Dang Jun. On the basis of (i) the Acting in Concert Undertaking; and (ii) that Mr. Dang Fei and Mr. Dang Jun hold their respective interests in our Company through a common investment holding company, i.e. Red Fly, which in turn will be entitled to exercise 30% or more of the voting power at general meetings of our Company, Mr. Dang Fei, Mr. Dang Jun and Red Fly are regarded as a group of Controlling Shareholders.

For more information relating to Mr. Dang Fei and Mr. Dang Jun, see "Directors and Senior Management — Directors — Executive Directors" and "Directors and Senior Management — Senior Management", respectively in this prospectus.

ACTING IN CONCERT UNDERTAKING

Pursuant to the Acting in Concert Undertaking, among other things, Mr. Dang Fei and Mr. Dang Jun agreed that when making any major decision which has or is likely to have a material impact on the operation of our Group, they would first convene a meeting therefor and reach a consensus on the proposed matter. In the event that Mr. Dang Fei and Mr. Dang Jun are unable to reach a consensus on those major decisions, the decision shall be made by a simple majority with reference to the percentage of shareholding held by Mr. Dang Fei and Mr. Dang Jun in Red Fly. They will continue to act in accordance with the terms of the Acting in Concert Undertaking until the earlier of (i) the confirmation being terminated by the parties in writing or (ii) Mr. Dang Fei or Mr. Dang Jun ceasing to be the ultimate beneficial owner of our Company.

RULE 11.04 OF THE GEM LISTING RULES

Each of our Controlling Shareholders, our Directors and their respective close associates does not have any interest apart from the business of our Group which competes or may compete with the business of our Group and which requires disclosure pursuant to Rule 11.04 of the GEM Listing Rules.

In addition, each of our Controlling Shareholders has given certain non-competition undertakings in favour of our Group. For details, please refer to the paragraph headed "Non-competition Undertakings" in this section below.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Our Directors believe that our Group is capable of carrying on our business independently of, and does not place undue reliance on, our Controlling Shareholders or their respective close associates, taking into consideration the following factors:

Management independence

We have an independent management team comprising our executive Directors and our senior management who have substantial experience in our business. Our management team is able to implement our policies and strategies and perform their roles in our Company independently.

We aim at establishing and maintaining a strong and independent Board to oversee our business. Our Board consists of eight Directors, comprising four executive Directors, one non-executive Director, and three independent non-executive Directors. The three independent non-executive Directors have extensive experience in different areas or professions. The main functions of our Board include the approval of our overall business plans and strategies, monitoring the implementation of these plans and strategies and the management of our Group.

Our Company will have a common director with Red Fly, namely Mr. Dang Fei. Despite the common directorship, our Company believes that the management independence between (i) our Company and (ii) Red Fly will be maintained as Red Fly, being our Controlling Shareholder, is only an investment holding company.

Further, each of our Directors is aware of his/her fiduciary duties as a Director which require, among other, that he/she acts for the benefit and in the best interests of our Company and our Shareholders as a whole, and that no conflict between his/her duties as a Director and his/her personal interest is allowed to exist. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective close associates, the interested Director(s) shall abstain from voting at the relevant Board meetings in respect of such transactions and shall not be counted in the quorum. In case Mr. Dang Fei is required to abstain from voting at Board meetings due to potential conflict of interest, other executive Directors, the non-executive Director and our independent non-executive Directors will be able to form a quorum and ensure that the decisions of our Board are made after due consideration of independent and impartial opinion.

In view of the aforesaid, our Directors are of the view that we are capable of managing the business of our Group independently of our Controlling Shareholders and their respective close associates after the Listing.

Operational independence

We have established our own organisational structure comprising individual departments, each with specific areas of responsibilities. We have not shared our operational resources, such as suppliers, customers, sales and marketing as well as general administration resources with our Controlling Shareholders and/or their respective close associates.

Further, we have sufficient capital, equipment and employees to operate our businesses independently. We have also established various internal control procedures to facilitate the effective operations of our business.

Our Group has not entered into any connected transaction with any of our Controlling Shareholders that will continue after the Listing.

Financial independence

We have our own accounting systems, accounting and finance department and independent treasury function for cash receipts and payments. We make financial decisions according to our own business needs.

Our accounting and finance department will be responsible for the financial reporting, liaising with our auditors, reviewing our cash position and negotiating and monitoring our bank loan facilities and drawdowns.

All financial assistance, including amounts due to, and loans or guarantees provided by our Controlling Shareholders or their respective close associates to our Group, were/will be repaid or released or otherwise settled in full upon the Listing.

Our Directors are of the view that our Group is not financially dependent on our Controlling Shareholders or their respective close associates in our Group's business operations and we are able to obtain external financing on market terms and conditions for our business operations as and when required.

NON-COMPETITION UNDERTAKINGS

Our Controlling Shareholders as covenantors (each a "**Covenantor**", collectively, the "**Covenantors**") executed the Deed of Non-competition in favour of our Company (for ourselves and as trustee for and on behalf of our subsidiaries) and confirm that none of them nor any of their close associates (other than any member of our Group) is involved or engaged in any business which, directly or indirectly, competes or may compete with the business of our Group, or has any interest (whether directly or indirectly) in such business.

Pursuant to the Deed of Non-competition, each Covenantor undertakes that, from the Listing Date and ending on the occurrence of the earliest of (a) the date on which our Shares cease to be listed on GEM; (b) the date on which the Covenantors cease to be a Controlling Shareholder; or (c) the date on which the Covenantors beneficially own or become interested jointly or severally in the entire issued share capital of our Company:

1. Non-competition

He/it will not, and will use his/its best endeavours to procure any Covenantor, his/its close associates (collectively, the "**Controlled Persons**") and any company directly or indirectly controlled by the Covenantor (excluding any member of our Group) (the "**Controlled Company**") not to, either on his/its own or in conjunction with any person, body corporate, partnership, joint venture or other contractual agreement, whether directly or indirectly, for profit or not, among other things, carry on, participate in, hold, engage in, be interested in, acquire or operate (in each case whether as a shareholder, director, partner, agent, employee, or otherwise, and whether for profit, reward or otherwise), or provide any form of assistance to any person, firm or company (except members of our Group) to conduct any business or activity which, directly or indirectly, competes or may compete with the business carried on or contemplated to be carried on by our Group in the PRC and such other places as our Group may conduct or carry on business from time to time, including but not limited to the manufacturing, processing and sale of wires and cables in the PRC (the "**Restricted Business**").

The Deed of Non-competition does not apply if the Controlled Person(s) and Controlled Company(ies) in aggregate own any interest not exceeding 5% of the issued shares in any company conducting any Restricted Business (the "**Relevant Company**"), and the Relevant Company is listed on any recognised stock exchange, notwithstanding that the business conducted by the Relevant Company constitutes or might constitute competition with the business of our Group, provided that:

(a) the shareholding of any one holder (and his/its close associate, if applicable) in the Relevant Company is more than that of the Controlled Person(s) and the Controlled Company(ies) in aggregate at any time;

(b) the total number of the relevant Covenantors' representatives on the board of directors of the Relevant Company is not significantly disproportionate with respect to his/its shareholding in the Relevant Company; and

(c) the Covenantors and/or their respective close associates, whether acting singly or jointly, are not entitled to appoint a majority of the directors of the Relevant Company or otherwise participate in or be involved in the management of the Relevant Company.

2. New business opportunity

If any Covenantor and/or any Controlled Company is offered or becomes aware of any business opportunity which directly or indirectly engages in or owns a Restricted Business (the "**New Business Opportunity**"):

(a) he/it shall within ten days notify our Company of such New Business Opportunity in writing and refer the same to our Company for consideration, and shall provide the relevant information to our Company in order to enable us to make an informed assessment of such opportunity; and

(b) he/it shall not, and shall procure that his/its Controlled Person(s) or Controlled Company(ies) not to, invest or participate in any project or New Business Opportunity, unless such project or New Business Opportunity shall have been rejected by our Company and the principal terms of which the Covenantor or his/its Controlled Person(s) or Controlled Company(ies) invest or participate in are no more favourable than those made available to our Company.

A Covenantor may only engage in the New Business Opportunity if (a) a notice is received by the Covenantor from our Company confirming that the New Business Opportunity is not accepted and/or does not constitute competition with the Restricted Business (the "**Non-acceptance Notice**"); or (b) the Non-acceptance Notice is not received by the Covenantor within 30 days after the proposal of the New Business Opportunity is received by our Company.

Any Director who has an actual or potential material interest in the New Business Opportunity shall abstain from attending (unless his attendance is specifically requested by the remaining non-interested Directors) and voting at, and shall not be counted towards the quorum for, any meeting or part of a meeting convened to consider such New Business Opportunity.

Our Board (including the independent non-executive Directors) will be responsible for reviewing and considering whether or not to take up a New Business Opportunity referred by a Covenantor or Controlled Company or whether or not the New Business Opportunity constitutes competition with the Restricted Business. The factors that will be taken into consideration by our Board in making the decision include whether it is in line with the overall interests of our Shareholders and our Company as a whole.

3. Corporate governance measures

In order to resolve actual or potential conflicts of interests between our Company and our Controlling Shareholders and to ensure the performance of the above non-competition undertakings, the Covenantors will:

(a) in case of any actual or potential conflict of interest, abstain from attending and voting at any meeting or part of any meeting convened to consider any New Business Opportunity and shall not be counted towards the quorum for such meeting;

(b) as required by our Company, provide all information necessary for our independent non-executive Directors to conduct annual review on the compliance with the terms of the Deed of Non-competition and the enforcement of it;

(c) procure our Company to disclose to the public either in the annual report of our Company or issue an announcement in relation to any decision made by our independent non-executive Directors to pursue or decline the New Business Opportunity, together with the reason in case of decline;

(d) disclose the decision(s) and related basis on matters reviewed by the independent non-executive Directors in relation to our compliance with the terms of the Deed of Non-competition and make a declaration in relation to the compliance with the terms of the Deed of Non-competition in the annual report of our Company, and ensure that the disclosure of information relating to compliance with the terms of the Deed of Non-competition and the enforcement of it are in accordance with the requirements of the GEM Listing Rules; and

(e) that during the period when the Deed of Non-competition is in force, fully and effectually indemnify our Company and/or our subsidiaries against any loss, liability, damage, cost, fee and expense arising out of or in connection with any breach on the part of such Covenantor of any statement, warranty or undertaking made under the Deed of Non-competition.

The Deed of Non-competition and the rights and obligations thereunder are conditional upon (a) the Stock Exchange granting the listing of, and the permission to deal in, our Shares; and (b) the Listing and dealings in our Shares on GEM taking place.

As the Covenantors have given non-competition undertakings in favour of our Company, and none of them have interests in other businesses that compete or may compete with the business of our Group, our Directors are of the view that we are capable of carrying on our Group's business independently of the Covenantors after the Listing.

SUBSTANTIAL SHAREHOLDERS

So far as is known to our Directors or chief executive of our Company, immediately after completion of the Capitalisation Issue and the Share Offer (without taking into account any Share that may be allotted and issued upon the exercise of the Offer Size Adjustment Option and the options that may be granted under the Share Option Scheme), the following persons will have an interest or short position in our Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who/which is expected, directly or indirectly, to be interested in 10% or more of the issued voting shares of any other member of our Group:

Person/corporation	**Capacity/nature of interest**	**Number of Shares held as at the date of submission of application for the Listing**	**Number of Shares held immediately after completion of the Capitalisation Issue and the Share Offer** *(Note 1)*	**Approximate percentage of interests in our Company immediately after completion of the Capitalisation Issue and the Share Offer**
Red Fly *(Note 2)*	Beneficial owner	5,855 Shares	351,280,000 (L)	43.91%
Mr. Dang Fei *(Notes 2 and 3)*	Interest in controlled corporation *(Note 2)* Interest held jointly with another person *(Note 3)*	5,855 Shares	351,280,000 (L)	43.91%
Mr. Dang Jun *(Note 4)*	Interest held jointly with another person *(Note 3)*	5,855 Shares	351,280,000 (L)	43.91%
Xseven Investment *(Note 5)*	Beneficial owner	1,663 Shares	99,760,000 (L)	12.47%
Mr. Wang *(Note 6)*	Interest in controlled corporation *(Note 5)*	1,663 Shares	99,760,000 (L)	12.47%

Notes:

(1) The letter "L" denotes a person's/corporation's "long position" (as defined under Part XV of the SFO) in the Shares.

(2) Our Company will be owned as to 43.91% by Red Fly immediately after completion of the Capitalisation Issue and the Share Offer (without taking into account any Share that may be allotted and issued upon the exercise of the Offer Size Adjustment Option and the options that may be granted under the Share Option Scheme). Red Fly is owned as to 80.79% by Mr. Dang Fei and 19.21% by Mr. Dang Jun. By virtue of the SFO, Mr. Dang Fei is deemed to be interested in the same number of Shares held by Red Fly.

(3) Mr. Dang Fei and Mr. Dang Jun are parties acting in concert pursuant to the Acting in Concert Undertaking. As such, immediately following the completion of the Capitalisation Issue and the Share Offer (without taking into account any Share that may be allotted and issued upon the exercise of the Offer Size Adjustment Option and the options that may be granted under the Share Option Scheme), Mr. Dang Fei and Mr. Dang Jun will together control 43.91% of the issued share capital of our Company.

(4) Ms. Li Li (李莉) is the spouse of Mr. Dang Jun. Under the SFO, Ms. Li Li is deemed to be interested in the same number of Shares held by Mr. Dang Jun.

(5) Our Company will be owned as to 12.47% by Xseven Investment immediately after completion of the Capitalisation Issue and the Share Offer (without taking into account any Share that may be allotted and issued upon the exercise of the Offer Size Adjustment Option and the options that may be granted under the Share Option Scheme). Xseven Investment is owned as to 100% by Mr. Wang. By virtue of the SFO, Mr. Wang is deemed to be interested in the same number of Shares held by Xseven Investment.

(6) Ms. Gao Hong (高虹) is the spouse of Mr. Wang. Under the SFO, Ms. Gao Hong is deemed to be interested in the same number of Shares owned by Mr. Wang.

Save as disclosed above, our Directors are not aware of any person/corporation who/which will, immediately after completion of the Capitalisation Issue and the Share Offer (without taking into account any Share that may be allotted and issued upon the exercise of the Offer Size Adjustment Option and the options that may be granted under the Share Option Scheme), have an interest or short position in our Shares or underlying Shares which fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, which is expected, directly or indirectly, be interested in 10% or more of the issued voting shares of any other member of our Group. Our Directors are not aware of any arrangement which may at a subsequent date result in a change of control of our Company.

SIGNIFICANT SHAREHOLDERS

Save as disclosed above, our Directors are not aware of any person who will be, immediately after completion of the Capitalisation Issue and the Share Offer (without taking into account any Share that may be allotted and issued upon the exercise of the Offer Size Adjustment Option or the options that may be granted under the Share Option Scheme), entitled to exercise or control the exercise of 5% or more of the voting power at general meetings of our Company and will therefore be regarded as our significant Shareholders.

SHARE CAPITAL

The tables below set forth information with respect to the share capital of our Company after completion of the Capitalisation Issue and the Share Offer.

Authorised share capital:		*HK$*
4,000,000,000	Shares of HK$0.01 each	40,000,000

Without taking into account any Share that may be allotted and issued upon the exercise of the Offer Size Adjustment Option and the options that may be granted under the Share Option Scheme, our Company's issued share capital immediately after completion of the Capitalisation Issue and the Share Offer will be as follows:

Shares		*HK$*
10,000	Shares in issue as at the Latest Practicable Date	100
599,990,000	Shares to be issued pursuant to the Capitalisation Issue	5,999,900
200,000,000	Shares to be issued pursuant to the Share Offer	2,000,000
800,000,000	Total	8,000,000

Assuming the Offer Size Adjustment Option is exercised in full and without taking into account any Share that may be allotted and issued upon the exercise of any option that may be granted under the Share Option Scheme, our Company's issued share capital immediately following completion of the Capitalisation Issue and the Share Offer will be as follows:

Shares		*HK$*
10,000	Shares in issue as at the Latest Practicable Date	100
599,990,000	Shares to be issued pursuant to the Capitalisation Issue	5,999,900
200,000,000	Shares to be issued pursuant to the Share Offer	2,000,000
30,000,000	Shares to be issued upon exercise of the Offer Size Adjustment Option	300,000
830,000,000	Total	8,300,000

ASSUMPTIONS

The above tables assume that the Share Offer becomes unconditional and Shares are issued pursuant to the Share Offer. It takes no account of any Share that may be issued or repurchased by us pursuant to the general mandates granted to our Directors to issue or repurchase Shares as described below.

MINIMUM PUBLIC FLOAT

Pursuant to Rule 11.23(7) of the GEM Listing Rules, at the time of Listing and at all times thereafter, our Company must maintain the minimum prescribed percentage of at least 25% of the total number of issued Shares in the hands of the public.

RANKING

The Offer Shares are ordinary Shares and will rank equally with all Shares currently in issue or to be issued as mentioned in this prospectus and, in particular, will qualify for all dividends or other distributions declared, made or paid on our Shares in respect of a record date which falls after the date of this prospectus save for the entitlement under the Capitalisation Issue.

SHARE OPTION SCHEME

We have conditionally adopted the Share Option Scheme. The principal terms of the Share Option Scheme are summarised in the paragraph headed "D. Share Option Scheme" in Appendix V to this prospectus.

We did not have any outstanding share option, warrant, convertible instrument or similar right convertible into our Shares as at the Latest Practicable Date.

GENERAL MANDATE TO ISSUE SHARES

Subject to the Share Offer becoming unconditional, our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares in aggregate not exceeding:

(a) 20% of the total number of Shares in issue immediately after completion of the Capitalisation Issue and the Share Offer (without taking into account any Share that may be allotted and issued upon the exercise of the Offer Size Adjustment Option and the options that may be granted under the Share Option Scheme); and

(b) the aggregate number of issued Shares which may be repurchased by our Company (if any) under the mandate to repurchase Shares referred to below.

Our Directors may, in addition to our Shares which they are authorised to issue under the general mandate, allot, issue and deal in our Shares pursuant to a rights issue, an issue of Shares pursuant to the exercise of the subscription rights attached to any warrant of our Company, scrip dividends or similar arrangements or options provided for the allotment and issue of Shares in lieu of the whole or in any part of any cash dividends or options to be granted under the Share Option Scheme and any option scheme or similar arrangement for the time being adopted or upon the exercise of the Offer Size Adjustment Option.

This general mandate to issue Shares will remain in effect until whichever is the earliest of:

(a) the conclusion of our next annual general meeting; or

(b) the date by which our next annual general meeting is required by the Articles or any applicable law to be held; or

(c) the time when such mandate is varied, revoked or renewed by an ordinary resolution of our Shareholders in a general meeting.

Further details of this general mandate are set out in the paragraph headed "A. Further Information about our Group — 6. Written resolutions of our Shareholders" in Appendix V to this prospectus.

GENERAL MANDATE TO REPURCHASE SHARES

Subject to the Share Offer becoming unconditional, our Directors have been granted a general unconditional mandate to exercise all powers of our Company to repurchase, on the Stock Exchange and/or on any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose in accordance with applicable laws and requirements of the GEM Listing Rules (or of such other stock exchange), Shares in the number not exceeding 10% of the total number of Shares in issue immediately after completion of the Capitalisation Issue and the Share Offer (without taking into account any Share that may be allotted and issued upon the exercise of the Offer Size Adjustment Option and the options that may be granted under the Share Option Scheme). This general mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange which is recognised by the SFC and the Stock Exchange for this purpose in accordance with the applicable laws and requirements of the Stock Exchange (or such other stock exchange). A summary of the relevant GEM Listing Rules is set out in the paragraph headed "A. Further information about our Group — 7. Repurchase of our Shares" in Appendix V to this prospectus.

This general mandate to repurchase Shares will remain in effect until whichever is the earliest of:

(a) the conclusion of our next annual general meeting; or

(b) the date by which our next annual general meeting is required by the Articles or any applicable law to be held; or

(c) the passing of an ordinary resolution of our Shareholders in a general meeting varying, revoking or renewing the authority given to our Directors.

Further details of this repurchase mandate are set out in the paragraph headed "A. Further information about our Group — 7. Repurchase of our Shares" in Appendix V to this prospectus.

CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED

As a matter of the Companies Law, an exempted company is not required by law to hold any general meeting or class meeting. The holding of a general meeting or class meeting is prescribed for under the articles of association of a company. Accordingly, our Company will hold general meetings as prescribed for under the Articles, a summary of which is set out in Appendix IV to this prospectus.

You should read the following management discussion and analysis of our Group's and Guangyuan Tongchuang's financial condition and results of operations together with our consolidated financial information as at and for FY2017, FY2018 and FY2019, Guangyuan Tongchuang's pre-acquisition financial information, and the accompanying notes included in the Accountants' Report set out in Appendix I to this prospectus. The Accountants' Report has been prepared in accordance with HKFRS. Potential investors should read the whole of the Accountants' Report set out in Appendix I to this prospectus and not rely merely on the information contained in this section. The following management discussion and analysis contain forward-looking statements that involve risks and uncertainties. For additional information regarding these risks and uncertainties, see "Risk Factors" in this prospectus.

OVERVIEW

Founded in 2004, we are a regional manufacturer and supplier of wires and cables, with integrated production facilities situated in Chengdu and Guangyuan of Sichuan Province. Products sold by us can be broadly classified into four major categories: (i) finished wires and cables; (ii) semi-finished wires; and (iii) aluminium products namely aluminium strips and ingots; and (iv) others, comprising cable accessories. The conductors of our wires and cables are mainly made of copper and aluminium. For FY2017, FY2018 and FY2019, our total revenue was RMB262.3 million, RMB552.7 million and RMB685.5 million, respectively. Our total gross profit amounted to RMB14.4 million, RMB38.4 million and RMB53.9 million for FY2017, FY2018 and FY2019, representing a gross profit margin of 5.5%, 6.9% and 7.9%, respectively.

We established our Chengdu Plant in 2004 with a primary focus on manufacturing copper wires. To enhance our capability to serve customers in adjacent provinces, we established Guangyuan Plant and formed Tongchuang Plant which commenced commercial production since April and September 2017, respectively. Tongchuang Plant is situated in Guangyuan Plant as a manufacturer of aluminium wires and cables mainly on OEM basis while Guangyuan Plant focuses on manufacturing of semi-finished aluminium wires. Aiming to further enhance our productivity and vertically integrated capability, we commenced trial operation of Shuneng Plant in April 2019. Shuneng Plant produces aluminium materials such as unprocessed aluminium rods for Tongchuang Plant for further processing.

On 15 April 2019, we acquired an additional 16.67% equity interest in Guangyuan Tongchuang from Mr. Li Zhanwei, an Independent Third Party. Mr. Li Zhanwei was a passive shareholder and a director of Guangyuan Tongchuang until 15 April 2019. Guangyuan Tongchuang was a joint venture which was 40% owned by us before the Tongchuang Equity Acquisition and has become our 56.67% non wholly-owned subsidiary since 16 April 2019. For details, see "History, Development and Reorganisation — Corporate Development — Guangyuan Tongchuang" in this prospectus. Stand-alone pre-acquisition financial information of Guangyuan Tongchuang for FY2017, FY2018 and the period ended 15 April 2019 prior to the Tongchuang Equity Acquisition is included section headed "Pre-Acquisition Financial Information of Guangyuan Tongchuang" in this prospectus and in Note 37 in Appendix I to this prospectus. Guangyuan Tongchuang was accounted for as an investment in joint venture in our consolidated financial statements for FY2017, FY2018 and up to 15 April 2019. Guangyuan Tongchuang's financial statements were consolidated into our Group from 16 April 2019 to 31 December 2019 based on the fair value of Guangyuan Tongchuang by applying the acquisition method in accordance with HKFRS. See also "Pre-acquisition Financial Information of Guangyuan Tongchuang" in this prospectus.

BASIS OF PRESENTATION

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 9 October 2018. The consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of our Group for FY2017, FY2018 and FY2019 have been prepared using the historical financial information of the entities now comprising our Group, as if the current group structure had been in existence for FY2017, FY2018 and FY2019, or since the respective dates of acquisition or incorporation, whichever is the shorter period. The consolidated statements of financial position of our Group as at 31 December 2017, 2018 and 2019 have been prepared to present the assets and liabilities of the entities now comprising our Group which were in existence at those dates, as if the current group structure had been in existence as at these dates or since their respective dates of acquisition or incorporation, whichever is the shorter period. All significant intra-group transactions and balances have been eliminated on combination.

APPLICATION OF HKFRSs

The historical financial information has been prepared in accordance with the accounting policies, which conform to HKFRSs (which collective term includes all applicable individual HKFRSs, HKASs and Interpretations) issued by the HKICPA and applicable disclosure provisions of the Rules Governing the Listing of Securities on GEM throughout the Track Record Period. All HKFRSs effective for accounting period commencing from 1 January 2018 together with the relevant transitional provisions, including HKFRS 9 "Financial Instruments" and HKFRS 15 "Revenue from Contracts with Customers" and the related amendments, have been early adopted by our Group in the preparation of the historical financial information throughout the Track Record Period. Our Group has adopted HKFRS 16 "Lease" using full retrospective approach throughout the Track Record Period.

It should be noted that accounting estimates and assumptions are used in the preparation of the historical financial information. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates.

Effect on the adoption of HKFRS 9 Financial Instruments

We have elected to consistently apply HKFRS 9 throughout the Track Record Period when preparing our historical financial information. HKFRS 9, as compared with HKAS 39, introduces new requirements for (i) the classification and measurement of financial assets and financial liabilities; and (ii) expected credit losses model for financial assets instead of incurred losses model under HKAS 39. All of our financial assets and liabilities continues to be measured at the same measurement basis under HKAS 39. Our Directors considered that the adoption of the expected credit losses model under HKFRS 9 would not result in significant difference in allowances for impairment and did not have any significant impact on our Group's consolidated financial position and performance as compared with HKAS 39.

Effect on the adoption of HKFRS 15 Revenue from Contracts with Customers

We have elected to consistently apply HKFRS 15 throughout the Track Record Period when preparing our historical financial information. Under the adoption of HKFRS 15, our Group recognises revenue when (or as) performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to customers instead of when risk and reward is transferred to customers under HKAS 18. Under HKFRS 15, our Group recognises performance obligations that we have not yet satisfied but for which we have received consideration or an amount of consideration is due to the customer as contract liabilities. Our Directors considered that, as compared to the requirements of HKAS 18, the adoption of HKFRS 15 did not have any significant impact on our consolidated financial position and performance during the Track Record Period, except for reclassification of advances from customers to contract liabilities.

Effect on the adoption of HKFRS 16 Leases

We had elected to consistently apply HKFRS 16 throughout the Track Record Period when preparing our historical financial information. HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 and the related interpretations when it becomes effective. HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any re-measurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others.

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

Furthermore, extensive disclosures are required by HKFRS 16.

We elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as lease applying HKAS 17 and HKFRIC 4 *Determining whether an arrangement contains a lease* and not apply this standard to contracts that were not previously identified as containing a lease apply HKAS 17 and HKFRIC 4. Therefore, we will not reassess whether the contracts are, or contain a lease which already existed prior to 1 January 2017. The change in definition of a lease mainly relates to the concept of control. HKFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration.

We applied the definition of a lease and related guidance set out in HKFRS 16 to all lease contracts entered into or modified on or after 1 January 2017. The new definition in HKFRS 16 will not change significantly the scope of contracts that meet the definition of a lease for our Group.

When applying the modified retrospective approach under HKFRS 16 in transition, we 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:

— elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application; and

— used hindsight based on facts and circumstances as at date of initial application in determining the lease term for our leases with extension and termination options.

Our Directors confirm that, comparing to HKAS 17, the adoption of HKFRS 16 did not have a significant impact on the Group's consolidated financial position (net assets) and performance during the Track Record Period

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our financial information has been prepared in accordance with the HKFRS. We have identified certain accounting policies that are critical to the preparation of our financial information. Some of our critical accounting policies involve subjective assumptions and estimates, as well as complex judgments relating to accounting items. These accounting policies are important for understanding our financial position and results of operations and are set forth in Note 4 to Appendix I to this prospectus.

The estimates and associated assumptions are based on our historical experience and various other relevant factors that we believe are reasonable under the circumstances, the results of which form the basis of making judgments about matters that are not readily apparent from other sources. When reviewing our financial results, you should consider: (i) our selection of critical accounting policies, (ii) the judgment and other uncertainties affecting the application of such policies, and (iii) the sensitivity of reported results to changes in conditions and assumptions. The determination of these items requires management judgments based on information and financial data that may change in the future periods, and as a result, actual results could differ from those estimates.

Revenue recognition

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which our Group expects to be entitled in exchange for those goods or services, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Depending on the terms of the contract and the laws that apply to the contract, control of the goods or service may be transferred over time or at a point in time. Control of the goods or service is transferred over time if our Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates or enhances an asset that the customer controls as our Group performs; or
- does not create an asset with an alternative use to our Group and our Group has an enforceable right to payment for performance completed to date.

If control of the goods or services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods or service.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amounts receivable, discounted using the discount rate that would be reflected in a separate financing transaction between our Group and the customer at contract inception. Where the contract contains a financing component which provides a significant financing benefit to our Group, revenue recognised under that contract includes the interest expense accrued on the contract liability under the effective interest method. For contracts where the period between the payment and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

(i) Sales of wires and cables

Customers obtain control of the wires and cables when the goods are delivered to and have been accepted. Revenue is thus recognised upon when the customers accepted wires and cables. There is generally only one performance obligation. Invoices are usually payable within 90 days.

(ii) Sales of aluminium products

Customers obtain control of the aluminium products when the goods are delivered to and have been accepted. Revenue is thus recognised upon when the customers accepted the aluminium products. There is generally only one performance obligation. Invoices are usually payable within five days.

(iii) Warranties

Our Group normally provides warranty services from one to two year to our customer regarding the sales of electric cable and wires products. The customer do not have an option to purchase warranty separately. Our Group accounts for warranty in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets" unless the warranty provides the customer with a service in addition to the assurance that the product complies with agreed-upon specification (i.e. service-type warranties).

(iv) Other income

Agency fee income is recognised when the goods on which the agency fee is calculated are delivered.

Rental income under operating leases is recognised on a straight-line basis over the term of the relevant lease.

Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.

Dividend income is recognised when the right to receive the dividend is established.

Contract assets and liabilities

A contract asset represents our right to consideration in exchange for services that our Group has transferred to a customer that is not yet unconditional. In contrast, a receivable represents our unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents our obligation to transfer services to a customer for which our Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to a contract are accounted for and presented on a net basis.

Contract costs

Our Group recognises an asset from the costs incurred to fulfil a contract when those costs meet all of the following criteria:

(a) the costs relate directly to a contract or to an anticipated contract that the entity can specifically identify;

(b) the costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligation in the future; and

(c) the costs are expected to be recovered.

The asset recognised is subsequently amortised to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the cost relate. The asset is subject to impairment review.

Government grants

Government grants are not recognised until there is reasonable assurance that our Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which our Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that our Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the consolidated statements of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to our Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to our Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised as an expense in profit or loss during the financial period in which they are incurred.

Property, plant and equipment are depreciated so as to write off their cost or valuation net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The useful lives are as follows:

Buildings	30 years
Leasehold improvements	5 years
Plant and machinery	10–30 years
Furniture and fixtures	3–5 years
Computer and office equipment	3–10 years
Motor vehicles	5–10 years

Construction in progress is stated at cost less impairment losses. Cost comprises direct costs of construction as well as borrowing costs capitalised during the periods of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to the appropriate class of property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided for in respect of construction in progress until it is completed and ready for its intended use.

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sales proceeds and its carrying amount, and is recognised in profit or loss on disposal.

Impairment of assets (other than financial assets)

At the end of each reporting period, our Group reviews the carrying amounts of the following assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- right-of-use assets;
- prepayments;
- intangible assets;
- investment in a joint venture; and

- investment in a subsidiary

If the recoverable amount (i.e. the greater of the fair value less costs of disposal and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another HKFRS, in which case the impairment loss is treated as a revaluation decrease under that HKFRS.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another HKFRS, in which case the reversal of the impairment loss is treated as a revaluation increase under that HKFRS.

Value in use is based on the estimated future cash flows expected to be derived from the asset or the cash-generating unit, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash generating unit. A cash-generating unit is the smallest identifiable group of assets that generate cash flows that are largely independent of the cash flows from other assets or groups of assets.

Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our operations and financial condition have been, and will continue to be affected by a number of factors, including those set out below:

Economic conditions in the PRC and Sichuan Province

We operated in two cities located in Sichuan Province, namely Chengdu and Guangyuan, and derived all our revenue in the PRC during the Track Record Period. We expect that the PRC, particularly the Sichuan market will continue to be our major place of operations. Accordingly, in the event there is any material and unfavourable change in Sichuan Province and the PRC markets, such as deterioration in the regional and national economic, social and/or political conditions, outbreak of natural disasters, terrorist attacks, political or social unrests, strike, riot, civil disturbance or disobedience, epidemics, pandemics or any unfavourable state or provincial policies applicable to this region, our customers' industry, our industry, or other events beyond our control in this region, our business, financial position, results of operations and prospects would be materially and adversely affected. For details of the impact of COVID-19, see the paragraph headed "Recent Developments and No Material Adverse Change" in this section. In addition, we have minimal business presence in overseas jurisdictions, and may have difficulties in relocating our entire business operations to other geographic markets if there is any material deterioration in the economic, political and regulatory environment in the PRC.

Product mix

We have a diverse product portfolio which can be customised to carry different features in accordance with the technical specifications of our customers. Different types of products have different gross profit margins, depending on a variety of factors including sales volume, costs of raw materials, pricing and our marketing strategy. Average selling price and gross profit margin of similar type of products varied significantly in the wires and cables market, our Directors believe (which Frost & Sullivan also concurred) that the following are key factors that affect the pricing of a typical product per same volume with same key component of the same conductor, namely copper or aluminium, (i) number of core conductor, multiple or single, multiple core conductor is more expensive than single core conductor; (ii) the size of the cross section area of the product, determined by the radius of the core conductor, the longer the radius, the more expensive; (iii) the voltage requirement for the product, the higher voltage requirement, more expensive; (iv) customer requirement on product specification and application also affect the pricing. For example, special wires and cables are usually more expensive than classic wires and cables; (v) any value-added product features possessed by our products; and (vi) customer services, such as the availability of any after-sale services, logistics services and credit terms which will usually reflect a higher pricing. Our product mix and any change to such mix due to our business strategy, market conditions, customer demand and other factors may affect our revenue and profitability over time. Therefore, our overall gross profit margin will vary depending on the product mix across different types of products. See the paragraph headed "Description of Selected Items In Statements Of Comprehensive Income — Gross profit and gross profit margin" in this section. Our results of operations have been and will continue to be affected by our product mix. We plan to continue monitoring the industry trends and allocating our resources among different product segments accordingly.

Availability and cost of raw materials

We purchase various raw materials for our production. For further details, see "Business — Procurement and Suppliers — Raw materials" in this prospectus. Our major procurement comprises primarily copper and aluminium.

For FY2017, FY2018 and FY2019, cost of raw materials is the largest component of our cost of sales. Our purchases from our five largest suppliers amounted to RMB225.2 million, RMB428.4 million and RMB547.5 million, respectively, representing 94.2%, 85.9% and 89.6%, respectively, of our total purchase for FY2017, FY2018 and FY2019. As a result, any significant fluctuations in our cost of raw materials may materially impact our cost of sales and gross profit margins, and may have a substantial impact on our results of operations.

In general, unit cost of copper is three to four times higher than the unit cost of aluminium, hence, copper products are usually sold at a higher unit price than aluminium products.

Set out below is the monthly average price (tax inclusive and exclusive) of raw materials of copper and aluminium in the PRC for FY2017, FY2018 and FY2019 according to Frost & Sullivan:

	FY2017		FY2018			FY2019		
	RMB/ tonne (tax inclusive)	*RMB/ tonne (net of tax)*	*RMB/ tonne (tax inclusive)*	*RMB/ tonne (net of tax)*	*FY2018 vs. FY2017 % change (%)*	*RMB/ tonne (tax inclusive)*	*RMB/ tonne (net of tax)*	*FY2019 vs. FY2018 % change (%)*
Raw materials:								
Copper	49,197	42,049	50,654	43,540	+3.0	47,787	41,916	–5.7
Aluminium	14,429	12,333	14,196	12,203	-1.6	13,936	12,228	–1.8

Note: Percentage change was calculated based on the tax inclusive price. Tax rate was 17%, 16% and 14% for FY2017, FY2018 and FY2019 respectively.

The following table sets forth the sensitivity analysis on the fluctuation in inventory costs for FY2017, FY2018 and FY2019, illustrating its impact on our profit before income tax expenses if our cost of raw material had been 5%, 10% and 15% increase or decrease for FY2017, FY2018 and FY2019, assuming that all other variables were held constant. Because a number of assumptions have been applied, this sensitivity analysis is for illustration only, and actual results may differ from those illustrated below.

	FY2017	**FY2018**	**FY2019**
	RMB'000	*RMB'000*	*RMB'000*
If costs of raw material had been 5% higher/lower			
(Decrease)/increase in profit before income tax expenses	–/+10,483	–/+13,973	–/+26,625
If costs of raw material had been 10% higher/lower			
(Decrease)/increase in profit before income tax expenses	–/+20,966	–/+27,946	–/+53,250
If costs of raw material had been 15% higher/lower			
(Decrease)/increase in profit before income tax expenses	–/+31,449	–/+41,919	–/+79,875

Production capacity and operating efficiency

The continuous growth of our revenue and market share depends on a large extent on our ability to expand our production capacity. For FY2017, FY2018 and FY2019 and up to the Latest Practicable Date, we produced and processed products in our three production plants, namely our Chengdu Plant, Guangyuan Plant and Tongchuang Plant. The average annualised utilisation rate for FY2017, FY2018 and FY2019 was 103.3%, 86.9% and 97.3% for Chengdu Plant, 59.1%, 106.2% and 110.3% for Guangyuan Plant, and 19.8%, 88.8% and 102.1% for Tongchuang Plant, respectively. Our Shuneng Plant was at trial production stage as at the Latest Practicable Date and is expected to commence commercial production by third quarter of 2020.

Our financial performance is highly related to our operating efficiency. As we continue to grow and expand our business, we intend to enhance and expand our production capacity to meet our customers' demands, such as acquiring new production facilities, improving our production technology and equipment, expanding our production lines, increasing the level of automation used in the production process.

Competition

We operate in a competitive environment where there are continuous competitions from both existing competitors and new market entrants. We have maintained our competitive position in the PRC, particularly Sichuan Province through our comprehensive product mix, high-quality products, our brand and efficient operations. Our strong research and development capabilities also allow us to expand into new product markets to improve our margins.

RESULTS OF OPERATION

The following is a summary of the consolidated statements of comprehensive income of our Group for FY2017, FY2018 and FY2019, which is extracted from the Accountants' Report set out in Appendix I to this prospectus. This summary should be read in conjunction with the Accountants' Report as set out in Appendix I to this prospectus.

	FY2017	FY2018	FY2019
	RMB'000	*RMB'000*	*RMB'000*
Revenue	262,295	552,656	685,530
Cost of sales	(247,899)	(514,300)	(631,656)
Gross profit	14,396	38,356	53,874
Other income and gains	8,935	9,249	20,838
Selling and distribution expenses	(2,702)	(4,999)	(9,068)
Administrative and other expenses	(13,286)	(12,235)	(15,491)
Listing expenses	—	(3,851)	(8,920)
Finance costs	(4,257)	(6,515)	(7,877)
Share of profit of a joint venture	88	1,548	538
Profit before income tax expenses	3,174	21,553	33,894
Income tax expense	(997)	(4,157)	(4,141)
Profit and total comprehensive income for the year	2,177	17,396	29,753

DESCRIPTION OF SELECTED ITEMS IN STATEMENTS OF COMPREHENSIVE INCOME

Revenue

During the Track Record Period, we generate our revenue mainly from the manufacturing and sales of wires and cables and sales of aluminium products in the PRC.

The follow table sets forth the breakdown of our revenue derived from our major operating subsidiaries by key product types after elimination of intra-group transactions during the indicated periods:

	FY2017			FY2018		
	Sichuan Saftower	**Guangyuan Saftower**	**Total**	**Sichuan Saftower**	**Guangyuan Saftower**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Classic finished wires and cables						
Copper wires and cables	83,927	—	83,927	99,526	—	99,526
Aluminium wires and cables *(Note 1)*	45,542	48,904	94,446	81,099	—	81,099
Special finished wires and cables						
Copper wires and cables	—	—	—	3,302	—	3,302
Aluminium wires and cables	—	—	—	7,021	—	7,021
Semi-finished wires	—					
Bare copper wires	11	—	11	26,276	—	26,276
Aluminium rods	14	67,763	67,777	—	182,191	182,191
Aluminium products	—	16,134	16,134	—	138,591	138,591
Others	—	—	—	14,650	—	14,650
	129,494	**132,801**	**262,295**	**231,874**	**320,782**	**552,656**

	FY2019					
	Sichuan Saftower	**Guangyuan Saftower**	**Guangyuan Tongchuang** *(Note 2)*	**Guangyuan Shuneng** *(Note 3)*	**Sichuan Liangdian** *(Note 4)*	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Classic finished wires and cables						
Copper wires and cables	72,069	—	—	—	4,678	76,747
Aluminium wires and cables *(Note 1)*	66,318	41,386	135,944	—	35	243,683
Special finished wires and cables						
Copper wires and cables	24,250	—	—	—	—	24,250
Aluminium wires and cables	21,330	—	—	—	—	21,330
Semi-finished wires						
Bare copper wires	51,151	—	—	—	—	51,151
Aluminium rods	—	191,650	—	30,722	—	222,372
Aluminium products	—	45,335	—	—	—	45,335
Others	—	—	662	—	—	662
	235,118	**278,371**	**136,606**	**30,722**	**4,713**	**685,530**

Notes:

1. Sichuan Saftower also sold classic finished aluminium wires and cables for FY2017, FY2018 and FY2019 through mainly subcontracting the production to suppliers including Guangyuan Tongchuang.

2. Revenue of Tongchuang Plant represented Guangyuan Tongchuang's sales after Tongchuang Equity Acquisition which was consolidated into our Group's financial statements.

3. Guangyuan Shuneng was in trial operation for FY2019 and recorded revenue from its sales of aluminium rods to (i) Guangyuan Tongchuang which amounted to RMB0.7 million before Guangyuan Tongchuang has become our non-wholly owned subsidiary; and (ii) an external customer, which is a state-owned company principally engaged in the sales of metal materials and construction materials and the revenue therefrom, amounted to RMB30.0 million, to establish its customer base.

4. Sichuan Liangdian commenced to sell classic finished wires and cables to Customer A in December 2019, which the production was subcontracted to Sichuan Saftower, Guangyuan Tongchuang and an external subcontractor.

Compared with FY2017, revenue for FY2018 increased by RMB290.4 million, or 110.7% from RMB262.3 million. This was primarily due to:

(i) the significant increase in sales of aluminium products by RMB122.5 million by Guangyuan Saftower in FY2018 after full operation of our Guangyuan Plant;

(ii) the significant increase in sales of semi-finished wires by RMB140.7 million for FY2018, including RMB26.3 million increase in sales of bare copper wires by Sichuan Saftower and RMB114.4 million increase in sales of aluminium rods by Guangyuan Saftower in FY2018 after full operation of our Guangyuan Plant;

(iii) the increase in sales of classic finished copper wires and cables of RMB15.6 million by Sichuan Saftower for FY2018;

(iv) the rollout of special wires and cables with environmentally friendly features by Sichuan Saftower since August 2018 which contributed revenue of RMB10.3 million for FY2018;

(v) the sales of cable accessories of RMB14.7 million by Sichuan Saftower in FY2018, while we did not record any sales of cable accessories in FY2017; and

(vi) offset by the decrease in sales of finished aluminium wires and cables of RMB13.4 million for FY2018, including decrease of RMB48.9 million by Guangyuan Saftower and increase of RMB35.5 million by Sichuan Saftower.

Compared with FY2018, revenue for FY2019 increased by RMB132.9 million, or 24.0%. This was primarily due to:

(i) a significant increase in the sales of classic finished aluminium wires and cables by RMB162.6 million for FY2019, mainly comprising (a) sales of RMB135.9 million by Guangyuan Tongchuang for the period from 16 April 2019 to 31 December 2019 consolidated to our Group after Tongchuang Equity Acquisition; and (b) sales of RMB41.4 million by Guangyuan Saftower, which mainly sourced the products from suppliers including Guangyuan Tongchuang;

(ii) a significant increase in the sales of special wires and cables with environmentally friendly features by RMB35.3 million by Sichuan Saftower to Changhong Group, including (a) an increase in sales of special finished copper wires and cables by RMB21.0 million; and (b) increase in sales of special finished aluminium wires and cables by RMB14.3 million;

(iii) an increase of RMB65.1 million in the sales of semi-finished wires, including (a) an increase in the sales of bare copper wires by RMB24.9 million by Sichuan Saftower; (b) an increase in the sales of aluminium rods by RMB9.5 million by Guangyuan Saftower; and (c) the sales of RMB30.7 million by Guangyuan Shuneng to establish its customer base in FY2019 (FY2018: nil); and

(iv) partially offset by the decrease in the sales of classic copper wires and cables by RMB27.5 million by Sichuan Saftower and decrease in the sales of aluminium products of RMB93.3 million by Guangyuan Saftower as Guangyuan Saftower had not traded aluminium products after August 2019.

Revenue and average selling price by product type

	Unit (Note 2)	FY2017 Sales volume	FY2017 Average selling price (Note 1)	FY2017 Total sales	FY2018 Sales volume	FY2018 Average selling price (Note 1)	FY2018 Total sales	FY2019 Sales volume	FY2019 Average selling price (Note 1)	FY2019 Total sales
		km/tonne	*RMB per km/tonne*	*RMB'000*	*km/tonne*	*RMB per km/tonne*	*RMB'000*	*km/tonne*	*RMB per km/tonne*	*RMB'000 (Unaudited)*
1 Finished wires and cables										
Classic wires and cables										
Classic copper wires and cables										
— Copper power cables (銅製電力電纜)	*km*	646	54,243	35,041	1,045	58,479	61,100	628	73,693	46,279
— Copper wires for electrical equipment (銅製電氣裝備用電線)	*km*	34,374	1,422	48,886	22,298	1,723	38,426	18,575	1,640	30,468
Subtotal (classic copper wires and cables)				83,927			99,526			76,747
Classic aluminium wires and cables										
— Steel reinforced aluminium bare cables (鋁製鋼芯鋁絞線)	*tonne*	755	13,244	9,999	5,192	12,347	64,107	17,403	12,585	219,017
— Steel reinforced aluminium bare cables (鋁製鋼芯鋁絞線)	*km*	—	—	—	—	—	—	6	8,833	53
— Aluminium overhead power cables (鋁製架空電纜)	*km*	42	6,167	259	2,557	3,963	10,133	1,851	4,124	7,634
— Aluminium medium and low voltage power cables (鋁製中低壓電力電纜)	*km*	191	22,304	4,260	140	19,221	2,691	516	28,891	14,908
— Aluminium wires for electrical equipment (鋁製電氣裝備用電線)	*km*	7,377	1,816	13,398	2,732	1,526	4,168	1,291	1,604	2,071
— Aluminium wires for electrical equipment (鋁製電氣裝備用電線)	*tonne*	4,830	13,774	66,530	—	—	—	—	—	—
Subtotal (classic aluminium wires and cables)				94,446			81,099			243,683
Subtotal (classic wires and cables)				178,373			180,625			320,430
Special wires and cables										
Special copper wires and cables										
— Special copper power cables (銅製特種電力電纜)	*km*	—	—	—	56	41,429	2,320	263	92,205	24,250
— Special copper wires for electrical equipment (銅製特種電氣裝備用電線)	*km*	—	—	—	382	2,571	982	—	—	—
Subtotal (special copper wires and cables)				—			3,302			24,250
Special aluminium wires and cables										
— Special aluminium medium and low voltage power cables (鋁製特種中低壓電力電纜)	*km*	—	—	—	238	27,651	6,581	431	49,490	21,330
— Special aluminium wires for electrical equipment (鋁製特種電氣裝備用電線)	*km*	—	—	—	235	1,872	440	—	—	—
Subtotal (special aluminium wires and cables)				—			7,021			21,330
Subtotal (special wires and cables)				—			10,323			45,580
Subtotal (finished wires and cables)				**178,373**			**190,948**			**366,010**
2 Semi-finished wires										
Bare copper wires (銅絲)	*tonne*	0.25	44,000	11	598	43,940	26,276	1,192	42,912	51,151
Aluminium rods (電工圓鋁桿)	*tonne*	5,319	12,742	67,777	14,336	12,709	182,191	17,100	13,004	222,372
Subtotal (semi-finished wires)				**67,788**			**208,467**			**273,523**
3 Aluminium products										
Aluminium strips (鋁卷)	*tonne*	1,232	13,096	16,134	9,115	12,813	116,789	378	12,013	4,541
Aluminium ingots (鋁錠)	*tonne*	—	—	—	1,826	11,940	21,802	3,490	11,689	40,794
Subtotal (aluminium products)				**16,134**			**138,591**			**45,335**
4 Others										
Cable accessories (電纜配套設備)		N/A	N/A	—	N/A	N/A	14,650	N/A	N/A	662
Total revenue				**262,295**			**552,656**			**685,530**

Note:

1. Average selling price is derived from actual sales amount rounded to the nearest thousands divided by actual sales volume, while total sales is rounded to the nearest thousands.

2. Length (km) and weight (tonne) are two major measurements of units generally adopted by the market in accordance with the national standard. In general, products without coating of other materials would be measured in weight (tonne), whereas products coating with other materials would be measured in length (km). Cables accessories sold were in measurement of various units subject to the requirements from customers, therefore average selling price was not applicable.

1. Finished wires and cables

Classic wires and cables

- **Copper power cables**

  For FY2017 and FY2018, sales of copper power cables increased by RMB26.1 million, or 74.6%, from RMB35.0 million to RMB61.1 million. For FY2018, we sold 1,045 km of finished copper power cables, representing an increase of 399 km, or 61.8%, from 646 km in FY2017, mainly due to the increase in the sales of finished copper power cables to Customer A by 119 km or RMB23.6 million in value for FY2018. To reinforce our relationship, we signed a five-year framework cooperation agreement on power system construction and materials supply with Litai Energy (subsidiary of customer A), to promote our products within Sichuan Province and to expand our market presence. Average selling price of copper power cables increased from RMB54,243/km for FY2017 to RMB58,479/km for FY2018, representing an increase of 7.8% as compared to the average selling price of FY2017 because the copper power cables we sold to Customer A were generally applied in mass power transmission and had higher voltage requirements and thus higher value.

  For FY2018 and FY2019, sales of copper power cables decreased by RMB14.8 million, or 24.2%, from RMB61.1 million to RMB46.3 million. For FY2019, we sold 628 km of finished copper power cables, representing a decrease of 417 km, or 39.9%, from 1,045 km in FY2018, mainly due to the decrease in sales orders received from construction and renovation companies. In the meantime, average selling price of copper power cables increased from RMB58,479/km for FY2018 to RMB73,693/km for FY2019, representing an increase of 26.0%, which was mainly because the copper power cables we sold during FY2019 generally had higher voltage requirements and thus higher value.

- **Copper wires for electrical equipment**

  For FY2017 and FY2018, sales of copper wires for electrical equipment decreased by RMB10.5 million, or 21.5% from RMB48.9 million to RMB38.4 million. Sales volume of copper wires reduced significantly from 34,374 km in FY2017 to 22,298 km in FY2018 due to the decline in the number of walk-in customers in 2018. The effect was partly offset by the increase in average selling price from RMB1,422/km for FY2017 to RMB1,723/km for FY2018, or 21.2%, mainly due to (i) the general increase in market price of copper during FY2018; and (ii) more sales orders for products with higher voltage requirement and thus higher value.

For FY2018 and FY2019, sales of copper wires for electrical equipment decreased by RMB7.9 million, or 20.6% from RMB38.4 million to RMB30.5 million. Sales volume of copper wires decreased from 22,298 km in FY2018 to 18,575 km in FY2019, which was mainly due to the decrease in sales orders received from construction and renovation companies. Average selling price of copper wires slightly decreased from RMB1,723/km for FY2018 to RMB1,640/km for FY2019, mainly due to the general decrease in market price of copper during FY2019.

- **Steel reinforced aluminium bare cables**

The major cost component of steel reinforced aluminium bare cables are aluminium and steel. Average selling price of steel reinforced aluminium bare power cable was relatively stable at RMB13,244/tonne, RMB12,347/tonne and RMB12,585/tonne for FY2017, FY2018 and for FY2019, respectively, which was generally in line with the market price change in aluminium during the same period.

For FY2017 and FY2018, revenue from sales of steel reinforced aluminium bare cables increased by RMB54.1 million, or 5.4 times, from RMB10.0 million to RMB64.1 million. This corresponds with the significant increase in sales volume by 4,437 tonnes, or 5.9 times, from 755 tonnes in FY2017 to 5,192 tonnes in FY2018. The increase was mainly due to the significant OEM sales to a new customer and Customer B, both of which are wires and cables manufacturers located in Jiangsu Province, and contributed revenue of RMB22.8 million and RMB13.0 million for FY2018 under such product segment, respectively.

For FY2018 and FY2019, revenue from the sales of steel reinforced aluminium bare cables increased significantly from RMB64.1 million for FY2018 to RMB219.1 million for FY2019. This corresponds with the significant increase in the sales of steel reinforced aluminium bare cables by 12,211 tonnes to 17,403 tonnes for FY2019, which was primarily attributable to the significant OEM sales of steel reinforced aluminium bare cables to Customer B and Customer C in FY2019 of 3,228 tonnes (FY2018: 1,021 tonnes) and 5,717 tonnes (FY2018: nil), respectively, contributing revenue of RMB40.1 million (FY2018: RMB13.0 million) and RMB71.0 million (FY2018: nil), respectively.

- **Aluminium overhead power cables**

For FY2017 and FY2018, revenue from the sales of aluminium overhead power cables increased by RMB9.8 million from RMB0.3 million to RMB10.1 million which was primarily the result of our expanded customer base in 2018. Sales volume of aluminium overhead power cables increased significantly from 42km/tonne for FY2017 to 2,557km/tonne for FY2018. This was partly offset by the decrease of average selling price from RMB6,167/km for FY2017 to RMB3,963/

km for FY2018. During FY2018, our aluminium overhead power cables were mainly sold to companies for construction use with lower voltage requirement and thus lower value. Over 50% (22km out of 42km) of the aluminium overhead power cables sold during FY2017 was for voltage of 10kV (i.e. relatively higher voltage among such product type and usually with higher unit value). During FY2018, only 12.7% (326km out of 2,557km) of same product category were sold, which resulted in a lower average price for FY2018.

For FY2018 and FY2019, revenue from the sales of aluminium overhead power cables decreased from RMB10.1 million to RMB7.6 million. While the average selling price of aluminium overhead power cables remained relatively stable at RMB3,963/km and RMB4,124/km for FY2018 and FY2019 respectively. Sales volume of aluminium overhead power cables decreased from 2,557 km for FY2018 to 1,851 km for FY2019, which was primarily due to less tender contract awarded for such products during FY2019.

- **Medium and low voltage power cables**

Revenue derived from medium and low voltage power cables decreased from RMB4.3 million for FY2017 to RMB2.7 million for FY2018, owing to the combined effect of lower sales volume of medium and low voltage power cables and the decrease in average selling price. For FY2019, revenue from the sales of medium and low voltage power cables increased significantly to RMB14.9 million, as compared to RMB2.7 million for FY2018, which was attributable to (i) the increase in sales volume of aluminium medium and low voltage power cables by 376 km, which was mainly attributable to the sales orders received from certain new customers engaged in the construction industry; and (ii) the significant increase in average selling price from RMB19,221/km for FY2018 to RMB28,891/km for FY2019 as most of the aluminium medium and low voltage power cables we sold during FY2019 was for voltage over 120kV and hence carrying a higher voltage requirement and thus a higher price than products we sold in FY2018.

- **Aluminium wires for electrical equipment**

For FY2017, we sold 4,830 tonne and 7,377 km aluminium wires for electrical equipment and recorded revenue of RMB66.5 million and RMB13.4 million, respectively. In FY2017, we received orders mainly from two major customers in unit of tonne, namely Tianzhu and Sichuan Non-ferrous Metal Sand Mineral Processing Co., Ltd. (四川有色金砂選礦藥劑有限公司) which contributed revenue of RMB51.5 million and RMB14.2 million, respectively. For products in unit of kilometres, average selling price decreased from RMB1,816/km for FY2017 to RMB1,526/km for FY2018 mainly due to the general decrease in market price of aluminium during FY2018 and we sold more lower voltage aluminium wires for construction use during FY2018 which was of lower unit value.

For FY2019, while the average selling price remained relatively stable at RMB1,604/km, the sales volume of aluminium wires for electrical equipment decreased from 2,732 km for FY2018 to 1,291 km for FY2019, which was primarily due to less tender contract awarded for such products during FY2019.

Special wires and cables

Since August 2018, we rolled out special wires and cables with environmentally friendly features and sold such products to a strategic customer, namely Changhong, which amounted to RMB10.3 million and RMB45.6 million for FY2018 and FY2019, respectively. Such products were developed for Changhong Group and manufactured according to their specifications and technical requirements. We applied two patent technologies in the development of the special wires and cables, namely, one type of "Aluminium Alloy eco-friendly flame retardant and fire-resistant power cable"* (一種鋁合金環保阻燃耐火電力電纜) and one type of "Aluminium Alloy Eco-friendly Flame Retardant and Fire-resistant Cable"* (一種鋁合金環保阻燃耐火電纜). To the best knowledge of our Directors, products sold to Changhong Group were mainly applied in (i) their construction and renovation of factory and replacement of electrical equipment; and (ii) their property construction projects. Average selling prices of special wires and cables were generally higher than that of classic wires and cables which was mainly due to the use of new processing techniques and the use of raw materials with higher requirements. In July 2019, we have entered into a framework agreement with Changhong Group for the supply of special wires and cables with a total contract value of RMB50.0 million for the period from 1 July 2019 to 31 December 2019.

Average selling price of our special copper power cables and special aluminium medium and low voltage power cables increased significantly from RMB41,429/km and RMB27,651/km, respectively, for FY2018 to RMB92,205/km and RMB49,490/km, respectively, for FY2019. The higher average selling price was primarily due to the products sold in FY2019 were of higher level of specification, while the products sold in FY2018 comprised a wide range of specifications which included both high and low specifications.

2. Semi-finished wires

- **Bare copper wires**

  For FY2017 and FY2018, we recorded significant increase in revenue from sales of bare copper wires from RMB11,000 to RMB26.3 million as a result of the expanded customer base in 2018. Our customers for bare copper wires were mainly wires and cables manufacturers located in Sichuan Province. Sales volume of bare copper wires were 0.25 tonne for FY2017 and 598 tonne for FY2018. Average selling price of bare copper wires were relatively stable at RMB44,000/tonne and RMB43,940/tonne for FY2017 and FY2018.

For FY2018 and FY2019, our sales of bare copper wires increased from RMB26.3 million to RMB51.2 million. While the average selling price remained relatively stable at RMB43,930/tonne and RMB42,912/tonne for FY2018 and FY2019 respectively, sales volume increased from 598 tonnes for FY2018 to 1,192 tonnes for FY2019. Such increase was primarily due to the increase in sales to certain wires and cables manufacturers in Sichuan Province who purchased semi-finished wires for their further processing.

- **Aluminium rods**

  For FY2017 and FY2018, revenue increased significantly by RMB114.4 million, or 168.8%, from RMB67.8 million to RMB182.2 million as a result of expanded customer base. Of the RMB114.4 million increase in revenue, RMB95.8 million or 83.7% increase was contributed from approximately 40 new customers which are mainly construction and renovation companies. In particular, during FY2018, we received significant orders from sales of aluminium rods of RMB41.3 million (FY2017: nil) from a major customer, Zirao (廣元紫饒貿易有限公司), a private company we acquainted through introduction by market participants and established business relationships during FY2018, which involved in sales of aluminium products, electric cables and construction materials. Average selling price of aluminium rods were stable at RMB12,742/tonne and RMB12,709/tonne for FY2017 and FY2018, respectively.

  Compared to RMB182.2 million for FY2018, revenue increased by RMB40.2 million to RMB222.4 million for FY2019. While the average selling price remained relatively stable at RMB12,709/tonne and RMB13,004/tonne for FY2018 and FY2019, respectively, sales volume increased by 2,764 tonnes from 14,336 tonnes for FY2018 to 17,100 tonnes for FY2019. This was largely attributable to the trial production and trading of aluminium rods by Guangyuan Shuneng (i.e. Shuneng Plant) since April 2019 which contributed sales of aluminium rods of 2,204 tonnes or RMB30.7 million to our Group for FY2019, including (i) sales of 55 tonnes or RMB0.7 million to Guangyuan Tongchuang before Tongchuang Equity Acquisition; and (ii) sales of aluminium rods of 2,149 tonnes or RMB30.0 million to a state-owned company which is principally engaged in sales of metal materials and construction materials.

3. Aluminium products

Following our establishment of Guangyuan Plant, we started to leverage our proximity to upstream resources in Guangyuan City and actively market the sales of our aluminium products since FY2017. For FY2017 and FY2018, revenue derived from aluminium products increased from RMB16.1 million to RMB138.6 million, representing an increase of RMB122.5 million or 7.6 times. Such increase was primarily attributable to (i) the significant purchase orders from two new major customers we acquainted through introduction by market participants and established business relationships during FY2018, who were also our repeat customers in FY2019, namely Xiangyu Chongqing Co. Ltd (象嶼重慶有限責任公司) and Chongqing Guochu Non-ferrous Metal Co., Ltd. (重

慶國儲有色金屬有限公司), both of which are state-owned company and contributed revenue of RMB37.0 million and RMB27.6 million, respectively; (ii) the revenue derived from sales to Sichuan Nengtou Materials Industry Group Co., Ltd (四川能投物資產業集團有限公司) of RMB13.9 million (FY2017: nil); and (iii) the increased sales to Zhengzhou Xingyang Longji Aluminium Industry Co., Ltd. (鄭州市滎陽龍基鋁業有限公司) from RMB10.0 million for FY2017 to RMB24.8million for FY2018. Sales of aluminium products derived from the aforementioned two new major customers were recurring in 2019, contributing revenue of RMB14.9 million and RMB1.1 million in FY2019.

We ceased trading of aluminium strips in January 2019 and aluminium ingots in August 2019 because (i) we decided to allocate more resources onto our manufacturing segment for better utilisation of our working capital; and (ii) some trading income may not be recurring. As a result, our revenue from trading of aluminium products decreased from RMB138.6 million for FY2018 to RMB45.3 million for FY2019, and we expanded our manufacturing and sale of finished aluminium wires and cables by leveraging the production capacities of our Guangyuan Plant and Tongchuang Plant after the Tongchuang Equity Acquisition and hence reduced the scale of our trading business to retain sufficient financial resources for purchase of aluminium materials for production.

For FY2017, FY2018 and FY2019, the average selling prices of aluminium products including aluminium strips and aluminium ingots were relatively stable for each period as illustrated above and generally in line with the market price change of aluminium during the same period.

4. Others

For FY2018, we sold cable accessories which amounted to RMB14.7 million, and such cable accessories were sold mainly to Aostar which amounted to RMB14.2 million, to facilitate their use and installment of cables and for replacement of their cable equipment on power station. Since Aostar engaged in the production of electrolytic aluminium and had its own power distribution station, it required mechanical parts for the construction and upgrade of power distribution station such as cable accessories. As our Group's Shuneng Plant leased the properties from Aostar located within the site area of Aostar's factory, our Directors were aware of its needs for cable accessories. For FY2019, we sourced cable accessories for Customer A and recorded sales of RMB0.7 million to facilitate their use and installment of cables into their infrastructure and construction projects.

Revenue by geographical market

Our customers are all situated in the PRC, and a majority of them are situated in Sichuan Province. The following table sets out a breakdown of our revenue by geographical market for the indicated periods:

	FY2017		FY2018		FY2019	
	Revenue *RMB'000*	% of Revenue	Revenue *RMB'000*	% of Revenue	Revenue *RMB'000*	% of Revenue
Sichuan Province	208,375	79.4	343,701	62.2	477,569	69.7
Chongqing Municipality	25,220	9.6	92,885	16.8	40,180	5.8
Henan Province	9,997	3.8	41,930	7.6	—	—
Jiangsu Province	9,558	3.6	50,325	9.1	72,622	10.6
Shanghai Municipality	3,306	1.3	7,338	1.3	2,035	0.3
Zhejiang Province	208	0.1	4,586	0.8	73,138	10.7
Others*(Note)*	5,631	2.2	11,891	2.2	19,986	2.9
Total	**262,295**	**100.0**	**552,656**	**100.0**	**685,530**	**100.0**

Note: Others mainly include Shanghai Municipality, Jiangxi Province and Hunan Province.

Our revenue from customers in Sichuan Province represented 79.4%, 62.2% and 69.7% of our total revenue for FY2017, FY2018 and FY2019, respectively. In addition, we expanded our market presence during the Track Record Period and extended our OEM business. We did not record any sales in Henan Province for FY2019 as we reduced the sales of aluminium products.

Cost of sales

Our cost of sales mainly consists of (i) raw materials costs, (ii) aluminium products costs, and (iii) finished products from sub-contractors and depreciation and overhead. Our cost of sales amounted to RMB247.9 million, RMB514.3 million and RMB631.7 million for FY2017, FY2018 and FY2019, respectively, representing 94.5%, 93.1% and 92.1% of our revenue for the corresponding periods. Raw materials are the largest component of our cost of sales, accounting for 84.6%, 54.3% and 84.3% of our total cost of sales for FY2017, FY2018 and FY2019, respectively. In FY2018, we engaged in more trading of aluminium products and upon full commercial production of Tongchuang Plant, we increased the subcontracting of finished aluminium wires and cables manufacturing activities to the latter. As such, percentage of raw materials cost to our total cost reduced in FY2018. Subsequently, we ceased trading of aluminium products and after the consolidation of financial results of Guangyuan Tongchuang in FY2019, the percentage of our raw materials cost to our total cost of sales increased in FY2019.

The following table sets forth a breakdown of our cost of sales for the indicated periods:

	FY2017		FY2018		FY2019	
	RMB'000	*% of cost of sales*	*RMB'000*	*% of cost of sales*	*RMB'000*	*% of cost of sales*
Raw materials						
Copper	57,186	23.1	91,230	17.7	110,512	17.5
Aluminium	144,818	58.4	181,370	35.3	357,722	56.6
PVC	5,998	2.4	5,049	1.0	10,020	1.6
Other material	1,660	0.7	1,812	0.3	54,246	8.6
Sub-total	209,662	84.6	279,461	54.3	532,500	84.3
Aluminium products	16,134	6.5	133,079	25.9	44,166	7.0
Finished products from sub-contractors	13,688	5.5	92,857	18.0	39,342	6.2
Staff cost	2,487	1.0	2,552	0.5	4,259	0.7
Depreciation	2,469	1.0	3,077	0.6	3,252	0.5
Sales tax and extra charge	1,122	0.5	1,857	0.4	2,158	0.3
Utility	1,077	0.4	1,099	0.2	1,958	0.3
Others *(Note)*	1,260	0.5	318	0.1	4,021	0.7
Total	247,899	100.0	514,300	100.0	631,656	100.0

Note: Others mainly include repair and maintenance and other miscellaneous fees.

Cost of sales increased from RMB247.9 million for FY2017 to RMB514.3 million for FY2018, representing an increase of RMB266.4 million, or 107.4%, which was in line with the revenue growth of 110.7%.

Cost of sales increased from RMB514.3 million for FY2018 to RMB631.7 million for FY2019, representing an increase of RMB117.4 million, or 22.8%, which was in line with the revenue growth of 24.0%.

Gross profit and gross profit margin

Gross profit by product types

The following table sets forth a breakdown of gross profit and gross profit margin by product types for the indicated periods:

	FY2017		FY2018		FY2019	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
1 Finished wires and cables						
Classic wires and cables						
Classic copper wires and cables						
— Copper power cables (銅製電力電纜)	7,197	20.5	12,897	21.1	9,594	20.7
— Copper wires for electrical equipment (銅製電氣裝備用電線)	6,274	12.8	3,653	9.5	3,026	9.9
Subtotal (classic copper wires and cables)	13,471	16.1	16,550	16.6	12,620	16.4
Classic aluminium wires and cables						
— Steel reinforced aluminium bare cables (鋁製鋼芯鋁絞線)	42	0.4	67	0.1	14,760	6.7
— Aluminium overhead power cables (鋁製架空電纜)	44	17.0	313	3.1	1,051	13.8
— Aluminium medium and low voltage power cables (鋁製中低壓電力電纜)	327	7.7	297	11.0	2,759	18.5
— Aluminium wires for electrical equipment (鋁製電氣裝備用電線)	1,175	1.5	119	2.9	175	8.5
Subtotal (classic aluminium wires and cables)	1,588	1.7	796	1.0	18,745	7.7
Subtotal (classic wires and cables)	15,059	8.4	17,346	9.6	31,365	9.8
Special wires and cables						
Special copper wires and cables						
— Special copper power cables (銅製特種電力電纜)	—	—	1,424	61.4	6,269	25.9
— Special copper wires for electrical equipment (銅製特種電氣裝備用電線)	—	—	246	25.1	—	—
Subtotal (special copper wires and cables)	—	—	1,670	50.6	6,269	25.9
Special aluminium wires and cables						
— Special aluminium medium and low voltage power cables (鋁製特種中低壓電力電纜)	—	—	5,559	84.5	5,899	27.7
— Special aluminium wires for electrical equipment (鋁製特種電氣裝備用電線)	—	—	80	18.2	—	—
Subtotal (special aluminium wires and cables)	—	—	5,639	80.3	5,899	27.7
Subtotal (special wires and cables)	—	—	7,309	70.8	12,168	26.7
Subtotal (finished wires and cables)	**15,059**	**8.4**	**24,655**	**12.9**	**43,533**	**11.9**
2 Semi-finished wires						
Bare copper wires (銅絲)	—	—	272	1.0	413	0.8
Aluminium rods (電工圓鋁桿)	(663) *(Note 1)*	N/A *(Note 1)*	6,269	3.4	8,622	3.9
Subtotal (semi-finished wires)	**(663)**	**N/A**	**6,541**	**3.1**	**9,035**	**3.3**
3 Aluminium products						
Aluminium strips (鋁卷)	— *(Note 2)*	— *(Note 2)*	3,936	3.4	121	2.7
Aluminium ingots (鋁錠)	—	—	377	1.7	1,049	2.6
Subtotal (aluminium products)	**—**	**—**	**4,313**	**3.1**	**1,170**	**2.6**
4 Others						
Cable accessories (電纜配套設備)	—	—	2,847	19.4	136	20.5
Total/overall	**14,396**	**5.5**	**38,356**	**6.9**	**53,874**	**7.9**

Notes:

(1) During the early stage of operation of Guangyuan Plant in 2017, our inventory cost and production cost were higher than the sales of aluminium rods due to the competitive pricing we adopted in such product segment, resulting in a gross loss.

(2) We sold aluminium strips to our customers at cost for FY2017 to establish our presence and develop customer base in this market segment, and hence did not record profit.

For FY2017, FY2018 and FY2019, our gross profit amounted to RMB14.4 million, RMB38.4 million and RMB53.9 million, respectively, with a gross profit margin of 5.5%, 6.9% and 7.9%, respectively, for the corresponding period. In general, gross profit margin of finished wires and cables were higher than that of semi-finished wires and aluminium products for the need of processing, specification and value-added services.

(i) Gross profit by product types

1. Finished wires and cables

For FY2017 and FY2018, gross profit of finished wires and cables increased from RMB15.1 million to RMB24.7 million and the corresponding gross profit margin increased from 8.4% to 12.9% primarily due to the profit generated from the special wires and cables we rolled out in 2018.

For FY2018 and FY2019, gross profit of finished wires and cables increased from RMB24.7 million to RMB43.5 million and the corresponding gross profit margin slightly decreased from 12.9% to 11.9% primarily due to the decrease in sales of higher margin wires and cables.

Classic wires and cables

Gross profit of classic wires and cables amounted to RMB15.1 million, RMB17.3 million and RMB31.4 million, respectively, for FY2017, FY2018 and FY2019 and the corresponding gross profit margin was 8.4%, 9.6% and 9.8%, respectively. For FY2017 and FY2018, the majority of the gross profit under this product segment came from classic copper wires and cables, which amounted to RMB13.5 million and RMB16.6 million, respectively, for FY2017 and FY2018 with gross profit margin of 16.1% and 16.6%, respectively. For FY2019, the majority of the gross profit under this product segment came from classic aluminium wires and cables, which amounted to RMB18.7 million with gross profit margin of 7.7%, as compared to 1.7% and 1.0% for FY2017 and FY2018, respectively. Such higher gross profit margin from the sales of classic aluminium wires and cables for FY2019 was mainly contributed by the consolidation of Tongchuang Plant after the Tongchung Equity Acquisition, thereby saving our subcontracting cost.

For classic copper power cables, we maintained a stable gross profit margin of 20.5%, 21.1% and 20.7%, respectively, for FY2017, FY2018 and FY2019, which is within the gross profit range in the industry according to the F&S Report. See "Industry Overview — Major Factors Affecting the Gross Profit Margin of Wires and Cables Manufacturing and Gross Profit Margin Range of Specified Wires and Cables Products in the Industry" in this prospectus for the industrial range of gross profit margin.

For the years ended 31 December 2014, 2015 and 2016, we recorded a gross profit margin of 11.9%, 10.1% and 15.3%, respectively, for our classic copper wires and cables under the PRC GAAP. For FY2017, FY2018 and FY2019, we recorded a higher gross profit margin of 16.1%, 16.6% and 16.4%, respectively, for the same product type under HKFRS. Save for the impact of different accounting standard it may have, the increased trend of gross profit margin of this product was generally due to the increased sales to certain state-owned enterprises, who generally required more customer services and our Group allowed longer credit period, hence contributed to higher gross profit margin.

Special wires and cables

Special wires and cables were new products we rolled out in FY2018 and we generated gross profit of RMB7.3 million and RMB12.2 million for FY2018 and FY2019, with corresponding gross profit margin of 70.8% and 26.7%, respectively. The difference in gross profit margin was primarily because:

(i) our Group's sales to Changhong Group in FY2018 was our first order placed by Changhong Group and it was our first time to apply the relevant patent technologies in production, such that there was much room for our Group to set a selling price with higher gross margin for the sale;

(ii) there was an increase in sales volume contributed by Changhong Group in FY2019, and hence our Group offered a greater bulk discount for FY2019 compared to FY2018; and

(iii) our Group was in an attempt to maintain ongoing business relationship with the Changhong Group and decided to offer a competitive price for the products sold to Changhong Group for FY2019.

According to the F&S Report, it is common for special wires and cables manufacturers to generate a wide range of gross profit margins due to different product types, application environment and requirements for product performance. In addition, the gross profit margins of special wires and cables can be driven up in some circumstances, which include urgent demand from customers, shorter lead time, customised product requirements, etc. Therefore, it is not uncommon for the gross profit margin of special wires and cables in one particular year/transaction to be much higher than the next year or outperformed its industry peers in a particular year/transaction.

2. Semi-finished wires

We recorded gross loss of RMB0.7 million in sale of semi-finished wires during FY2017 and generated gross profit of RMB6.5 million and RMB9.0 million, respectively, for FY2018 and FY2019, with gross profit margin of 3.1% and 3.3% after we established our market presence and expanded our customer base with the full year operation of Guangyuan Plant in 2018. Most gross profit of this product segment was contributed by the sale of aluminium rods.

3. Aluminium products

During FY2017, we sold aluminium products at cost to establish our presence and expand customer base in aluminium product industry. Therefore, we did not generate profit from this segment in FY2017. For FY2018 and FY2019, we generated gross profit of RMB4.3 million and RMB1.2 million, respectively, with gross profit margin of 3.1% and 2.6%. For FY2018 and FY2019, the majority of the gross profit of this product segment was contributed by the sale of aluminium strips which was applied in the industry of construction, renovation and fitting out works. For FY2019, the majority of our gross profit under this product segment was contributed by the sale of aluminium ingots, as we ceased trading of aluminium strips in January 2019 and hence recorded relatively insignificant sales and gross profit of aluminium strips. We also had not traded aluminium ingots after August 2019 as we focused our resources on manufacturing business.

We recorded higher profit margin for aluminium strips than aluminium ingots because the production of aluminium strips is generally more complex than aluminium ingots, thus we were able to trade aluminium strips at a higher margin than aluminium ingots.

4. Others

We generated gross profit of RMB2.8 million and RMB0.1 million from sale of cable accessories during FY2018 and FY2019 respectively, with corresponding gross profit margin of 19.4% and 20.5% respectively. We sourced the cable accessories from external suppliers and sold mainly to Aostar in FY2018 and Customer A in FY2019.

Other income and gains

Other income mainly consists of (i) government grants and subsidies, (ii) agency fee income, (iii) sale of scrap metals and consumable, (iv) rental income from Guangyuan Tongchuang for lease of property, (v) gain on disposal of property, plant and equipment and (vi) bargain purchase. Other income and gains amounted to RMB8.9 million, RMB9.2 million and RMB20.8 million for FY2017, FY2018 and FY2019, respectively.

The following table sets forth a breakdown of the key components of our other income and gains for the indicated periods:

	Notes	FY2017 *RMB'000*	FY2018 *RMB'000*	FY2019 *RMB'000*
Other Income				
Interest income		5	7	16
Government grants and subsidies	(1)	5,427	3,949	15,008
Agency fee income	(2)	—	3,321	3,134
Sale of scrap metals and consumable	(3)	1,192	141	—
Rental income from Guangyuan Tongchuang for lease of property	(4)	601	1,807	530
		7,225	9,225	18,688
Gains				
Gain on disposal of property, plant and equipment		1,525	—	—
Bargain purchase	(5)	—	—	942
Reversal of expected credit loss on trade receivables		—	—	1,136
Reversal of expected credit loss on other receivables		12	20	—
Others		173	4	72
		1,710	24	2,150
		8,935	9,249	20,838

Notes:

(1) Our government grants and subsidies comprised mainly government grants (preferential tax treatment and taxes refund) for promoting employment to the disabled people by Sichuan Saftower. Such taxes refund amounted to RMB4.3 million, RMB3.0 million and RMB4.1 million for FY2017, FY2018 and FY2019, respectively. For FY2019, we also received (i) non-recurring government grants of RMB6.0 million for our Listing application on the Stock Exchange; (ii) non-recurring government grants of RMB2.1 million on research and development projects; and (iii) a non-recurring subsidy of RMB2.0 million under a provincial governmental industrial development fund.

(2) We engaged in the agency service to facilitate upstream industry players' purchase of raw materials since March 2018. We ceased such agency service in December 2019. For details, see "Business — Agency Service Arrangements" in this prospectus.

(3) For FY2017, we sold scrap metals and consumables to Guangyuan Tongchuang and recorded gain of RMB1.1 million. Guangyuan Tongchuang became our non-wholly owned subsidiary after 15 April 2019.

(4) For FY2017, FY2018 and FY2019, our Group leased our buildings to Guangyuan Tongchuang. According to the valuation conducted by an independent valuer, the rentals were fair and reasonable and consistent with the prevailing market rents for similar premises in similar location, which were to be let on normal commercial term. Guangyuan Tongchuang became our non-wholly owned subsidiary after 15 April 2019 and such intra-group transaction was eliminated thereafter.

(5) Bargain purchase represented the fair value gain on the acquisition of 16.67% equity interest in Guangyuan Tongchuang on 15 April 2019. For details, see Note 36 to Appendix I to this prospectus.

Selling and distribution expenses

Our selling and distribution expenses consist of (i) transportation expenses, (ii) staff wages and benefits, (iii) entertainment and travel expenses, and (iv) others. Our selling and distribution expenses amounted to RMB2.7 million, RMB5.0 million and RMB9.1 million for FY2017, FY2018 and FY2019, respectively, representing 1.0%, 0.9% and 1.3% of our revenue for the corresponding periods. The following table sets forth a breakdown of our selling and distribution expenses for the indicated periods:

	FY2017	**FY2018**	**FY2019**
	RMB'000	*RMB'000*	*RMB'000*
Transportation expenses	420	3,457	6,166
Staff wages and benefits	1,694	1,152	1,811
Entertainment and travel expenses	248	173	233
Others *(Note)*	340	217	858
Total	2,702	4,999	9,068

Note: Others mainly include advertising, design fees, insurance and bidding service charges.

Our selling and distribution expenses increased by RMB2.3 million, or 85.0%, from FY2017 to FY2018, which was primarily due to the increase in transportation expenses by RMB3.0 million, because of (i) increased turnover for FY2018; (ii) more customers located outside Sichuan Province; and (iii) change of company policy to bear logistic expenses for our customers, partially offset by the decrease in salary and wages of RMB0.5 million because of the reduction of headcounts in our sales and marketing department.

For FY2018 and FY2019, our selling and distribution expenses increased by RMB4.1 million or 81.4%, which was primarily due to the increase in transportation expenses by RMB2.7 million due to our expanded sales and consolidation of Guangyuan Tongchuang's financial results in FY2019.

Administrative and other expenses

Our administrative and other expenses mainly consist of (i) staff wages and benefits, (ii) depreciation of property, plant and equipment, (iii) legal and professional fees, (iv) guarantee fees, (v) entertainment and travelling expenses and others. Our administrative expenses amounted to RMB13.3 million, RMB12.2 million and RMB15.5 million for FY2017, FY2018 and FY2019, respectively, representing 5.1%, 2.2% and 2.3% of our revenue for the corresponding periods. The following table sets forth a breakdown of our administrative and other expenses for the indicated periods:

	FY2017	**FY2018**	**FY2019**
	RMB'000	*RMB'000*	*RMB'000*
Staff wages and benefits	5,487	3,978	6,572
Depreciation for property, plant and equipment	2,489	2,460	2,968
Legal and professional fees *(Note 1)*	938	1,692	1,750
Guarantee fees *(Note 2)*	812	1,033	851
Entertainment and travelling expenses	695	475	566
Loss on other receivables	—	353	—
Amortisation	13	15	15
Depreciation of right of use assets	251	283	187
Provision for doubtful debt	288	632	64
Others *(Note 3)*	2,313	1,314	2,518
	13,286	12,235	15,491

Notes:

(1) Legal and professional fees refer to expenses of professional services incurred such as financial advisory services, legal services on litigations and claims.

(2) Guarantee fees refer to the fee incurred on our guarantor who provided guarantees to our Group.

(3) Others mainly include office expenses, audit fees, trademark and patent fees, repairs and maintenance fees and insurance.

Our administrative and other expenses decreased from RMB13.3 million for FY2017 to RMB12.2 million for FY2018 primarily due to the decrease in staff wages and benefits of RMB1.5 million resulting from the reduction of headcount after internal restructuring as 46 employees out of 77 employees of Guangyuan Tongchuang as at 31 December 2017 were transferred from our Group to facilitate its operation.

For FY2018 and FY2019, our administrative and other expenses increased from RMB12.2 million for FY2018 to RMB15.5 million for FY2019 due to (i) increase in staff wages and benefits by RMB2.6 million as we consolidated the account of Guangyuan Tongchuang during FY2019; and (ii) increase in depreciation for property, plant and equipment of RMB0.5 million.

Finance costs

Finance costs during the Track Record Period consisted of interest expenses on bank and other borrowings and interest expenses on lease obligations. Finance costs of our Group amounted to RMB4.3 million, RMB6.5 million and RMB7.9 million for FY2017, FY2018 and FY2019, respectively, representing 1.6%, 1.2% and 1.1% of our revenue for the corresponding periods. The increase in finance costs during the Track Record Period was primarily due to the increase in our bank borrowings and other borrowings to facilitate our operations.

	FY2017	**FY2018**	**FY2019**
	RMB'000	*RMB'000*	*RMB'000*
Interest expenses on bank and other borrowings	4,117	6,282	7,799
Interest expenses on lease obligations	140	233	78
	4,257	6,515	7,877

Share of profit of joint venture

Guangyuan Tongchuang was our 40% joint venture in FY2017, FY2018 and up to 15 April 2019. For FY2017, FY2018 and FY2019, the share of profit of a joint venture amounted to RMB88,000, RMB1.5 million and RMB0.5 million, respectively. The increase in the share of profit for FY2018 was primarily due to Guangyuan Tongchuang's improved financial performance since its commercial production in September 2017. For business of Guangyuan Tongchuang, see "Guangyuan Tongchuang" of this prospectus.

On 15 April 2019, we acquired a further 16.67% equity interest in Guangyuan Tongchuang from Mr. Li Zhanwei, an Independent Third Party. Mr. Li Zhanwei was a passive shareholder and a director of Guangyuan Tongchuang until 15 April 2019. See "History, development and Reorganisation — Corporate Development — Guangyuan Tongchuang" in this prospectus. Guangyuan Tongchuang's financial statements were consolidated into our Group from 16 April 2019 to 31 December 2019 based on the fair value of Guangyuan Tongchuang by applying the acquisition accounting method in accordance with HKFRS. Stand-alone pre-acquisition financial information of Guangyuan Tongchuang for FY2017, FY2018 and the period prior to our acquisition of a controlling interest, is included in Note 37 to Appendix I to this prospectus. Guangyuan Tongchuang was accounted for as an investment in joint venture in our consolidated financial statements for FY2017, FY2018 and up to 15 April 2019. See also "Pre-acquisition Financial Information of Guangyuan Tongchuang" in this prospectus.

Income tax expense

Our Group is subject to income tax on an individual legal entity basis on profits arising in or derived from the tax jurisdictions in which companies comprising our Group domicile or operate.

(i) Cayman Islands income tax

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Cayman Companies Law and accordingly, is not subject to income tax in Cayman Islands.

(ii) Hong Kong income tax

No Hong Kong profit tax was provided as our Group has no estimated assessable profit derived from and earned in Hong Kong during the Track Record Period.

(iii) PRC corporate income tax

Our Group is subject to income taxes in the PRC. Provision for the EIT in the PRC is calculated based on a statutory tax rate of 25% of the estimated assessable profits as determined in accordance with the relevant income tax law in the PRC save for the subsidiaries mentioned below.

Sichuan Saftower was approved as a High and New Technology Enterprise, and accordingly, it was subject to a preferential corporate income tax of 15% for FY2018 and FY2019.

Guangyuan Tongchuang, our subsidiary since 16 April 2019, is subject to 10% income tax concession due to preferential tax policy of the development of the western region fulfilled in FY2019. According to the "Circular on Issues Concerning Relevant Tax Policies in Deepening the Implementation of the Western Development Strategy" (《關於深入實施西部大開發戰略有關稅收政策問題的通知》) (Cai Shui [2011] No. 58) (財稅[2011]58號), from 1 January 2011 to 31 December 2020, the EIT imposed upon any enterprise established in western regions and included among the encouraged industries shall be collected at the reduced rate of 15%.

For FY2017 and FY2018, our effective tax rates were 31.4% and 19.3%, respectively. The decrease in effective tax rate was mainly due to the preferential income tax rate applicable to Sichuan Saftower. The increase in income tax expense, from RMB1.0 million to RMB4.2 million for FY2017 and FY2018 was in line with the growth on profit before income tax expense.

For FY2018 and FY2019, our effective tax rates were 19.3% and 12.2%, respectively. The decrease in effective tax rate was mainly due to the consolidation of the financial results of Guangyuan Tongchuang which was entitled to a preferential tax rate of 15%, representing a 10% income tax concession, due to its fulfilment of preferential tax policy requirements for the development of the western region.

During the Track Record Period and up to the Latest Practicable Date, we had fulfilled our income tax obligations in all material aspect and have not had any unresolved income tax issues or disputes with the relevant tax authorities.

Profit for the year

We recorded profit of RMB2.2 million for FY2017 due to the combined effect of the aforementioned representing a net profit margin of 0.8%. Throughout the full year operation of Guangyuan Plant and enhanced utilisation rate in 2018, and the increased orders from major customers, we recorded profit for the year of RMB17.4 million for FY2018, representing a net profit margin of 3.1%. Benefited from (i) the consolidation of Guangyuan Tongchuang's financial results since 16 April 2019; (ii) our expanded scale of operation; (iii) the enhanced utilisation rate in 2019; and (iv) the increased orders from major customers, we recorded profit for the year of RMB29.8 million for FY2019, representing a net profit margin of 4.3%.

LIQUIDITY AND CAPITAL RESOURCES

Source of liquidity and working capital

We have financed our operations primarily through a combination of cash generated from our operations, borrowings and advance from shareholder. Our Group's principal uses of cash have been, and are expected to continue to be, payment for procurement of raw materials and inventories, purchase of property, plant and equipment and repayment of borrowings and interest. As at 31 December 2017, 2018 and 2019, our Group had cash and cash equivalents of RMB4.9 million, RMB1.6 million and RMB2.7 million, respectively.

Upon completion of the Share Offer, we currently expect that there will not be any material change in the sources and uses of cash of our Group in the future, except that we would have additional funds from proceeds of the Share Offer for implementing our future plans as detailed under "Future plans and use of proceeds" in this prospectus.

Cash flow

The following table sets forth a summary of cash flows of our Group for the indicated periods:

	FY2017	FY2018	FY2019
	RMB'000	*RMB'000*	*RMB'000*
Operating profit before working capital changes	11,497	32,890	45,263
Changes in working capital	911	(54,486)	(22,490)
Income tax paid	—	(130)	(3,491)
Net cash from/(used in) operating activities	12,408	(21,726)	19,282
Net cash used in investing activities	(27,289)	(9,555)	(10,246)
Net cash from/(used in) financing activities	15,742	27,988	(7,924)
Net increase/(decrease) in cash and cash equivalents	861	(3,293)	1,112
Cash and cash equivalents at beginning of year	4,046	4,907	1,614
Cash and cash equivalents at end of year	4,907	1,614	2,726

Net cash flows generated from/(used in) operating activities

For FY2017, FY2018 and FY2019, we derived cash inflow from operating activities principally from the receipts from the sale of wires and cable and aluminium products. Our cash outflow used in operating activities was principally for purchase of raw materials and inventories, staff wages and benefits, transportation expenses and other operating expenses.

For FY2017, our Group had net cash generated from operating activities of RMB12.4 million. Our cash flow generated from operations primarily consisted of profit before income tax expenses of RMB3.2 million, adjusted by reconciliation of non-cash items, mainly comprising depreciation and finance costs of RMB8.3 million and positive changes in working capital, which mainly included (i) an increase in trade and bill payables of RMB14.1 million; and (ii) increase in contract liabilities of RMB3.9 million, partially offset by (i) the decrease in accruals and other payables of RMB13.8 million; and (ii) increase in inventories of RMB2.8 million.

For FY2018, our Group had net cash used in operating activities of RMB21.7 million. Our net cash outflow was attributable to cash flow used in operations of RMB21.6 million and income tax paid of RMB0.1 million. Our cash flow used in operations primarily consisted of profit before income tax expense of RMB21.6 million, adjusted by reconciliation of non-cash items, mainly comprising depreciation and finance costs of RMB11.3 million and negative changes in working capital mainly including (i) an increase in prepayments, deposits and other receivables of RMB48.3 million mainly attributable to the increase in advance payment to suppliers to secure raw material supplies such as Zhonglv for upcoming production; and (ii) an increase in trade and bill receivables of RMB39.6 million resulting from our growth in revenue and the longer credit period of 365 days we granted to Aostar for RMB20.4 million trade receivables partially offset by (i) an increase in trade and bill payables of RMB22.2 million due to our increased purchases as expand scale; and (ii) a decrease in inventories of RMB6.7 million.

For FY2019, our Group had net cash generated from operating activities of RMB19.3 million. Our cash flow generated from operations primarily consisted of profit before tax expenses of RMB33.9 million, adjusted by reconciliation of non-cash items, mainly comprising depreciation and finance costs of RMB11.4 million and negative changes in working capital, which mainly included (i) an increase in trade and bills receivables of RMB49.5 million resulting from our growth in revenue; and (ii) a decrease in accruals and other payables of RMB6.1 million, partially offset by (i) a decrease in prepayments, deposits and other receivables of RMB32.3 million primarily because of the decrease in prepayments to suppliers; and (ii) a decrease in inventories of RMB4.7 million.

Net cash used in investing activities

For FY2017, FY2018 and FY2019, our cash outflow on investing activities was principally for purchase of property, plant and equipment and investment in joint venture. Our cash inflow from investing activities is principally from dividend received from a joint venture and interest received.

For FY2017, our net cash used in investing activities of RMB27.3 million was primarily due to purchase of property, plant and equipment of RMB27.3 million for construction of our Guangyuan Plant and the investment in our joint venture, Guangyuan Tongchuang, of RMB3.1 million, partially offset by receipts of government grants of RMB3.7 million.

For FY2018, our net cash used in investing activities of RMB9.6 million was primarily due to purchase of property, plant and equipment of RMB10.1 million and partially offset by dividend received of RMB0.6 million from Guangyuan Tongchuang.

For FY2019, our net cash used in investment activities of RMB10.2 million was primarily due to the purchase of property, plant and equipment of RMB10.4 million.

Net cash generated from/(used in) financing activities

For FY2017, FY2018 and FY2019, our cash inflow from financing activities was primarily from proceeds from borrowings. Our cash outflow on financial activities was primarily for repayment of borrowings, interest paid on borrowings and repayment of lease obligations.

For FY2017, our net cash from financing activities of RMB15.7 million was primarily from proceeds from borrowings of RMB60.0 million and increase in amount due to a shareholder of RMB3.0 million, partially offset by the repayment of borrowings of RMB42.0 million and interest paid of RMB4.3 million.

For FY2018, our net cash from financing activities was RMB28.0 million primarily from (i) proceeds from borrowings of RMB91.9 million; and (ii) capital injection to Guangyuan Saftower Technology of RMB12.0 million, partially offset by (i) repayment of borrowings of RMB56.3 million; (ii) decrease in amount due to a shareholder of RMB11.4 million; and (iii) interest paid of RMB6.3 million.

For FY2019, our net cash used in financing activities was RMB7.9 million primarily from (i) repayment of borrowings of RMB95.6 million; (ii) interest paid of RMB7.8 million; and (iii) dividend paid to Tongsheng Guochuang of RMB3.4 million, partially offset by proceeds from borrowings RMB103.1 million.

WORKING CAPITAL SUFFICIENCY

Our Directors have confirmed that after taking into account the existing financial resources available to us, the expected internally generated funds and the estimated net proceeds from the Share Offer, we have sufficient working capital for our requirements for at least the next 12 months from the date of this prospectus.

CURRENT ASSETS AND LIABILITIES

We recorded net current liabilities of RMB69.4 million, RMB39.9 million as at 31 December 2017 and 2018, respectively, and net current assets of RMB17.3 million and RMB18.3 million as at 31 December 2019 and 30 April 2020, respectively. The following table sets forth the breakdown of our current assets and current liabilities as at the dates indicated:

	As at 31 December			As at 30 April
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)
Current assets				
Inventories	15,186	8,497	20,771	24,255
Trade and bill receivables	27,873	66,941	148,035	118,376
Prepayments, deposits and other receivables	12,788	60,767	33,301	52,404
Amount due from a shareholder	23	373	5	—
Cash and cash equivalents	4,907	1,614	2,726	7,959
	60,777	138,192	204,838	202,994
Current liabilities				
Contract liabilities	6,301	6,713	6,804	7,187
Trade and bill payables	34,224	56,377	67,849	51,487
Accruals and other payables	18,159	18,417	14,477	19,683
Amount due to a shareholder	12,309	899	—	1,256
Borrowings	56,000	91,630	95,478	102,173
Deferred income	368	368	368	368
Lease liabilities	2,844	1,238	356	367
Income tax payable	2	2,441	2,172	2,168
	130,207	178,083	187,504	184,689
Net current (liabilities)/ assets	(69,430)	(39,891)	17,334	18,305

Net current (liabilities)/assets

Our Group's net current liabilities decreased from RMB69.4 million as at 31 December 2017 to RMB39.9 million as at 31 December 2018. Such improvement was mainly attributable to the combined effect of (i) the profit generated for FY2018 amounting to RMB17.4 million; (ii) capital injection from Mr. Dang Fei of RMB12.0 million; (iii) an increase in trade and bill receivables by RMB39.1 million resulted from our increased turnover for FY2018; and (iv) an increase in prepayment, deposits and other receivables of RMB48.0 million, partially offset by the increase in borrowings of RMB35.6 million and increase in trade and bills payables by RMB22.2 million.

As at 31 December 2019, we recorded a net current assets position of RMB17.3 million, which was primarily contributed by (i) the profit generated during FY2019 amounting to RMB29.8 million; (ii) the consolidation of the financial results of Guangyuan Tongchuang during FY2019 and its net current assets into our Group; (iii) the increase in cash and cash equivalents by RMB1.1 million and trade and bill receivables by RMB81.1 million due to our expanded scale of operation and partially offset by (i) the decrease in prepayments, deposits and other receivables of RMB27.5 million due to the decrease in advanced payment to supplier as we utilised such advance payment for purchase; and (ii) the increase in borrowings of RMB3.8 million.

Our net current assets further increased by RMB1.0 million to RMB18.3 million as at 30 April 2020, which was mainly attributable to (i) the increase in prepayments, deposits and other receivables by RMB19.1 million; (ii) the decrease in trade and bill payables by RMB16.4 million; and (iii) the increase in cash and cash equivalents by RMB5.2 million. Such increase was largely offset by (i) the decrease in trade and bill receivables by RMB29.7 million; and (ii) the increase in borrowings by RMB6.7 million. The decrease in trade and bill receivables and payables was primarily due to the disruption to our production and business operation in the first quarter of 2020 as a result of outbreak of COVID-19. For details of the impact of COVID-19, see the paragraph headed "Recent Development and No Material Adverse Change" in this section.

Reasons for our net current liabilities position as at 31 December 2017 and 2018

Our Group had net current liabilities of RMB69.4 million and RMB39.9 million as at 31 December 2017 and 2018, respectively, of which RMB56.0 million and RMB91.6 million were secured interest-bearing borrowings, which were mainly used for purchases of raw materials from suppliers. Details of the secured profile of our borrowings, including our bank borrowings, are set out under the paragraph headed "Indebtedness" in this section. During the Track Record Period, none of our borrowings had been recalled by our banks before their respective maturity dates. Due to the business nature of manufacturing of wires and cables, we rely on our capital and external financings to support the purchase of inventories and have significant investment in capital expenditures to expand our production scale. In particular, we incurred capital expenditure of RMB35.9 million for FY2017 mainly for the construction of Guangyuan Plant which utilised our internal resources significantly. In addition, we sold wires and cables to Aostar on a credit term of 365 days during FY2018 and recorded amount due from Aostar of RMB20.4 million and

RMB13.4 million as at 31 December 2018 and 2019, respectively. On 4 March 2020, in view of the development of coronavirus epidemic, Aostar entered into a supplemental settlement agreement with Sichuan Saftower. It is agreed in the supplemental settlement agreement on the following repayment schedule: (i) settlement of RMB2.0 million at the end of every calendar month from June 2020 to November 2020; and (ii) settlement of the remaining balance of RMB1.4 million on 31 December 2020.

Directors' view

Our Directors consider that our Group has financial resources to meet its liquidity needs based on the following:

(i) Our net current liabilities position has demonstrated an improving trend through the Track Record Period and recorded a net current assets position of RMB17.3 million and RMB18.3 million as at 31 December 2019 and 30 April 2020 respectively;

(ii) For FY2017, FY2018 and FY2019, we have generated operating cash inflows before working capital changes amounting to RMB11.5 million, RMB32.9 million and RMB45.3 million, respectively; and

(iii) We expect to have sufficient working capital to meet the requirements of our operation in the 12 months period from the date of this prospectus.

CURRENT ASSETS AND LIABILITIES

Inventories

Our inventory amounted to RMB15.2 million, RMB8.5 million and RMB20.8 million, respectively, as at 31 December 2017, 2018 and 2019. Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the "weighted average" basis.

The following table sets forth the summary of the balance of our inventories as at the dates indicated:

	As at 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Raw materials	1,709	1,033	5,424
Work-in-progress	2,599	1,997	8,154
Finished goods	10,878	5,467	7,193
	15,186	8,497	20,771

Our overall inventory balance decreased from RMB15.2 million as at 31 December 2017 to RMB8.5 million as at 31 December 2018, which was primarily because we concentrated our inventory shipment in late 2018 while in late 2017, our Guangyuan Plant was still in its early stage of development and our inventories not yet rolled out as at the year-end date.

As at 31 December 2019, our inventory balance increased to RMB20.8 million mainly due to the consolidation of the financial results of Guangyuan Tongchuang which increased the scale of our assets.

Set out below is the inventory turnover days for the indicated periods:

	FY2017	**FY2018**	**FY2019**
Inventory turnover days *(Note)*	23	9	9

Note: We calculate inventory turnover days by dividing average inventories by cost of sales and multiplied by 365 days for each of FY2017, FY2018 and FY2019. Average inventories is calculated by dividing the sum of inventories at the beginning of the period and inventories at the end of the period by two.

Our production cycle is generally within one month. Our inventory turnover days decreased from 23 days in FY2017 to nine days in FY2018 and nine days in FY2019, which was primarily due to (i) the increased production capacities and full year operation of Guangyuan Plant for FY2018 which sped up the turnover of our inventories, and (ii) the increase in sales volume of semi-finished wires and aluminium products for FY2018 and FY2019 with shorter turnover days due to shorter manufacturing process.

Our Directors are of the view that our inventory turnover days during the Track Record Period which were significantly lower than our industry peers was mainly due to (i) our engagement in trading of aluminium products which carried a shorter inventory turnover as compared to manufacturing wire and cable products; and (ii) our relatively tight working capital which restricted us from stocking up extra inventories.

As at the Latest Practicable Date, RMB14.5 million or 69.7% of our inventories as at 31 December 2019 had been sold or utilised.

Trade and bills receivables

The following table sets forth our trade and bills receivables as at the dates indicated:

	As at 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables	27,873	66,741	145,035
Bill receivables	—	200	3,000
	27,873	66,941	148,035

Our trade and bills receivables primarily consist of receivables from our customers for sales of our products. The credit terms granted to customers range from nil to 90 days, except Aostar, which we granted a credit term of 365 days. We review the credit terms for each corporate customer with reference to, among other things, the background and credibility of the customers. Normally, we do not obtain collateral from our customers save for Aostar for their purchases of wires and cables during FY2018.

Our trade and bills receivables increased from RMB27.9 million as at 31 December 2017 to RMB66.9 million as at 31 December 2018, which was generally in line with our increase in revenue. Our trade and bills receivables further increased to RMB148.0 million as at 31 December 2019, which was primarily attributable to (i) the consolidation of trade and bills receivables of Guangyuan Tongchuang of RMB24.3 million into our Group as at 31 December 2019; (ii) carrying balance of the amount due from a state-owned company of RMB16.3 million as at 31 December 2019 arising from the sales by Guangyuan Shuneng in December 2019; (iii) carrying balance of the amount due from Aostar of RMB13.4 million for their purchases in FY2018; and (iv) the increase in revenue by 24.0% for FY2019.

Trade receivables

The following table sets forth the breakdown of our trade receivables as at the dates indicated:

	As at 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables	30,597	70,031	147,189
Allowance for expected credit loss on trade receivables	(2,724)	(3,290)	(2,154)
Trade receivables, net	27,873	66,741	145,035

The following table sets forth the turnover days of our trade receivables for the indicated periods:

	FY2017	**FY2018**	**FY2019**
Trade receivables turnover days *(Note)*	34	32	57

Note: We calculate trade receivable turnover days by dividing average trade receivables, net by revenue and multiplied by 365 days for each of FY2017, FY2018 and FY2019. Average trade receivables is calculated by dividing the sum of trade receivables at the beginning of the period and trade receivables at the end of the period by two.

Our trade receivables turnover days remained relatively stable for FY2017 and FY2018 and within the credit terms we generally granted to our customers. For FY2019, our trade receivables turnover days increased to 57 days which was primarily due to the increase in sales to Customer A, which we generally granted a longer credit period.

The following table sets forth the ageing analysis of our trade receivables based on the invoice date, before provision for impairment, as at the dates indicated:

	As at 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
0–60 days	12,402	43,745	100,686
61–180 days	5,433	9,537	21,003
181–365 days	4,483	9,016	5,666
Over 365 days	8,279	7,733	19,834
	30,597	70,031	147,189

The amount of trade receivables with ageing over 365 days increased from RMB7.7 million as at 31 December 2018 to RMB19.8 million as at 31 December 2019 which was due to the amount of RMB13.4 million due from Aostar which is expected to be fully settled on or before 30 October 2020 in accordance to the Second Supplemental Settlement Agreement. For details of the Second Supplemental Settlement Agreement, see "Business — Agency Service Arrangements — Our relationship with Aostar" in this prospectus.

Movements in provision for impairment of trade receivables were as follows:

	As at 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
At beginning of year	2,512	2,724	3,290
Allowance made during the year	289	566	—
Reversal of expected credit loss previously recognised	—	—	(1,136)
Bad debts written off	(77)	—	—
At end of the year	2,724	3,290	2,154

As at 31 December 2018 and 2019, a right to collect a trade receivables of a customer of RMB2.5 million and RMB2.8 million respectively was pledged as securities for certain borrowings with independent financial institution.

As at 31 December 2019, we had reversal of expected credit loss of RMB1.1 million which was primarily because we assessed and measured loss allowances for trade and bills receivables based on the balance ageing by past due date instead of invoice date, and we recorded a decrease in trade receivables past due over 365 days despite an increase in trade receivables aged over 365 days by invoice date as at 31 December 2019, as compared to that of 31 December 2018. Such difference in trade receivables aged over 365 days by invoice date and by past due date was mainly due to the aforementioned amount due from Aostar which we granted a credit period of 365 days and therefore fell within the age group of "over 365 days" by invoice date but falling within the age group of "past due 1 to 60 days" as at 31 December 2019.

As at the Latest Practicable Date, we had collected RMB67.4 million, or 45.8%, of the trade receivables outstanding as at 31 December 2019. The relatively low subsequent settlement of our trade receivables was primarily due to the extended Lunar New Year holiday and the postponed resumption of production activities of our customers as a result of the outbreak of COVID-19, which in turn disrupted the settlement schedule of our customers. Nevertheless, our Directors believe it would not constitute a long-term recoverability issue as our customers have gradually resumed their business operations since April 2020.

Prepayments, deposits and other receivables

Our prepayments, deposits and other receivables consisted of prepayments, advances to suppliers, deposits and other receivables. The following table sets forth a breakdown of our prepayments, deposits and other receivables as at the dates indicated:

	As at 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Current:			
Prepayments			
— Due from third parties	239	1,624	4,148
— Due from a related party	133	—	—
Prepayments to suppliers	2,742	38,872	8,296
Deposits	301	242	946
Other receivables *(Note)*	9,425	20,061	20,007
Less: Allowance for expected credit loss on other receivables	(52)	(32)	(96)
	12,788	60,767	33,301

Note: Other receivables mainly consist of amount due from Aostar of RMB14.7 million and RMB10.0 million as at 31 December 2018 and 2019, respectively, relating to the payment of aluminium oxide by us on behalf of Aostar under the Agency Service Arrangements, under which Guangyuan Saftower entered into a supplemental agreement with Aostar and Guizhou Galuminium; and Guangyuan Saftower agreed to execute the purchase of aluminium oxide from Guizhou Galuminium on behalf of Aostar. Therefore, such amount represented the outstanding balance due from Aostar in relation to the gross purchase amount of aluminium oxide and the related agency fee. We have taken measures to further ensure the payment by Aostar for these other receivables. For details, see "Business — Agency Service Arrangements" in this prospectus. As at the Latest Practicable Date, we had collected RMB18.6 million, or 93.1%, of the other receivables outstanding as at 31 December 2019.

Our prepayments, deposits and other receivables increased from RMB12.8 million as at 31 December 2017 to RMB60.8 million as at 31 December 2018. The increase was primarily due to (i) an increase in prepayments to suppliers of RMB36.1 million because of our significant increase in the demands on our supplies so as to meet the large purchase orders from our customers. In particular, in late 2018 we paid advance payment of RMB30.8 million to Zhonglv for purchase of aluminium materials in preparation of upcoming productions; and (ii) an increase in other receivables of RMB10.6 million because we started aluminium oxide agency business with Aostar for FY2018 and the purchase amount was not yet settled as at the year end date.

Our prepayments, deposits and other receivables decreased to RMB33.3 million as at 31 December 2019. The decrease was primarily due to the decrease in advance payment to suppliers by RMB30.6 million as we utilised such advance payment for purchase for aluminium materials during FY2019.

Contract liabilities

	As at 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Contract liabilities arising from sales of goods:			
— Due to third parties	6,301	6,713	6,804

Our contract liabilities represent advance consideration received from customers as at the reporting date.

Trade and bill payables

The following table sets forth our trade and bills payables as at the dates indicated:

	As at 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Trade payables			
— Due to third parties	9,672	23,711	67,849
— Due to Guangyuan Tongchuang *(Note)*	24,352	32,666	—
	34,024	56,377	67,849
Bills payables	200	—	—
	34,224	56,377	67,849

Note: Trade payables due to Guangyuan Tongchuang represented the purchase of products which is trade in nature. Guangyuan Tongchuang became our non-wholly owned subsidiary after 15 April 2019 and such intra-group balance was eliminated in our consolidated financial statements.

Our trade and bills payables primarily consist of amount incurred for the purchase of raw materials and aluminium products from our suppliers. The credit period on purchase from suppliers is generally ranging from nil to 120 days. During the Track Record Period, we generally made payments to suppliers within the credit periods granted to us.

Our trade and bills payables increased from RMB34.2 million as at 31 December 2017 to RMB56.4 million as at 31 December 2018, and further increased to RMB67.8 million as at 31 December 2019 which was in line with our expansion and increasing cost of sales for FY2019.

The following table sets forth the turnover days of our trade payables for the indicated periods:

	FY2017	**FY2018**	**FY2019**
Trade payables turnover days *(Note)*	40	33	36

Note: We calculate trade payables turnover days by dividing average trade payables by cost of sales and multiplied by 365 days for each of FY2017, FY2018, and FY2019. Average trade payables is calculated by dividing the sum of trade payables at the beginning of the period and trade payables at the end of the period by two.

Our trade payables turnover days remained relatively stable at 40 days, 33 days and 36 days in FY2017, FY2018 and FY2019 which were within the range of credit period on purchase from supplier.

The following table sets forth the ageing analysis of our trade payables, based on the invoice date, as at the dates indicated:

	As at 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Less than 60 days	26,841	47,443	44,544
61 days to 180 days	5,900	8,023	7,218
181 days to 365 days	1,177	748	2,198
Over 365 days	106	163	13,889
	34,024	56,377	67,849

As at the Latest Practicable Date, RMB48.5 million or 71.5%, of the trade payables that were outstanding as at 31 December 2019 were settled.

Accruals and other payables

Accruals and other payables consisted of (i) accrued operating expenses, (ii) accrued listing expenses, (iii) accrued employee benefit expenses, (iv) payables for purchase of property, plant and equipment, (v) other taxes payables, (vi) interest payables, (vii) deposits received and (viii) others. The following table sets forth a breakdown of our accruals and other payables as at the indicated dates:

	As at 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Accrued operating expenses			
— Due to third parties	61	1,878	3,010
— Due to Guangyuan Tongchuang	175	549	—
Accrued listing expenses	—	1,585	2,838
Accrued employee benefit expenses	739	770	1,440
Payables for the purchase of property, plant and equipment	6,672	2,364	3,795
Other taxes payables	90	215	562
Interest payables	80	93	109
Deposits received	9,083	9,733	174
Receipts in advance from a related party	1,201	1,212	—
Other payables	58	18	2,549
	18,159	18,417	14,477

Our accruals and other payables remained relatively stable at RMB18.2 million, RMB18.4 million, respectively, as at 31 December 2017 and 2018. Our accruals and payables decreased to RMB14.5 million as at 31 December 2019 primarily due to the settlement of deposit received by our customers.

NON-CURRENT ASSETS AND LIABILITIES

Property, plant and equipment

Our property, plant and equipment mainly consist of buildings, motor vehicles, plant and machinery. As at 31 December 2017, 2018 and 2019, the carrying value of our property, plant and equipment was RMB93.1 million, RMB89.2 million and RMB119.0 million, respectively. The increase in balance of property, plant and equipment as at 31 December 2019 was primarily due to the consolidation of Guangyuan Tongchuang's assets after the Tongchuang Equity Acquisition.

ACCUMULATED LOSS AS AT 1 JANUARY 2017 AND 31 DECEMBER 2017

Our Group recorded accumulated loss of RMB4.2 million and RMB2.4 million as at 31 December 2016 (i.e. 1 January 2017) and 31 December 2017 (i.e. 1 January 2018), respectively. It mainly arose from the prior years' operating loss due to smaller scale of operation and our Group recorded net profit from FY2017 and onwards.

During FY2017, in particular during the second half of 2017 after the commencement of the commercial operation of Guangyuan Plant with a occupied site area of 65,027.87 sq.m as compared to that of 18,061.9 sq.m of Chengdu Plant which expanded our production scale, we established business relationship with certain new major customers (i.e. four of the five largest customers for FY2017 newly conducted transactions with us since 2017 and contributed 47.7% of revenue for FY2017) and increased our sales as compared to that of the previous years. Driven by the orders from these new major customers, we enhanced our profitability and recorded a net profit of RMB2.2 million for FY2017.

The following table sets forth the production lines newly added during FY2017:

	Production lines	Commencement of commercial production	Production capacity	Annualised utilisation rate
Guangyuan Plant				
— Aluminium rods	3	April 2017	13,500 tonnes	59.1%
Tongchuang Plant				
— Aluminium overhead power cables	1	September 2017	4,500 km	4.1%
— Steel reinforced aluminium bare cables	2	September 2017	7,800 tonnes	35.5%

The revenue of FY2017 was mainly driven by the expansion of production scale after the commercial production of Guangyuan Plant and Tongchuang Plant since April and September 2017, respectively. Three production lines for manufacturing aluminium rods of Guangyuan Plant was newly added in 2017 and our Group recorded sales of aluminium rods amounted to RMB67.8 million for FY2017 (FY2016: nil).

Between April 2017 and July 2017 when Guangyuan Tongchuang was established, the production lines and machinery for classic aluminium wires and cables of Guangyuan Tongchuang belonged to Guangyuan Saftower. Since April 2017, Guangyuan Saftower produced and sold classic aluminium wires and cables of RMB48.9 million for FY2017 (FY2016: nil). After the asset injection to Guangyuan Tongchuang, our Group delegated the subcontracting of manufacturing of classic aluminium wires and cables and partly offset by reduced customer orders for classic aluminium wires and cables of Sichuan Saftower, our Group turned out achieved increase in revenue from sales of classic aluminium wires and cables by RMB40.9 million for FY2017.

Throughout the full year operation of Guangyuan Plant and with the enhanced utilisation rate in 2018 and enlarged customer base (i.e. two of the five largest customers for FY2018 began to have transactions with us since 2018 and contributed 11.7% of revenue for FY2018), we recorded a net profit of RMB17.4 million for FY2018. As benefited from the Tongchuang Equity Acquisition in April 2019 and our strategy to expand customer base, we recorded net profit before Listing expenses of RMB38.7 million for FY2019. As at 31 December 2018 and 31 December 2019, our Group recorded retained earnings of RMB12.9 million and RMB35.7 million, respectively.

INDEBTEDNESS

The following table sets forth a summary of our indebtedness as at the dates indicated.

	As at 31 December			As at 30 April
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)
Indebtedness				
Amount due to a shareholder	12,309	899	—	1,256
Borrowings	56,000	91,630	99,162	105,285
Lease liabilities	3,282	1,552	540	545
Total	71,591	94,081	99,702	107,086

Amounts due to a shareholder

As at 31 December 2017, 2018 and 2019, amount due to Mr. Dang Fei, our Controlling Shareholder, was RMB12.3 million, RMB0.9 million and nil, respectively. The decrease in the amount due to Mr. Dang Fei as at 31 December 2018 was related to the repayment to Mr. Dang Fei which he later injected RMB12.0 million into our Group as capital reserve in late 2018. As at 30 April 2020, the amount due to Mr. Dang Fei increased to RMB1.3 million. Such amount will be fully settled before or upon Listing.

Borrowings

	As at 31 December			As at 30 April
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)
Current:				
Secured and guaranteed interest-bearing bank borrowings repayable within one year	41,000	60,230	55,640	63,640
Secured and guaranteed interest-bearing other borrowings repayable within one year	15,000	31,400	37,600	33,250
Sales and leaseback liabilities	—	—	2,238	5,283
	56,000	91,630	95,478	102,173
Non-current:				
Sales and leaseback liabilities	—	—	3,684	3,112
	56,000	91,630	99,162	105,285

Set out below is the amount of our bank borrowings and other borrowings secured by type of assets as at 31 December 2017, 2018 and 2019:

	As at 31 December		
	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*
Bank borrowings secured by:			
Buildings, land use rights and plant and machinery owned by our Group *(Note 1)*	21,000	25,290	35,700
Properties of Mr. Wang	—	5,000	—
Properties of parents of Mr. Dang Fei and Mr. Dang Jun	5,000	9,500	7,000
Properties of certain staff of our Group who are Independent Third Parties	—	4,940	4,940
Properties of Independent Third Parties and properties of Mr. Dang Fei and Mr. Wang, jointly	5,000	—	—
Properties of Independent Third Parties and properties of Mr. Luo and his parents and Mr. Wong, jointly	—	—	5,000
Properties of Aostar and properties of parents of Mr. Dang Fei and Mr. Dang Jun, jointly	—	5,000	—
	31,000	49,730	52,640
Unsecured bank borrowings	10,000	10,500	3,000
Total bank borrowings	41,000	60,230	55,640
Other borrowings secured by:			
Buildings, land use rights and plant and machinery owned by our Group *(Note 2)*	8,000	8,000	13,722
Inventories of Mr. Deng Daosong, a minority Shareholder	7,000	7,000	7,000
Trade receivables of Litai Energy *(Note 3)*	—	6,400	12,800
Properties of Aostar *(Note 4)*	—	10,000	—
Unsecured other borrowings	—	—	10,000
Total other borrowings	15,000	31,400	43,522
	56,000	91,630	99,162

Notes:

(1) As at 31 December 2017, 2018 and 2019, the aggregate net carrying amount of buildings was RMB33.2 million, RMB32.7 million and RMB31.5 million, respectively, and the aggregate net carrying amount of land use rights was RMB7.2 million, RMB7.0 million and RMB6.8 million respectively. The aggregate net carrying amount of plant and machinery was RMB3.1 million as at 31 December 2019.

(2) As at 31 December 2017, 2018 and 2019, the aggregate net carrying amount of buildings was RMB18.5 million, RMB17.8 million and RMB17.2 million, respectively, and the aggregate net carrying amount of land use rights was RMB1.0 million, RMB1.0 million and RMB1.0 million, respectively. The aggregate net carrying amount of plant and machinery was RMB5.2 million as at 31 December 2019.

(3) The trade receivables of Litai Energy amounted to RMB2.5 million and RMB2.8 million as at 31 December 2018 and 31 December 2019.

(4) This represented the loan from Tongsheng Guochuang. Properties of Aostar pledged was released in September 2019.

All personal guarantee and pledge by our Shareholders, Directors and their close family or connected person will be released and replaced by corporate guarantee or otherwise settled in full before or upon Listing.

In the event that we engaged guarantee companies to guarantee our borrowings, an estimated fee of approximately 1.8% to 2.8% of the amount guaranteed per annum could be charged by the guarantee companies. We incurred guarantee fee charges of RMB0.8 million, RMB1.0 million, and RMB0.9 million for FY2017, FY2018 and FY2019, respectively.

Total current and non-current bank borrowings and other borrowings were scheduled to repay as follows:

	As at 31 December			As at 30 April
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)
On demand or within one year	56,000	91,630	93,240	96,890

The sales and leaseback liabilities were scheduled to repay as follows:

	As at 31 December			As at 30 April
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)
On demand or within one year	—	—	2,238	5,283
More than one year	—	—	3,684	3,112
	—	—	5,922	8,395

Borrowing from Tongsheng Guochuang

As at 31 December 2018, 31 December 2019 and 29 February 2020, we had a borrowing of RMB10.0 million, RMB10.0 million and RMB9.5 million, respectively, from Tongsheng Guochuang, the other shareholder of Guangyuan Tongchuang, initially for financing the purchase of aluminium oxide under the Agency Service Arrangements since November 2018. The loan was secured by properties of Aostar and was then released in September 2019. The interest rate was 15% per annum since November 2018 and reduced to 8% since July 2019 with reference to the then latest market rate. Our Directors are of the view that such transaction was conducted on normal commercial terms and was no less favourable to our Group than those available to Independent Third Parties and was fair and reasonable and in the interest of our Shareholders as a whole and on an arm's length basis. Such loan has been fully repaid on 13 May 2020.

According to the General Lending Provisions* (貸款通則) (the "**General Provisions**"), promulgated by the PBOC in 1996, only financial institutions may legally engage in the business of extending loans, and loans between non-financial institutions are prohibited. The PBOC may impose on the non-compliant lender a penalty equivalent to one to five times of the income generated (being interests charged) from such lending transaction. However, according to the Provisions of the Supreme People's Court on Several Issues concerning the Application of Law in the Trial of Private Lending Cases* (最高人民法院關於審理民間借貸案件適用法律若干問題的規定) (the "**Provisions**"), promulgated on 23 June 2015 and effective on 1 September 2015, loans between non-financial institutions are legal if they are extended for purposes of financing production or business operations. The PRC courts will also support a lender's claim for interest in respect of such loan as long as the annual interest rate charged does not exceed 24%. Pursuant to the Notice of the Supreme People's Court on Conscientiously Studying, Implementing and Applying the Provisions of the Supreme People's Court on Several Issues concerning the Application of Law in the Trial of Private Lending Cases* (最高人民法院關於認真學習貫徹適用《最高人民法院關於審理民間借貸案件適用法律若干問題的規定》的通知) published on 25 August 2015, the Provisions apply to loans that were entered into prior to the implementation of the Provisions and which are regarded as invalid under the former judicial interpretations but valid under the Provisions. Pursuant to the Provisions, private lending contracts concluded between legal persons or other organisations are effective and valid under PRC law except where the contracts for the lending (i) are void under the PRC Contract Law; or (ii) fall within the scope of void lending contracts as particularly provided in the Provisions; and if the interest rate provided in a private lending contract is not more than 24% per annum, the PRC courts will rule that the lender is legally entitled to such interest income.

During the Track Record Period and up to the Latest Practicable Date, we did not receive any penalties, investigation or notice from relevant competent PRC government authorities in relation to the borrowing from Tongsheng Guochuang. On this basis, our PRC Legal Advisers are of the view that (i) such borrowing from Tongsheng Guochuang were legally binding on the relevant parties; and (ii) the risk of us being penalised by the PBOC for the aforesaid borrowing is remote.

Lease liabilities

Analysis based on scheduled repayment terms set out in the lease contracts, into:

	Minimum lease payments			**Present value of minimum lease payments**		
	As at 31 December			**As at 31 December**		
	2017	**2018**	**2019**	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Minimum lease payments due						
— Within one year	2,046	1,322	368	1,795	1,238	356
— In the second year	1,239	143	143	1,173	130	137
— In the third to fifth years, inclusive	333	190	48	314	184	47
	3,618	1,655	559	3,282	1,552	540
Less: Future finance charges	(336)	(103)	(19)	—	—	—
Present value of lease liabilities	3,282	1,552	540	3,282	1,552	540
Less: Amounts due for settlement within one year (shown under current portion)				(1,795)	(1,238)	(356)
Amounts due for settlement after one year but contain a repayment on demand clause (shown under current portion)				(1,049)	—	—
Non-current portion				438	314	184

Our Group leases plant and machinery for production and these lease liabilities are measured at net present value of minimum lease payments during the leases terms that are not yet paid.

The following table details the interest rate profile of our Group's borrowings and lease liabilities as at the dates indicated:

	As at 31 December					
	2017		2018		2019	
	Effective interest rate	Carrying amount	Effective interest rate	Carrying amount	Effective interest rate	Carrying amount
	%	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*
Fixed rate borrowings:						
Borrowings	7.50%–16.00%	15,000	7.50%–15.00%	25,000	3.97%–15.00%	35,122
Lease liabilities	4.99%–10.71%	3,282	4.99%–10.71%	1,552	4.99%	540
Floating rate borrowing:						
Borrowings	5.19%–9.00%	41,000	4.35%–9.00%	66,630	4.35%–9.00%	64,040

CONTINGENT LIABILITIES AND GUARANTEES

As at 30 April 2020, being the latest practicable date for the purpose of the indebtedness statement, save for the disclosed in this prospectus we did not have any material contingent liabilities or guarantees. For the potential claim against our Group as at the Latest Practicable Date, see "Business — Compliance and Litigation — Litigation" in this prospectus.

Save for the above or as otherwise disclosed herein, and apart from intra-group liabilities as at Latest Practicable Date, our Group did not have any outstanding indebtedness or any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptable credits, debentures, mortgages, charges, finance leases or hire purchases commitments, guarantees, material covenants, or other material contingent liabilities.

CAPITAL EXPENDITURE

For FY2017, FY2018 and FY2019, our Group incurred capital expenditures of RMB35.9 million, RMB1.4 million and RMB16.7 million, respectively. Our Group's capital expenditures have principally consisted of plant and machinery, buildings and construction in progress. Significant capital expenditure incurred in FY2017 was mainly attributable to the construction and establishment of production facilities at Guangyuan Plant.

Our Group's projected capital expenditures are subject to revision based upon any future changes in our business plan, market conditions, and economic and regulatory environment. For further details, see "Future Plans and Use of Proceeds" in this prospectus.

We expect to fund our contractual commitments and capital expenditures principally through the net proceeds we receive from the Share Offer, cash generated from our operating activities and proceeds from borrowings. We believe that these sources of funding will be sufficient to finance our contractual commitments and capital expenditure needs for the next 12 months from the date of this prospectus.

COMMITMENTS

Capital commitments

The following table sets forth our capital commitments as at the dates indicated:

	As at 31 December		
	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*
Commitments for property, plant and equipment:			
Contracted but not provided	5,845	7,751	360

Operating lease commitments

Our Group as lessor

At 31 December 2017 and 2018 and 2019, our Group, as the lessor, has future minimum lease rental receivables under non-cancellable operating leases of our Group are as follows:

	As at 31 December		
	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*
Within one year	2,000	2,000	—
In second to five years	8,000	8,000	—
After fifth years	9,333	7,333	—
	19,333	17,333	—

During the Track Record Period, our Group leases its plants and buildings to our then joint venture, Guangyuan Tongchuang. Guangyuan Tongchuang became our non-wholly owned subsidiary after 15 April 2019 and such intra-group transaction was eliminated in the consolidated financial statement.

PROPERTY INTERESTS AND PROPERTY VALUATION

Royson Valuation Advisory Limited, an independent property valuer, had valued our Group's property interests as at 30 April 2020 at RMB85.2 million. The full text of its letter and valuation certificate with regard to such property interests are set out in Appendix III to this prospectus.

A reconciliation of the carrying amount of our property interests as at 31 December 2019 stated in the Accountants' Report set out in Appendix I to the fair value as at 30 April 2020 as stated in the property valuation report set out in Appendix III is set out below:

	Aggregate carrying amount
	RMB'000
Carrying amount as at 31 December 2019	
Land and buildings in property, plant and equipment and right-of-use assets	81,660
Less: Depreciation from 1 January 2020 to 30 April 2020	
Land and buildings in property, plant and equipment and right-of-use assets	(970)
	80,690
Add: Fair value change	
Valuation surplus	4,510
Market value as at 30 April 2020	85,200

RELATED-PARTY TRANSACTIONS

With respect to the related party transactions set forth in the Accountants' Report in Appendix I to this prospectus, our Directors confirm that these transactions were conducted on normal commercial terms or such terms that were no less favourable to our Group than those available to Independent Third Parties, were fair and reasonable and in the interest of our Shareholders as a whole, and on an arm's length basis and did not distort our results of operations during the Track Record Period.

KEY FINANCIAL RATIOS

The following table shows certain key financial ratios as at the dates or for the years indicated:

	FY2017	FY2018	FY2019
Return on equity (%)(1)	3.8	19.9	21.3
Return on total assets (%)(2)	1.1	6.5	8.9
Interest coverage (times)(3)	1.7	4.3	5.3

	As at 31 December		As at 31 December
	2017	2018	2019
Current ratio (times)(4)	0.5	0.8	1.1
Quick ratio (times)(5)	0.4	0.7	1.0
Gearing ratio (%)(6)	123.5	107.7	71.5
Debt to equity ratio (%)(7)	115.0	105.8	69.6

(1) Return on equity is calculated by dividing profit and total comprehensive income for the year by total equity of our Group as at the end of the year and multiplying the resulting value by 100%.

(2) Return on total assets is calculated by dividing profit and total comprehensive income for the year by total assets of our Group as at the end of the year and multiplying the resulting value by 100%.

(3) Interest coverage ratio is calculated by dividing profit before interest and tax by finance costs for the respective year and multiplying by 100%.

(4) Current ratio is calculated by dividing total current assets by total current liabilities as at the end of the respective year.

(5) Quick ratio is calculated by dividing total current assets (excluding inventories) by total current liabilities as at the end of the respective year.

(6) Gearing ratio is calculated by dividing total debts by total equity as at the end of the respective year. Total debts include borrowings, lease liabilities and amount due to a shareholder.

(7) Debt to equity ratio is calculated by dividing net debts by total equity as at the end of the respective year. Net debts include all borrowings net of cash and cash equivalents.

Return on equity

For FY2017, FY2018 and FY2019, we recorded return on equity of 3.8%, 19.9% and 21.3%, respectively. The increase was primarily attributable to the increase in profit and total comprehensive income.

Return on total assets

For FY2017, FY2018 and FY2019, we recorded return on total assets of 1.1%, 6.5% and 8.9%, respectively. The increase was primarily attributable to the increase in profit and total comprehensive income.

Interest coverage

Our interest coverage ratio increased from 1.7 time for FY2017 to 4.3 times for FY2018, and further increased to 5.3 times for FY2019, primarily due to our improved profitability driven by our higher revenue after full-year operation of Guangyuan Plant and the consolidation of financial results of Guangyuan Tongchuang.

Current ratio

Our current ratio increased from 0.5 time as at 31 December 2017 to 0.8 times as at 31 December 2018 and further increased to 1.1 as at 31 December 2019, which was mainly attributable to the increase in trade and bills receivables and consolidation of Guangyuan Tongchuang's financial results in FY2019.

Quick ratio

Similar to that of current ratio, our quick ratio increased from 0.4 as at 31 December 2017 to 0.7 as at 31 December 2018 mainly due to the reason as discussed above and also attributable to the decrease in our inventory as at 31 December 2018. Our quick ratio further improved to 1.0 as at 31 December 2019 primarily attributable to the increase in trade and bills receivables for FY2019 and consolidation of Guangyuan Tongchuang's financial results in FY2019.

Gearing ratio

Our gearing ratio decreased from 123.5% as at 31 December 2017 to 107.7% as at 31 December 2018, mainly attributable to increase in equity mainly attributable to the profit generated in FY2018, and partially offset by the increase in borrowings by RMB35.6 million. As at 31 December 2019, our gearing ratio further reduced to 71.5% resulting from our enhanced profitability and the consolidation of Guangyuan Tongchuang's financial results which increased our equity base.

Debt to equity ratio

Our debt to equity ratio decreased from 115.0% as at 31 December 2017 to 105.8% as at 31 December 2018 and decreased to 69.6% as at 31 December 2019 for the same reasons explained above.

OFF BALANCE SHEET ARRANGEMENTS

Except for the contractual commitments set forth above, during the Track Record Period and up to the Latest Practicable Date, we did not have any material off-balance sheet arrangements.

MARKET AND OTHER FINANCIAL RISKS

We are exposed to credit risks, market risks (including foreign currency risks and interest rates risks) and liquidity risks arising in the ordinary course of business. Our overall risk management strategy seek to minimise adverse effects from the volatility of financial markets on our financial performance. Risk management is carried out by our senior management and approved by our Board.

Details of the risk to which we are exposed to are set out in Note 40 to Appendix I to this prospectus.

ACQUISITION OF GUANGYUAN TONGCHUANG

On 15 April 2019, our Group acquired 16.67% of the equity interest of Guangyuan Tongchuang, the then joint venture of our Group, after which Guangyuan Tongchuang has become our non-wholly owned subsidiary. For details, please refer to "Guangyuan Tongchuang" in this prospectus.

The acquisition was completed on 15 April 2019. In accordance with HKFRSs, our Group continued to share the results of Guangyuan Tongchuang using equity method of accounting during the period from 1 January 2017 to 15 April 2019. Upon completion of the above transaction, our Company indirectly hold 56.67% equity interest of Guangyuan Tongchuang and recognised a bargain purchase of RMB0.9 million. For details, see Note 36 to Appendix I to this prospectus.

For stand-alone pre-acquisition financial information of Guangyuan Tongchuang and management discussion and analysis, see Note 37 to Appendix I to this prospectus and "Pre-acquisition Financial Information of Guangyuan Tongchuang" in this prospectus.

UNAUDITED PRO FORMA ADJUSTED COMBINED NET TANGIBLE ASSETS

Please see the section headed "Unaudited Pro Forma Financial Information" in Appendix II to this prospectus for our unaudited pro forma adjusted combined net tangible assets.

LISTING EXPENSES

The total Listing expenses, which are non-recurring in nature and primarily consist of the fees paid or payable to professional parties and underwriting commission, are estimated to be HK$37.0 million or 56.9% of the gross proceeds (equivalent to RMB32.6 million, based on HK$0.325 per Offer Share, being the mid-point of the indicative Offer Price range stated in this prospectus and assuming no exercise of the Offer Size Adjustment Option). For the Listing expenses, (i) HK$13.5 million (equivalent to RMB11.9 million) is directly attributable to the issue of the Offer Shares which are to be accounted for as a deduction from equity; (ii) HK$4.4 million and HK$10.1 million (equivalent to RMB3.9 million and RMB8.9 million respectively) have been charged to profit or loss of our Group for FY2018 and FY2019, respectively; and (iii) HK$9.0 million (equivalent to RMB7.9 million) will be further charged to profit or loss of our Group for FY2020 upon Listing.

DIVIDENDS

During FY2019, a final dividend of approximately RMB4.9 million was declared by Guangyuan Tongchuang for its financial results for FY2018 to its shareholders, namely Guangyuan Saftower and Tongsheng Guochuang. As at 31 December 2019, the balance of the dividend payable was fully settled.

We do not have any pre-determined dividend ratio. The form, frequency and amount of future dividends on the Shares will be at the discretion of our Board and will depend on factors such as our results of operations, cash flows, financial conditions, future prospects and regulatory restrictions on the payment of dividends by us or our operating subsidiaries. There can be no assurance that any dividends will be paid. Investors should consider the risk factors affecting our Group as set forth in the section headed "Risk Factors" in this prospectus and the cautionary notice regarding forward-looking statements contained in the section headed "Forward- Looking Statements" in this prospectus.

DISTRIBUTABLE RESERVES

Our Company was incorporated on 9 October 2018. As at 31 December 2019, our Company had no reserves available for distribution to our Shareholders.

DISCLOSURE REQUIRED UNDER THE GEM LISTING RULES

Our Directors confirmed that, as at the Latest Practicable Date, they were not aware of any circumstances which would give rise to a disclosure requirement under Rules 17.15 to 17.21 of the GEM Listing Rules.

RECENT DEVELOPMENTS AND NO MATERIAL ADVERSE CHANGE

Subsequent to the Track Record Period and up to the date of this prospectus, we have the following recent developments:

Key performance indicators — Key performance indicators (including the costs of raw materials such as copper and aluminium) were stable for the period after the Track Record Period and up to the Latest Practicable Date.

Gross profit margin — We expect our cost of raw materials as a percentage of our revenue to remain relatively stable in comparison with the Track Record Period, and hence our gross profit margin for our Group is expected to remain relatively stable.

New purchase order and tender contracts — In March 2020, we entered into a framework agreement with Changhong Group for the supply of special wires and cables with a total contract sum of RMB55.0 million for FY2020. Since March 2020, we have been receiving orders placed by Changhong Group under the framework agreement for the supply of special wires and cables. In May 2020, we received a purchase order of steel reinforced aluminium bare cables from a subsidiary of a company listed on the Shanghai Stock Exchange, which is mainly engaged in the sales of wires and cables and electronic products, with a total contract sum of RMB39.5 million for FY2020.

New external debt financing — In March 2020, we have drawn down a new borrowing of RMB3.0 million at 6.8% interest per annum for one year. In May 2020, after the full repayment of Current Tongsheng Loan, we have drawn down a new borrowing of RMB19.5 million at 7.5% interest per annum for one year which was secured by the same amount of trade receivables due from a subsidiary of Customer A, for the purpose of general working capital. As at the Latest Practicable Date, our Group have available unutilised facilities in the amount of up to RMB11.5 million.

Impact of COVID-19 — There has been an outbreak of a highly contagious respiratory disease (COVID-19) in China in late 2019. On 23 January 2020, the PRC government announced the lock-down of Wuhan City in an attempt to quarantine the city. Since then, draconian measures including travel restrictions have been imposed in other major cities in the PRC, as well as other countries and territories, in an effort to contain the COVID-19 outbreak. On 30 January 2020 the World Health Organization ("**WHO**") declared the outbreak of COVID-19 a Public Health Emergency of International Concern (PHEIC), and on 11 March 2020, WHO characterized COVID-19 as a pandemic. As at the Latest Practicable Date, the virus had spread across the PRC and globally and death toll and number of infected cases continued to rise. Various countries and territories have also imposed travel restrictions, such as denial of entry and mandatory quarantine for people entering the borders. As a result of the COVID-19 and the corresponding measures taken by the PRC government, the operation of our Group was suspended from the Lunar New Year holiday to 2 March 2020.

The continuous spread of COVID-19 is likely to have an adverse impact on the livelihood of the people in and the economy of the PRC. The wires and cables industry may be adversely affected due to the postponed resumption of productions and transportation, and therefore our business operation and our financial performance may be adversely affected. Notwithstanding this, given the market trend for construction and power transmission in the long run and relatively stable demand of wires and cables due to their wide range of downstream applications, Frost & Sullivan is of the view that, once the outbreak is effectively controlled, the impact on the wires and cables manufacturing industry in the PRC is expected to be temporary.

Our Directors believe that, based on information up to the date of this prospectus, the outbreak of COVID-19 would not result in a pro-longed disruption to our production and business operations due to (i) our major customers are not from Wuhan City or other cities in Hubei Province during the Track Record Period, and we did not generate any revenue from sales to customers located in Hubei Province; (ii) our major raw materials are primarily copper and aluminium materials which are produced and readily available from suppliers in various regions of the PRC, and we are generally able to source alternative supplies if any of our current suppliers are affected by disruption caused by the spread of the disease; (iii) the majority of our employees are local residents in Chengdu and Guangyuan who are able to report to duty at our production plants, and to the best of our Directors' knowledge, as at the Latest Practicable Date, there had been no confirmed cases of COVID-19 infection of our staff; (iv) up to the date of this prospectus, none of our production facilities are located in cities or regions affected by the lockdowns which would cause material operational disruption; (v) according to the notices announced by the local government, the Lunar New Year holiday was extended to 2 February 2020, and our production and sales activities have been resumed since 2 March 2020 after obtaining official approval from local government; (vi) less new cases are being reported recently and more cities and regions in the PRC gradually resume their commercial activities; (vii) as at the Latest Practicable Date, none of our customers who had placed orders with us before the outbreak of COVID-19 had cancelled their orders and we had been able to perform our contracts with our customers after resumption of production; (viii) since 1 January 2020 and up to the Latest Practicable Date, there were short delays in the delivery of two orders of steel reinforced aluminium bare cables in February 2020. Such orders which amounted to RMB4.5 million and RMB3.9 million were placed in December 2019 and January 2020, respectively, and were subsequently delivered and accepted by the relevant customer in late March 2020 and mid-April 2020, respectively; and (ix) generally the first quarter of a year is our low season due to the Lunar New Year holiday.

To prevent any widespread of COVID-19 in our production facilities and office, we have established an epidemic prevention and control working group led by our executive Directors to undertake various precautionary measures such as (i) enhancing the environmental hygiene of our Chengdu Plant, Guangyuan Plant and our office by cleaning and sanitising areas including office, production plants, laboratories, cafeteria and washrooms regularly; (ii) requiring all of our employees to undergo mandatory temperature checks on a daily basis before and after work; (iii) minimising in-person meetings to the extent possible; and (iv) requesting our employees to wear masks at all time during work and report to us promptly whenever they feel unwell. For the four months ended 30 April 2020, our Group's overall utilisation rate of production facilities achieved approximately 53.9%.

As at the Latest Practicable Date, the local government had issued certain supporting policies for enterprises' development during the period of outbreak of COVID-19, such as (i) relaxing the requirement on social insurance and housing provident fund payment; (ii) reducing the financing costs including lower the interest rate and guarantee fee rates; and (iii) offering subsidy for utilities and purchase of equipment and machinery. It is expected that our Group will be benefited from these policies to save cost and expenditures of approximately RMB1.5 million for FY2020. In addition, since the outbreak of COVID-19, our Directors have closely monitored the gradual resumption of manpower phase by phase complying with local government authorities' guidelines to manage the return of employees in an orderly manner. During such period due to the delayed resumption of operation, our Group has taken cost control measures on staff costs which is expected to save staff costs of approximately RMB0.5 million for the first quarter of 2020.

According to our unaudited management accounts for the two months ended 29 February 2020, our revenue decreased by 81.2% as compared to that of the same period of 2019 because we maintained minimal operation in response to the outbreak of COVID-19 which resulted in net loss. As our operation resumed in March 2020 and receiving new orders from major customers, in particular we have signed a new framework agreement with Changhong Group in total contract sum of RMB55.0 million to be delivered within FY2020, our Directors are of the view that no material adverse effect on our overall operations and financial performance for FY2020 is expected to result from the recent

COVID-19 outbreak. For the two months ended 30 April 2020, we recorded a revenue decrease of 19.7% compared to that of the same period of 2019 according to our unaudited management account. Our Directors believe that the significant recovery of our monthly revenue is a solid proof that our Group has resumed normal operation after the COVID-19 outbreak.

In the unlikely event that we are forced to reduce or suspend part of our business operations, whether due to government policy or any other reasons beyond our control, due to the COVID-19 outbreak, we estimate our existing financial resources (including cash and bank balances and available facilities) as at the Latest Practicable Date could satisfy our necessary costs for over 12 months. Our key assumptions of the worst case scenario where our business is forced to be suspended due to the impact of COVID-19 include: (i) we will not generate any income due to the suspension of business and we will cease the operation and will not incur any purchases and production costs; (ii) all of our staff, including operational and administrative staff, are paid minimal salaries and allowances according to local government policy and are encouraged to take unpaid leave under mutual consent or dismissed upon proper notice in accordance with the employment contract and no significant compensation is incurred; (iii) the rental related payments including rentals, management fees and other miscellaneous charges that are paid monthly; (iv) minimal operating and administrative expenses will be incurred to maintain our operations at a minimum level (including basic head office maintenance cost, utilities expenses, fees to be incurred as a listed company such as annual listing fee, annual audit fee, financial reports and compliance adviser fee); (v) the expansion plan is delayed under such condition; (vi) there will be no further internal or external financing from Shareholders or financial institutions; and (vii) no dividend will be declared and paid under such situation. The abovementioned extreme situation may or may not occur. The abovementioned analysis is for illustrative purpose only and our Directors currently assess that the likelihood of such situation is remote. The actual impact caused by the outbreak of COVID-19 will depend on its subsequent development; therefore there is a possibility that such impact to our Group may be out of our Director's control and beyond our estimation and assessment.

Based on the parameters above but assuming that our Group is able to obtain the proceeds from the Share Offer and carry out the future plans as set out in the section headed "Future Plans and Use of Proceeds", our Directors estimate that by utilising 10% of the net proceeds from the Share Offer which currently is allocated for general working capital purpose, our Group will be able to maintain financial viability for at least 14 months upon the Listing.

Potential litigation — In March 2020, Guizhou Galuminium, the designated supplier from whom we purchased aluminium oxide for Aostar under the Agency Service Arrangements, filed a civil claim against Guangyuan Saftower, in which Guangyuan Saftower was alleged to have breached the contract for the failure to fulfil in full the total target purchase for 2019 under the supply agreement dated 14 December 2018 (as supplemented by the supplemental supply agreement dated 1 April 2019) entered into between Guangyuan Saftower and Guizhou Galuminium (for details of these supply agreements, see "Business — Agency Service Arrangements" in this prospectus), and Guizhou Galuminium claimed for damages in the sum of RMB6.4 million, which represented the alleged shortfall of the total target purchase for 2019. As at the Latest Practicable Date, we were in the process of negotiation with Guizhou Galuminium. Despite the risk that we will be ultimately held liable in respect of the claim is remote, to safeguard our Group's interest from such potential litigation for any legal consequences (if any) in respect of the claim, we had requested Aostar, the principal to the Agency Service Arrangement, to arrange for an indemnity to cover such legal consequences (if any). On 25 May 2020, Hong Sheng (acting on behalf of Aostar) pledged its aluminium products in favour of Guangyuan Saftower at the value of RMB6.4 million and agreed to indemnify Guangyuan Saftower for any shortfall where the value of such pledged assets would be insufficient to cover such liabilities (if any). For details see "Business — Compliance and Litigation — Litigation" in this prospectus.

We have obtained a legal opinion from an independent litigation counsel in the PRC which supports the Director's view that it is less than probable that the case will result in any material outflow of economic interest from our Group. Having considered the facts and circumstances of the claim and the opinion of the litigation counsel, our Directors determined that no provision for the claim by Guizhou Galuminium is required to be made in our financial statements.

Our Directors expect a decrease in our net profit for FY2020 as compared to that of FY2019, taking into account of (i) the impact of COVID-19 as mentioned above; (ii) the non-recurring government grants of RMB10.1 million which was recorded in FY2019; (iii) the estimated Listing expenses of RMB7.9 million to be recorded in FY2020; and (iv) an increase in administration and compliance cost after the Listing. Our Directors confirm that, save for the expenses in connection with the Listing and the analysis of the impact of COVID-19 as mentioned above, up to the date of this prospectus, there has been no material adverse change in our financial or trading position since 31 December 2019 (being the date to which the latest audited consolidated financial information was prepared which was set out to the Accountants' Report in Appendix I to this prospectus) to the date of this prospectus.

PRE-ACQUISITION FINANCIAL INFORMATION OF GUANGYUAN TONGCHUANG

The table below set out the pre-acquisition statements of profit or loss and other comprehensive income of Guangyuan Tongchuang for FY2017, FY2018 and up to 15 April 2019 which was extracted from the Note 37 to Appendix I to this prospectus:

	FY2017	**FY2018**	**Period ended 15 April 2019**
	RMB'000	*RMB'000*	*RMB'000* *(Note)*
Revenue	78,299	189,068	50,611
Cost of sales	(76,305)	(178,514)	(47,053)
Gross profit	1,994	10,554	3,558
Other income and gains	105	839	251
Selling and distribution expenses	(89)	(2,033)	(690)
Administrative and other expenses	(1,457)	(4,172)	(1,243)
Finance costs	(241)	(685)	(301)
Profit before income tax expenses	312	4,503	1,575
Income tax expense	(48)	(640)	(237)
Profit and total comprehensive income for the year/period	264	3,863	1,338

Note: Tongchuang Equity Acquisition was completed on 15 April 2019, after which we have consolidated the account of Guangyuan Tongchuang into our consolidated financial statements.

DESCRIPTION OF SELECTED COMPONENTS OF STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Revenue

Guangyuan Tongchuang is principally engaged in the manufacturing and sales of aluminium wires and cables for external customers and our Group mainly on OEM basis. During FY2017 and FY2018, Guangyuan Tongchuang also engaged in trading of aluminium strips and copper rods. Its revenue mainly represented the amount received and receivable in respect of the sales of wires and cables and sales of copper and aluminium products.

Following the commencement of production in September 2017 and its full year operation in FY2018, the revenue of Guangyuan Tongchuang increased by RMB110.8 million, or 141.5%, from RMB78.3 million for FY2017 to RMB189.1 million for FY2018. For the period ended 15 April 2019, Guangyuan Tongchuang generated a revenue of RMB50.6 million.

For FY2017, FY2018 and the period ended 15 April 2019, Guangyuan Tongchuang's sales to us amounted to RMB45.9 million, RMB94.5 million and RMB28.0 million respectively, representing 58.6%, 50.0% and 55.4% of its total revenue respectively.

Revenue by type of products

The following table sets out a breakdown of revenue, sales volume and average selling price by type of products for the indicated periods:

		FY2017			FY2018			Period ended 15 April 2019		
	Unit (Note 2)	Sales Volume	Average selling price (Note 1)	Total sales	Sales Volume	Average selling price (Note 1)	Total sales	Sales Volume	Average selling price (Note 1)	Total sales
		km/ tonne	*RMB per km/tonne*	*RMB'000*	*km/ tonne*	*RMB per km/tonne*	*RMB'000*	*km/tonne*	*RMB per km/tonne*	*RMB'000*
Finished wires and cables										
Copper power cables (銅製電力電纜) (Note 3, 5)	km	—	—	—	5	44,800	224	0.15	46,667	7
Steel reinforced aluminium bare cables (鋁製鋼芯鋁絞線)	tonne	830	13,542	11,240	6,332	12,348	78,190	3,875	12,343	47,831
Aluminium overhead power cables (鋁製架空電纜)	km	55	9,145	503	4,342	4,348	18,877	744	3,558	2,647
Aluminium medium and low voltage power cables (鋁製中低壓電力電纜)	km	19	19,579	372	95	20,663	1,963	2	28,500	57
Aluminium wires for electrical equipment (鋁製電氣裝備用電線)	km	219	5,726	1,254	624	2,923	1,824	—	—	—
Subtotal (finished wires and cables)				**13,369**			**101,078**			**50,542**
Semi-finished wires										
Bare aluminium wires (鋁線)	tonne	—	—	—	4,556	12,914	58,836	6	11,500	69
Copper and aluminium products										
Copper rods (銅桿) (Note 3,4)	tonne	373	45,794	17,081	344	45,500	15,652	—	—	—
Aluminium strips (鋁卷) (Note 3)	tonne	3,535	13,536	47,849	448	12,855	5,754	—	—	—
Subtotal (copper and aluminium products)				**64,930**			**21,406**			**—**
Others										
Cable accessories (電纜配套設備) (Note 6)		N/A	N/A	—	N/A	N/A	7,748	N/A	N/A	—
Total revenue				**78,299**			**189,068**			**50,611**

Notes:

1. Average selling price is derived from actual sales amount rounded to the nearest thousands divided by actual sales volume, while total sales is rounded to the nearest thousands.

2. Length (km) and weight (tonne) are two major measurements of units generally adopted by the market in accordance with the national standard.

3. During the Track Record Period, Guangyuan Tongchuang engaged in trading of copper power cables, copper rods and aluminium strips without manufacturing and processing. Per mutual agreement between the shareholders of Guangyuan Tongchuang, the mark up of the trading products sold to our Group was (i) at least RMB300 per tonne for aluminium products; and (ii) at least RMB400 per tonne for copper products, with credit period no longer than 60 days. As the sales volume of aluminium cables and wires increased significantly in FY2018, Guangyuan Tongchuang ceased the trading of aluminium strips and copper rods in March 2018 and May 2018 respectively.

4. The amount of copper rods sold by Guangyuan Tongchuang represented the copper materials purchased by Sichuan Saftower from Guangyuan Tongchuang for manufacturing and processing of copper wires and cables.

5. During the Track Record Period, Guangyuan Tongchuang purchased copper power cables from Sichuan Saftower for its Guangyuan Tongchuang's OEM customers.

6. Cables accessories sold were in measurement of various units subject to the requirements from customers, therefore average selling price was not applicable.

The increase in revenue for FY2018 was primarily due to (i) the significant increase in sales of finished wires and cables by RMB87.7 million or 6.5 times, from RMB13.4 million for FY2017 to RMB101.1 million for FY2018, mainly contributed by the significant increase in sales of steel reinforced aluminium bare cables and aluminium overhead power cables by RMB67.0 million, (ii) the commencement of sales of semi-finished wires in FY2018 which contributed a revenue of RMB58.8 million for FY2018, and (iii) the sales of cable accessories of RMB7.7 million, partially offset by the decrease in sales of copper and aluminium products by RMB43.5 million or 67.0%, from RMB64.9 million for FY2017 to RMB21.4 million for FY2018.

For the period ended 15 April 2019, Guangyuan Tongchuang generated revenue of RMB50.6 million, of which RMB47.8 million or 94.5% was derived from the sales of steel reinforced aluminium bare cables.

Finished wires and cables

Sales of steel reinforced aluminium bare cables and aluminium overhead power cables contributed the majority of revenue generated from this product segment.

- Steel reinforced aluminium bare cables

For FY2017, FY2018 and the period ended 15 April 2019, Guangyuan Tongchuang generated a revenue of RMB11.2 million, RMB78.2 million and RMB47.8 million respectively, from sales of steel reinforced aluminium bare cables. The increase of RMB67.0 million, or 6.0 times, for FY2018 was mainly due to the increase in sales volume by 6.6 times. The increase in sales volume from 830 tonnes for FY2017 to 6,332 tonnes for FY2018 was mainly attributable to (i) the increase in provision of subcontracting services to Sichuan Saftower by 4,417 tonnes from 785 tonnes for FY2017 to 5,202 tonnes for FY2018, mainly as a result of our significant sales order received from two new customers during FY2018 including Customer B, and (ii) the sales to a new OEM customer, Customer C, which is a wire and cable manufacturer located in Hangzhou city, contributed a sales of 945 tonnes steel reinforced aluminium bare cables in FY2018. The average selling price decreased by 8.8%, from RMB13,542/tonne for FY2017 to RMB12,348/tonne for FY2018, was mainly attributable to the decrease in market price of aluminium. The average selling price then remained relatively stable at RMB12,343/tonne for the period ended 15 April 2019.

- Aluminium overhead power cables

For FY2017, FY2018 and the period ended 15 April 2019, Guangyuan Tongchuang generated a revenue of RMB0.5 million, RMB18.9 million and RMB2.6 million respectively, from sales of aluminium overhead power cables. The increase of RMB18.4 million for FY2018 was mainly due to the increase in sales volume, partially offset by the decrease in average selling price. The increase in sales volume from 55 km for FY2017 to 4,348 km for FY2018 was mainly attributable to (i) the increase in provision of subcontracting services to Sichuan Saftower by 2,504 km from 55 km for FY2017 to 2,559 km for FY2018; and (ii) the sales to a new OEM customers which is engaged in the manufacturing and sales of wires and cables and located in Shandong Province, contributed a total sales of 1,781 km aluminium overhead power cables in FY2018. The average selling price decreased by 52.5% from RMB9,145/km for FY2017 to RMB4,348/km for FY2018, and further decreased to RMB3,558/km for the period ended 15 April 2019, was mainly attributable to the decrease in sales of aluminium overhead power cables with voltage of 10kV which carried a higher average price than that of 1kV.

Semi-finished wires

- Bare aluminium wires

Since early 2018, Guangyuan Tongchuang commenced its production of bare aluminium wires and generated a revenue of RMB58.8 million and RMB69,000 for FY2018 and the period ended 15 April 2019, respectively. For FY2018, among the customers of Guangyuan Tongchuang, Tibet Ecommerce Co., Ltd.* (西藏電子商務有限公司) was a new customer which engaged in construction materials trading business, contributed to the sales of 4,541 tonnes bare aluminium wires, amounted to RMB58.6 million, representing 99.7% of revenue derived from this product segment. For the period ended 15 April 2019, Guangyuan Tongchuang recorded no sales to this customer.

Copper and aluminium products

- Copper rods

For FY2017, FY2018 and the period ended 15 April 2019, Guangyuan Tongchuang generated a revenue of RMB17.1 million, RMB15.7 million and nil respectively, from trading of copper rods to Sichuan Saftower. For FY2017 and FY2018, the sales volume and average selling price of copper rods remained relatively stable. Since May 2018, Guangyuan Tongchuang ceased the trading of copper rods as the sales volume of aluminium cables and wires increased significantly in FY2018 and occupied the resources of Guangyuan Tongchuang.

- Aluminium strips

For FY2017, FY2018 and the period ended 15 April 2019, Guangyuan Tongchuang generated a revenue of RMB47.9 million, RMB5.8 million and nil, from trading of aluminium strips. Since March 2018, Guangyuan Tongchuang ceased the trading of aluminium strips as the sales volume of aluminium cables and wires increased significantly in FY2018 and occupied the resources of Guangyuan Tongchuang.

Others

- Cable accessories

Guangyuan Tongchuang also sold cable accessories during FY2018, which amounted to RMB7.7 million, to Litai Energy to facilitate their use and installment of cables and for replacement of their cable equipment.

Revenue by type of customers

The following table sets out the revenue of Guangyuan Tongchuang by type of customers for the indicated periods:

	FY2017		**FY2018**		**Period ended 15 April 2019**	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Sichuan Saftower	29,767	38.0	93,108	49.3	28,018	55.4
Guangyuan Saftower	16,134	20.6	1,365	0.7	—	—
Sub-total	45,901	58.6	94,473	50.0	28,018	55.4
External customers *(Note)*	32,398	41.4	94,595	50.0	22,593	44.6
	78,299	100.0	189,068	100.0	50,611	100.0

Note: External customers mainly include wires and cables manufacturers.

For FY2017, FY2018 and the period ended 15 April 2019, Guangyuan Tongchuang mainly engaged in providing OEM manufacturing of finished aluminium wires and cables and trading of copper and aluminium products to external customers and our Group. Sichuan Saftower engaged Guangyuan Tongchuang mainly for subcontracting of finished aluminium wires and cables and sourcing of copper products for further processing of copper wires and cables, and Guangyuan Saftower engaged Guangyuan Tongchuang mainly for sourcing of aluminium products for its trading business.

As illustrated in the table above, the increase in revenue of Guangyuan Tongchuang for FY2018 was mainly due to (i) the increase in sales to Sichuan Saftower because of its increased sales which drove the demand for the subcontracting services provided by Guangyuan Tongchuang, and (ii) the increase in sales to external customers, mainly attributable to the significant sales to new customers approached after the commencement of commercial production and operation, and its full year operation in FY2018. Among the customers of Guangyuan Tongchuang for FY2018, the five largest customers, except for our Group (the largest), are all new customers (including Company A), altogether contributed a revenue of RMB87.9 million, or 46.5% of total revenue, to Guangyuan Tongchuang in FY2018. Such increase was partially offset by the decrease in sales to Guangyuan Saftower. It was mainly because Guangyuan Tongchuang ceased the trading of aluminium strips, and expanded its OEM business in view of expanded customer base and terminated the trading business to retain sufficient financial resources for purchase of aluminium materials for manufacturing and further processing of aluminium wires and cables as evidenced by the significantly increased sales volume of aluminium cables and wires in FY2018.

Cost of sales

The following table sets forth the breakdown of the cost of sales of Guangyuan Tongchuang for the indicated periods:

	FY2017		**FY2018**		**Period ended 15 April 2019**	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Aluminium material	9,580	12.6	130,526	73.1	39,319	83.6
Copper product *(Note 1)*	16,953	22.2	15,496	8.7	—	—
Aluminium product *(Note 2)*	46,646	61.1	5,638	3.1	—	—
Steel wires	1,292	1.7	10,701	6.0	4,923	10.5
Staff cost	353	0.5	1,922	1.1	482	1.0
Others *(Note 2)*	1,481	1.9	14,231	8.0	2,329	4.9
	76,305	100.0	178,514	100.0	47,053	100.0

Notes:

(1) It mainly represented copper products sourced for Sichuan Saftower for further processing of copper wires and cables. Such transaction ceased in May 2018.

(2) It mainly represented aluminium products sourced for trading with external customers and our Group. Such transaction ceased in March 2018.

(3) Others mainly include PVC and other materials, depreciation, utilities, etc.

For FY2017, FY2018 and the period ended 15 April 2019, Guangyuan Tongchuang's cost of sales comprised 97.5%, 94.4% and 93.0% of its revenue, respectively. For FY2017, Guangyuan Tongchuang was principally engaged in trading of aluminium strips and hence aluminium product was a major cost component. Cost of sourcing aluminium product became less significant in FY2018 as sales of aluminium strips decreased significantly. During FY2018 and the period ended 15 April 2019, aluminium material was the major cost of sales for the corresponding periods as Guangyuan Tongchuang was principally engaged in the manufacturing and sale of finished aluminium wires and cables for us and external customers on OEM basis.

Gross profit and gross profit margin

	FY2017		FY2018		Period ended 15 April 2019	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Sichuan Saftower	859	2.9	4,818	5.2	1,432	5.1
Guangyuan Saftower	306	1.9	(9)	N/A	—	—
Sub-total	1,165	2.5	4,809	5.1	1,432	5.1
External customers *(Note)*	829	2.6	5,745	6.1	2,126	9.4
	1,994	2.5	10,554	5.6	3,558	7.0

Note: External customers mainly include wires and cables manufacturers.

The following table sets forth the gross profit and gross profit margin by type of products:

	FY2017		FY2018		Period ended 15 April 2019	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Finished wires and cables						
Copper power cables (銅製電力電纜)	—	—	10	4.5	0.13	1.9
Steel reinforced aluminium bare cables (鋁製鋼芯鋁絞線)	447	4.0	3,888	5.0	3,053	6.4
Aluminium overhead power cables (鋁製架空電纜)	90	17.9	3,145	16.7	489	18.5
Aluminium medium and low voltage power cables (鋁製中低壓電力電纜)	27	7.3	162	8.3	12	21.1
Aluminium wires for electrical equipment (鋁製電氣裝備用電線)	99	7.9	184	10.1	—	—
Subtotal (finished wires and cables)	**663**	**5.0**	**7,389**	**7.3**	**3,554**	**7.0**
Semi-finished wires						
Bare aluminium wires (鋁線)	—	—	1,392	2.4	4	5.8
Copper and aluminium products						
Copper rods (銅桿)	128	0.7	157	1.0	—	—
Aluminium strips (鋁卷)	1,203	2.5	116	2.0	—	—
Subtotal (copper and aluminium products)	**1,331**	**2.0**	**273**	**1.3**	**—**	**—**
Others						
Cable accessories (電纜配套設備)	—	—	1,500	19.4	—	—
Total/overall	**1,994**	**2.5**	**10,554**	**5.6**	**3,558**	**7.0**

Guangyuan Tongchuang's gross profit increased by RMB8.6 million or 4.3 times from RMB2.0 million in FY2017 to RMB10.6 million in FY2018, and Guangyuan Tongchuang's gross profit margin increased from 2.5% to 5.6% mainly attributable to (i) the full year operation in FY2018; (ii) the economies of scales of production; and (iii) increased purchase orders from OEM customers for finished aluminium wires and cables which carried a higher average selling price and higher gross profit margin as compared to copper and aluminium products with lower profitability as they were trading in nature which contributed the majority of revenue for FY2017. For the period ended 15 April 2019, Guangyuan Tongchuang recorded gross profit of RMB3.6 million and the gross profit margin increased to 7.0% primarily because Guangyuan Tongchuang sold more wires and cables with higher average prices and ceased the trading business of copper and aluminium products.

Other income and gains

Other income and gains mainly comprised scrap sales, government grants and subsidies and interest income. For FY2017, FY2018 and the period ended 15 April 2019, Guangyuan Tongchuang recorded other income and gains of RMB0.1 million, RMB0.8 million and RMB0.3 million, respectively. The increase of RMB0.7 million in FY2018 was mainly due to (i) the increase in scrap sales from RMB77,000 for FY2017 to RMB0.6 million for FY2018, as a result of the increase in sales and production of wires and cables which created more scrap metals and consumables, and (ii) a government grants and subsidies of RMB0.2 million.

Selling and distribution expenses

Selling and distribution expenses mainly comprised (i) transportation expenses, (ii) staff wages and benefits, and (iii) entertainment and travel. For FY2017, FY2018 and the period ended 15 April 2019, Guangyuan Tongchuang recorded selling and distribution expenses of RMB89,000, RMB2.0 million and RMB0.7 million, respectively. The table below sets the breakdown of selling and distribution expenses of Guangyuan Tongchuang for the indicated periods:

	FY2017	**FY2018**	**Period ended 15 April 2019**
	RMB'000	*RMB'000*	*RMB'000*
Transportation expenses	6	1,711	598
Staff wages and benefits	43	191	62
Entertainment and travel expenses	26	53	23
Others	14	78	7
	89	2,033	690

Since the Tongchuang Plant commenced production in September 2017 and only incurred four months operating expenses for FY2017, Guangyuan Tongchuang recorded significant increase in selling and distribution expenses in FY2018 due to its expanded sales of aluminium wires and cables. For FY2018 and the period ended 15 April 2019, transportation expenses accounted for over 80% of the total distribution costs as Guangyuan Tongchuang was responsible for the shipping to customers. For FY2017, the first year after its commencement of commercial operation, Guangyuan Tongchuang was mainly engaged in trading of aluminium strips with a view to develop business relationship with aluminium suppliers, which the delivery of aluminium strips was mainly arranged by its suppliers, and hence its transportation expenses was relatively insignificant.

Administrative and other expenses

For FY2017, FY2018 and the period ended 15 April 2019, Guangyuan Tongchuang recorded administrative and other expenses of RMB1.5 million, RMB4.2 million and RMB1.2 million, respectively. The table below sets the breakdown of administrative and other expenses of Guangyuan Tongchuang for the indicated periods:

	FY2017	**FY2018**	**Period ended 15 April 2019**
	RMB'000	*RMB'000*	*RMB'000*
Staff wages and benefits	598	1,833	430
Depreciation	479	1,484	438
Utilities	22	185	105
Entertainment and travel	14	75	24
Legal and professional fees	7	97	63
Repairs and maintenance	13	76	85
Office expenses	24	53	20
Others *(Note)*	300	369	78
	1,457	4,172	1,243

Note: Others administrative expenses mainly included cleaning fees, inspection fees, printing and advertisement.

Since Tongchuang Plant commenced production in September 2017 and only incurred four months operating expenses for FY2017, Guangyuan Tongchuang recorded significant increase in administrative and other expenses in FY2018 due to its full year operation. For FY2017, FY2018 and the period ended 15 April 2019, administrative and other expenses represented 1.9%, 2.2% and 2.5% of total revenue of Guangyuan Tongchuang.

Finance costs

For FY2017, FY2018 and the period ended 15 April 2019, Guangyuan Tongchuang recorded finance costs of RMB0.2 million, RMB0.7 million and RMB0.3 million, respectively. Finance costs mainly comprised interest expenses on lease liabilities of RMB0.2 million, RMB0.7 million and RMB0.2 million, arising from the properties leased from Guangyuan Saftower respectively, for the corresponding periods.

Income tax expense

Under the law of the PRC on EIT Law and implementation Regulation of the EIT Law, the tax rate of Guangyuan Tongchuang was 25%. Guangyuan Tongchuang is subject to 10% income tax concession due to preferential tax policy of the development of the western region fulfilled. According to "Circular on Issues Concerning Relevant Tax Policies in Deepening the Implementation of the Western Development Strategy" (《關於深入實施西部大開發戰略有關稅收政策問題的通知》) (Cai Shui [2011] No. 58) (財稅[2011]58號), from 1 January 2011 to 31 December 2020, the EIT imposed upon any enterprise established in western regions and included among the encouraged industries shall be collected at the reduced rate of 15%.

For FY2017, FY2018 and the period ended 15 April 2019, Guangyuan Tongchuang recorded income tax expenses of RMB48,000, RMB0.6 million and RMB0.2 million, respectively, and the effective tax rate remained stable at 15.4%, 14.2% and 15.0%, respectively, for the corresponding periods. The effective tax rates were lower than the 25% statutory tax rate was due to tax concession as discussed above.

Profit for the year/period

Due to the combined effect of the aforementioned, Guangyuan Tongchuang recorded net profit of RMB0.3 million, RMB3.9 million and RMB1.3 million, respectively, and net profit margin of 0.3%, 2.0% and 2.6%, respectively, for FY2017, FY2018 and the period ended 15 April 2019. The increase in net profit margin was mainly due to the increase in sales of aluminium wires and cables carrying a higher profit margin than trading of copper and aluminium products.

CURRENT ASSETS AND CURRENT LIABILITIES

The following table sets out details of Guangyuan Tongchuang's current assets and current liabilities as at 31 December 2017, 31 December 2018 and 15 April 2019, which are extracted from the Accountants' Report set out in Appendix I to this prospectus.

	As at 31 December 2017	As at 31 December 2018	As at 15 April 2019
	RMB'000	*RMB'000*	*RMB'000*
Current assets			
Inventories	5,030	6,766	16,973
Trade and bills receivables	24,438	51,198	30,427
Prepayments, deposits and other receivables	6,766	5,464	4,873
Amount due from a shareholder	10,000	10,000	10,000
Cash and cash equivalents	919	176	90
	47,153	73,604	62,363
Current liabilities			
Contract liabilities	133	194	3,663
Trade payables	4,380	25,458	12,061
Accruals and other payables	333	895	756
Borrowings	—	1,300	—
Lease liabilities	1,123	1,193	1,211
Income tax payable	48	353	283
	6,017	29,393	17,974
Net current assets	41,136	44,211	44,389

Guangyuan Tongchuang's net current assets increased from RMB41.1 million as at 31 December 2017 to RMB44.2 million as at 31 December 2018. The increase of RMB3.1 million was primarily due to the increase in trade receivables by RMB26.8 million, offset by the increase in trade payables by RMB21.1 million. Such increase in trade receivables and trade payables were mainly as a result of the increased sales and purchases throughout the full year operation in FY2018.

Guangyuan Tongchuang's net current assets remained stable at RMB44.4 million as at 15 April 2019.

Inventories

The following table sets forth the components of its inventories as at the dates indicated:

	As at 31 December		As at 15 April
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Raw materials	988	2,474	5,164
Work-in-progress	1,930	1,492	11,537
Finished goods	2,112	2,800	272
	5,030	6,766	16,973

Guangyuan Tongchuang's inventories increased from RMB5.0 million as at 31 December 2017 to RMB6.8 million as at 31 December 2018, which is in line with its revenue growth during the corresponding periods. The inventories further increased to RMB17.0 million as at 15 April 2019 which was mainly due to the work-in-progress sales orders of aluminium wires and cables placed by certain OEM customers included but not limited to Customer B and our Group.

Set out below is the inventory turnover days of Guangyuan Tongchuang for the indicated periods:

	FY2017	FY2018	Period ended 15 April 2019
Inventory turnover days *(Note)*	6	13	27

Note: Guangyuan Tongchuang was incorporated on 14 July 2017 therefore we calculate inventory turnover days by dividing average inventories by cost of sales and multiplied by 171 days, 365 days and 105 days for each of FY2017, FY2018 and period ended 15 April 2019, respectively. Average inventories is calculated by dividing the sum of inventories at the beginning of the period and inventories at the end of the period by two.

Guangyuan Tongchuang's inventory turnover days remained low at 6 days and 13 days for FY2017 and FY2018, and increased to 27 days for the period ended 15 April 2019 primarily due to the increased inventories at work-in-progress stage to fulfil the customer demand as at 15 April 2019.

Trade and bill receivables

The following table sets forth trade and bill receivables of Guangyuan Tongchuang as at the dates indicated:

	As at 31 December		**As at 15 April**
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables			
— Due from third parties	86	16,532	11,921
— Due from a related party	24,352	32,666	8,506
	24,438	49,198	20,427
Bills receivables	—	2,000	10,000
	24,438	51,198	30,427

The credit terms granted to customers range generally from nil to 90 days.

As at 31 December 2017, 2018 and 15 April 2019, Guangyuan Tongchuang's trade and bill receivables amounted to RMB24.4 million, RMB51.2 million and RMB30.4 million, respectively, out of which 99.6%, 63.8% and 28.0% are due from a related party for the products sold.

The following table sets forth the turnover days of trade receivables of Guangyuan Tongchuang for the indicated periods:

	FY2017	**FY2018**	**Period ended 15 April 2019**
Trade receivables turnover days *(Note)*	27	71	73

Note: Guangyuan Tongchuang was incorporated on 14 July 2017 therefore we calculate trade receivable turnover days by dividing average trade receivables by revenue and multiplied by 171 days, 365 days and 105 days for each of FY2017, FY2018 and period ended 15 April 2019, respectively. Average trade receivables is calculated by dividing the sum of trade receivables at the beginning of the period and trade receivables at the end of the period by two.

Guangyuan Tongchuang's trade receivables turnover days increased from 27 days for FY2017 to 71 days for FY2018 and 73 days for the period ended 15 April 2019 primarily due to increased revenue for FY2018 and we allowed longer credit period during such period.

An ageing analysis of Guangyuan Tongchuang's trade receivables (before provision) as at the dates indicated, based on the invoice date, is as follows:

	As at 31 December		As at 15 April
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Less than 60 days	24,438	34,116	14,916
61 days to 180 days	—	15,082	675
181 days to 365 days	—	—	4,836
	24,438	49,198	20,427

An ageing analysis of Guangyuan Tongchuang's trade receivables (net of provision) which are not impaired as at the dates indicated, based on due date, is as follows:

	As at 31 December		As at 15 April
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Neither past due nor impaired	22,444	29,088	11,348
Past due 1 to 60 days	1,994	20,110	3,568
Past due 61 to 180 days	—	—	5,511
	24,438	49,198	20,427

Prepayments, deposits and other receivables

Guangyuan Tongchuang's prepayments, payments to suppliers, deposits and other receivables amounted to RMB6.2 million, RMB4.9 million and RMB4.9 million as at 31 December 2017, 2018 and 15 April 2019, respectively. Other receivables mainly comprised value-added tax refundable amounted to RMB3.2 million, RMB1.6 million and RMB3.2 million. The following table sets forth the prepayments, deposits and other receivables as at the dates indicated:

	As at 31 December		As at 15 April
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Current:			
Prepayments	1,412	1,371	856
Prepayments to suppliers	1,481	1,104	1
Deposits	—	175	175
Other receivables	3,873	2,814	3,841
	6,766	5,464	4,873

Amount due from a shareholder

The amounts due from a shareholder are unsecured, non-interest bearing and repayable on demand. Such amount represented the registered capital payable by Mr. Li Zhanwei, amounted to RMB10.0 million, RMB10.0 million and RMB10.0 million, respectively, as at 31 December 2017, 2018 and 15 April 2019.

Contract liabilities

Guangyuan Tongchuang contract liabilities represent advance consideration received from customers as at the date indicated.

	As at 31 December		As at 15 April
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Contract liabilities	133	194	3,663

Trade payables

The following table sets forth the trade payables as at the dates indicated:

	As at 31 December		As at 15 April
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Trade payables			
— Due to third parties	4,380	25,458	11,259
— Due to related parties	—	—	802
	4,380	25,458	12,061

The credit period on purchase from suppliers is generally ranging from nil to 120 days as at the end of each of reporting period.

The following table sets forth the turnover days of trade payables of Guangyuan Tongchuang for the indicated periods:

	FY2017	**FY2018**	**Period ended 15 April 2019**
Trade payables turnover days *(Note)*	5	31	42

Note: Guangyuan Tongchuang was incorporated on 14 July 2017, therefore we calculate trade payables turnover days by dividing average trade payables by cost of sales and multiplied by 171 days, 365 days and 105 days for each of FY2017, FY2018 and period ended 15 April 2019, respectively. Average trade payables is calculated by dividing the sum of trade payables at the beginning of the period and trade payables at the end of the period by two.

Guangyuan Tongchuang's trade payables turnover days increased from 5 days for FY2017 to 31 days for FY2018, and further increased to 42 days for the period ended 15 April 2019, which is within the credit period and such increase was mainly related to Guangyuan Tongchuang's building up of stable relationship with major suppliers allowing longer credit period.

An ageing analysis of the Guangyuan Tongchuang's trade payables based on invoice date as at the end of each of the dates indicated, is as follows:

	As at 31 December		As at 15 April
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Less than 60 days	3,965	23,134	9,958
61 days to 180 days	415	1,679	2,000
181 days to 365 days	—	638	96
Over 365 days	—	7	7
	4,380	25,458	12,061

Accruals and other payables

The following tables sets forth the accruals and other payables as at the dates indicated:

	As at 31 December		As at 15 April
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Other payables *(Note)*			
— Due to third parties	10	415	691
— Due to a related party	—	—	3
Accrued expenses	294	459	62
Other taxes payable	29	21	—
	333	895	756

Note: Other payables mainly included logistic fees incurred and other accessories purchased but not yet paid.

Due to the expanded production scale and full year operation in 2018, accruals and other payables of Guangyuan Tongchuang increased from RMB0.3 million as at 31 December 2017 to RMB0.9 million as at 31 December 2018. Accruals and other payables slightly decreased to RMB0.8 million as at 15 April 2019.

Borrowings

	As at 31 December		As at 15 April
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Current liabilities			
Other borrowing	—	1,300 Note 1	— Note 2

The borrowings is scheduled to repay as follows:

	As at 31 December		As at 15 April
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
On demand or within one year	—	1,300 Note 1	— Note 2

The following table details the interest rate profile of borrowings at the end of each of the reporting period:

	FY2017	**FY2018**	**Period ended 15 April 2019**
On demand or within one year	—	— Note 1	13% Note 2

Notes:

1. As at 31 December 2018, Guangyuan Tongchuang recorded a borrowing of RMB1.3 million, which was interest-free, unsecured, unguaranteed and repayable within 10 days. The lender is an Independent Third Party which is a state-owned enterprise. Such borrowing was made on 26 December 2018 and repaid on 4 January 2019.

2. During the period ended 15 April 2019, Guangyuan Tongchuang had a borrowing of RMB6.0 million from Tongsheng Guochuang, with effective interest rate of 13% per annum. Such borrowing was made on 7 January 2019 and repaid on 6 February 2019.

Save as disclosed, Guangyuan Tongchuang had no other borrowings for FY2017, FY2018 and the period ended 15 April 2019.

Lease liabilities

The following table sets forth the lease liabilities as at the dates indicated:

	As at 31 December		As at 15 April
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Lease liabilities			
Current portion	1,123	1,193	1,211
Non-current portion	12,692	11,499	11,139
	13,815	12,692	12,350

NON-CURRENT ASSETS

Property, plant and equipment

Guangyuan Tongchuang's property plant and equipment comprised (i) machinery, (ii) computer and office equipment, (iii) furniture and fittings, and (iv) motor vehicles. The following table sets forth the carrying value of property, plant and equipment as at the dates indicated:

	As at 31 December		As at 15 April
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Plant and machinery	17,714	17,110	18,352
Computer and office equipment	372	508	486
Furniture and fixtures	14	48	42
Motor vehicles	3	3	3
	18,103	17,669	18,883

Right of use assets

Guangyuan Tongchuang's right of use assets comprised the lease of buildings. The balance as at 31 December 2017, 2018 and 15 April 2019 was RMB13.7 million, RMB12.3 million and RMB11.9 million.

LIQUIDITY

The following table summarises selected cash flows data from Guangyuan Tongchuang's statements of cash flows for the indicated periods:

	FY2017	FY2018	Period ended 15 April 2019
	RMB'000	*RMB'000*	*RMB'000*
Operating profit before working capital changes	1,173	7,353	2,515
Net cash flows (used in)/generated from operating activities	(27,179)	1,525	3,296
Net cash flows used in investing activities	(405)	(364)	(1,439)
Net cash generated from/(used in) financing activities	28,503	(1,904)	(1,943)
Net increase/(decrease) in cash and cash equivalents	919	(743)	(86)
Cash and cash equivalents at beginning of year/period	—	919	176
Cash and cash equivalents at end of year/period	919	176	90

Net cash flows (used in)/generated from operating activities

For FY2017, FY2018 and the period ended 15 April 2019, Guangyuan Tongchuang derived cash inflow from operating activities principally from the receipts from the sales of products. Tongchuang's cash outflow was principally on purchases of raw materials and other operating expenses.

For FY2017, Guangyuan Tongchuang had net cash used in operating activities of RMB27.2 million. Its cash flow generated from operations primarily consisted of profit before income tax expenses of RMB0.3 million, adjusted by reconciliation of non-cash items of RMB0.9 million and negative changes in working capital, which mainly include (i) an increase in trade receivables of RMB24.4 million, (ii) an increase in inventories of RMB5.0 million, (iii) an increase in prepayments, deposits and other receivables of RMB3.7 million; and partially offset by an increase in trade payables of RMB4.4 million.

For FY2018, Guangyuan Tongchuang had net cash generated from operating activities of RMB1.5 million. Its net cash inflow was attributable to cash flow generated from operations of RMB1.9 million and partially offset by the income tax paid of RMB0.3 million. Its cash flow generated from operations primarily consisted of income before income tax of RMB4.5 million, adjusted by reconciliation of non-cash items of RMB2.9 million and negative changes in working capital, which mainly include (i) an increase in trade receivables of RMB26.8 million, (ii) an increase in inventories of RMB1.7 million; partially offset by (i) increase in trade and bill payables of RMB21.0 million and (ii) a decrease in prepayments, deposits and other receivables of RMB1.3 million.

For the period ended 15 April 2019, Guangyuan Tongchuang had net cash generated from operating activities of RMB3.3 million. Its net cash inflow was attributable to cash flow generated from operations of RMB3.6 million and partially offset by the income tax paid of RMB0.3 million. Its cash flow generated from operations primarily consisted of income before income tax of RMB1.6 million, adjusted by reconciliation of non-cash items of RMB0.9 million and positive changes in working capital, which mainly include (i) a decrease in trade receivables of RMB20.8 million, (ii) an increase in contract liabilities of RMB3.5 million; partially offset by (i) a decrease in trade payables of RMB13.4 million and (ii) an increase in inventories of RMB10.2 million.

Net cash flows used in investing activities

For FY2017, FY2018 and the period ended 15 April 2019, Guangyuan Tongchuang's cash outflow for investing activity was for purchase of property, plant and equipment. Guangyuan Tongchuang's cash inflow for investing activity was from interest received.

Net cash flows used in investing activities for FY2017 was RMB0.4 million, which was due to the purchase of property, plant and equipment of RMB0.4 million, and partially offset by the interest received of RMB28,000.

Net cash flows used in investing activities for FY2018 was RMB0.4 million, which was due to the purchase of property, plant and equipment of RMB0.4 million.

Net cash flows used in investing activities for the period ended 15 April 2019 was RMB1.4 million, which was due to the purchase of property, plant and equipment of RMB1.4 million.

Net cash from/(used in) financing activities

For FY2017, FY2018 and the period ended 15 April 2019, Guangyuan Tongchuang's cash outflow for financing activities was principally repayment of lease liabilities, interest paid on lease liabilities, dividend paid and repayment of borrowings. Guangyuan Tongchuang's cash inflow was principally proceeds from borrowings and proceeds from issuance of ordinary shares.

Net cash from financing activities for FY2017 was RMB28.5 million, which was primarily due to proceed from issuance of ordinary shares of RMB29.1 million, comprised of RMB26.0 million from Tongsheng Guochuang and RMB3.1 million from Guangyuan Saftower.

Net cash used in financing activities for FY2018 was RMB1.9 million, which was primarily due to dividend paid of RMB1.4 million and repayment of lease liabilities of RMB1.8 million, and partially offset by proceeds from borrowings of RMB1.3 million.

Net cash used in financing activities for the period ended 15 April 2019 was RMB1.9 million, which was primarily due to the net repayment of borrowings of RMB1.3 million and repayment of lease liabilities of RMB0.5 million.

BUSINESS OBJECTIVES AND STRATEGIES

Our key business objectives are to continue to become the leading wire and cable supplier in Sichuan Province and a major player in Southwestern Region of the PRC, and to further strengthen our position in the wire and cable and aluminium products industries in the PRC. To achieve our objectives, we plan to implement a series of business strategies. For details, see "Business — Business Strategies" in this prospectus.

IMPLEMENTATION PLANS

Our Directors have drawn up an implementation plan during the period up to 31 December 2020 with a view to developing ourselves along our business strategies for achieving our business objectives. The detailed implementation plan and expected timetable for the implementation of the plan with respect to items requiring us to make material financial commitments are summarised below. We intend to apply all our proceeds by 31 December 2020.

Investors should note that the following implementation plans are formulated on the bases and assumptions referred to in the paragraph headed "Bases and assumptions" below. These bases and assumptions are inherently subject to uncertainties and unpredictable factors, in particular the risk factors set forth in "Risk Factors" in this prospectus. Our actual course of business may vary from the business objective set out in this prospectus. There is no assurance that our plans will materialise in accordance with our expected time frame or that our objective will be accomplished at all.

In line with our business strategies, we currently intend to apply the net proceeds from the Share Offer, assuming an Offer Price of HK$0.325 per Share (being the mid-point of the Offer Price range of HK$0.25 to HK$0.40 per Shares) for the following purposes:

Business strategies	**Implementation activities**	**Use of proceeds** *Approximately* *HK$'million*
Expanding our existing production facilities and production plant	• Purchasing a high speed production line for aluminium alloy for our Guangyuan Plant	3.4
	• Purchasing 3 rigid stranding machines for our Guangyuan Plant	3.6
	• Purchasing one inspection equipment for our Guangyuan Plant	1.3
	• Construct additional manufacturing sites at Guangyuan Plant	7.1

Business strategies	Implementation activities	Use of proceeds *Approximately HK$'million*
Repaying part of our existing loan	• Repaying part of our existing loan borrowed by Guangyuan Saftower	7.0
Funding the upfront costs for the commercial production of Shuneng Plant	• Initial capital for upfront costs of Shuneng Plant	2.8
Working Capital	• General working capital	2.8
		28.0

REASONS FOR LISTING

Our Directors believe that the Listing will greatly benefit our Group based on the following reasons:

Facilitating the implementation of our business strategies by accessing the international capital market for fund raising in Hong Kong

Sichuan Saftower ceased to be quoted on the NEEQ in June 2018. The NEEQ is a market in the PRC open to qualified investors only, including PRC corporate or partnership enterprise investors with paid-up capital of more than RMB5 million, PRC natural persons with average daily financial assets within the latest 10 trading days over RMB5 million and have experience in securities, funds, futures investments for more than two years or have more than two years of relevant working experience, and qualified PRC and foreign institutional investors. In addition, the NEEQ adopts a market maker, negotiated transfer or investor competing transfer trading mechanism rather than continuous auction mechanism, which, in the view of our Directors, significantly limits investor discovery and order execution. The nature of the NEEQ and its relatively low trading could make it difficult to identify and establish the fair value of Sichuan Saftower to reflect our competitive strengths which differentiate us from our competitors. For details of Sichuan Saftower's prior quotation on the NEEQ and the NEEQ Delisting, see "History, Development and Reorganisation — Prior Listing on the NEEQ and the Delisting" in this prospectus.

In contrast, the Stock Exchange, as a leading player of the international financial markets, could offer us a direct access to the international capital markets, enhance our fund-raising capabilities and channels and broaden our Shareholders base. Accordingly, the Listing would provide us with a viable source of capital to support our business growth.

As stated in "Business — Business Strategies" in this prospectus, we intend to achieve our business objectives by expanding our scale of operation through our effort in approaching existing and potential customers for potential business opportunities. We intend to further enhance our Group's existing production facilities and install three new production lines, as well as to inject additional capital to Guangyuan Shuneng to fund the upfront costs in preparation for the commencement of commercial production of Shuneng Plant. These implementation plans require considerable additional financial resources and we intend to finance these by utilising 55.0% and 10.0%, respectively of net proceeds from the Listing.

In addition, the Listing would provide our Group with opportunities to raise fund through secondary fund-raising exercises after the Listing for our future expansion plans through the issuance of equity and/or debt securities, which we expect will assist our future business development, strengthen our competitiveness and improve our operating and financial performance to enhance shareholder's return.

The availability of debt financing

During the Track Record Period, we mainly utilised our banking facilities, internal resources and advances from our shareholders for our business operations. As at 31 December 2019, our borrowings amounted to RMB99.2 million, of which RMB95.5 million were repayable within one year and secured by (i) assets of our Group including land and buildings, rights to collect trade receivables and plant and machinery; and (ii) personal properties and assets of our Directors or key management personnel and their close family member, certain employees and certain independent third parties, which will be released and replaced by corporate guarantee or otherwise settled in full before or upon Listing. Our gearing ratio reached 123.5%, 107.7% and 71.5% as at 31 December 2017, 2018 and 2019 and is generally higher than that of the listed peers. In addition, further debt financing was unlikely to be available as at the Latest Practicable Date in view of our limited collateral available for pledging. Our Directors also consider that the interest expenses would impose additional financial burden on our Group, expose our Group to interest rate risks and further increase the gearing level of our Group. As a result, we plan to utilise part of the net proceeds from the Share Offer to repay a loan which bears higher interest rate to save interest expenses. Taking into account our existing level of debt financing and interest expenses, our Directors are of the view that the equity financing by way of Listing which will provide us with immediately available fund to finance the implementation of our Group's business plans and future operation is a more attractive option than debt financing at this juncture.

Gaining higher corporate profile, visibility and strengthening our competitiveness

Our Directors believe that achieving a listing status with transparent financial disclosures would enhance our credibility with our customers, suppliers, banks and creditors, which in turn will strengthen our bargaining position in future negotiations with them. With a listing status, our Group can be differentiated from other competitors and strengthen our business relationships with new and existing customers, obtaining more favourable terms from banks and longer credit terms from suppliers, which will improve our results of operation as well as financial condition. Also, we obtain most of our business through giving quotations or participating in tenders, and reputation and corporate profile of the candidate are often the major selection criterion of our customer. Our current and prospective customers, which consist of listed companies or state-owned or state-invested companies, may prefer to deal with suppliers that are listed public companies that are transparent, have established track records and are subject to ongoing corporate governance regulatory compliance and reporting requirements. We therefore consider that an enhanced corporate profile and increased exposure through Listing are important factors in succeeding in our industry.

Attracting and retaining talents

We believe that the Listing is considered to be one of the primary channels through which our employees would be able to share our success and achievement and be committed to the performance and continual success of our Group. We rely on experienced management personnel to support our daily operations. Human resources and talents are vital to our business. Our Directors believe that the Listing status can potentially enable our Company to devise share incentive plan and thus can help us strengthen our manpower and attract, recruit and retain our valued management personnel and skilled employees. Taking into consideration of the above, our Directors believe that the Listing is beneficial to our Company and its Shareholders as a whole.

USE OF PROCEEDS

Assuming an Offer Price of HK$0.325 per Share (being the mid-point of the Offer Price range of HK$0.25 to HK$0.40 per Share), the net proceeds from the Share Offer, after deducting the underwriting fees and estimated expenses borne by us in connection with the Share Offer, are estimated to be HK$28.0 million.

Our Directors presently intend that the net proceeds from the Share Offer will be applied as follows:

Expansion plans	From the Listing Date to 31 December 2020	For the six months ending 30 June 2021	For the six months ending 31 December 2021	For the six months ending 30 June 2022	Total	Percentage of use of net proceeds
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*%*
Expanding our existing production facilities and production plant	15,400	—	—	—	15,400	55.0%
Repaying part of our existing loan	7,000	—	—	—	7,000	25.0%
Funding the upfront costs for the commercial production of Shuneng Plant	2,800	—	—	—	2,800	10.0%
General working capital	2,800	—	—	—	2,800	10.0%
Total	**28,000**	**—**	**—**	**—**	**28,000**	**100%**

The above represents our intended use of proceeds from the Listing Date and up to 30 June 2022. We intend to apply all our net proceeds from the Share Offer by 31 December 2020. Any shortfall in our capital requirement for the expansion plans set out above will be financed by our internal resources or bank financing as appropriate.

Assuming that the Offer Size Adjustment Option is not exercised, in the event that the Offer Price is set at the high-end of the indicative Offer Price range, the net proceeds from the Share Offer will increase to HK$41.5 million. Assuming that the Offer Size Adjustment Option is not exercised, in the event that the Offer Price is set at the low-end of the indicative Offer Price range, the net proceeds from the Share Offer will decrease to HK$14.5 million. The net proceeds will be used in the same proportions as disclosed above irrespective of (i) whether the Offer Price is determined at the high-end or the low-end of the indicative Offer Price range; and (ii) whether the Offer Size Adjustment Option is exercised. To the extent our net proceeds are either more or less than expected, we will continue to use the net proceeds in the same proportions as disclosed above.

If the Offer Size Adjustment Option is exercised in full, the net proceeds from the Share Offer are estimated to increase to: (i) HK$53.3 million, assuming the Offer Price is fixed at the high-end of the indicative Offer Price range, being HK$0.40 per Offer Share; (ii) HK$37.8 million, assuming the Offer Price is fixed at the mid-point of the indicative Offer Price range, being HK$0.325 per Offer Share; and (iii) HK$22.2 million, assuming the Offer Price is fixed at the low-end of the indicative Offer Price range, being HK$0.25 per Offer Share. Our Directors presently intend to apply any such additional net proceeds from the exercise of the Offer Size Adjustment Option for the above purposes (except for the amount of the net proceeds allocated for the repayment of part of our existing loan which will remain unchanged), on a pro-rata basis in the table.

To the extent that the net proceeds from the Share Offer are not immediately required for the purposes above, it is our present intention that such net proceeds will be placed on short-term interest bearing deposits with authorised financial institutions or converted into other money market instruments for treasury purposes.

Should our Directors decide to re-allocate the intended use of proceeds to other business plans and/or new project of our Group to a material extent and/or there is to be any material modifications to the use of proceeds as described above, we will issue an announcement in accordance with the GEM Listing Rules.

Set forth below are the details of our expansion plans which are intended to be funded with the net proceeds from the Share Offer:

Expanding our existing production facilities and production plant

We plan to utilise HK$15.4 million or 55.0% of the net proceeds from the Share Offer and HK$5.5 million funded by our internal resources to expand our production plant and existing production facilities, to install three new production lines at the Integrated Guangyuan Production Facilities, details of which are set out below:

Production facilities	**Number of machinery** *(Note)*	**Production line**	**Estimated useful life**	**Amount of net proceeds allocated from the Share Offer** *HK$'000*	**Amount funded by internal resources** *HK$'000*	**Total costs** *HK$'000*
Purchase of a high speed production line for aluminium alloy (高速鋁合金大拉成套生產線)	N/A	Number one	10 years	3,420	—	3,420
Purchase of rigid stranding machines (絞製設備)	3	Number one	10 years	3,570	—	3,570
Purchase of tubular wires stranding machines (管型絞線機)	6	Number two and three	10 years	—	3,000	3,000
Purchase of inspection equipment (檢測設備)	1	All three lines	10 years	1,300	—	1,300
Power distribution transformer (電壓器配電設備)	1	All three lines	10 years	—	2,500	2,500
Construction of additional manufacturing site at Guangyuan Plant	N/A	N/A	10 years	7,110	—	7,110
Total				15,400	5,500	20,900

Note: For other necessary machines, we will purchase by utilising our internal resources.

The above production facilities are required to produce the three key types of aluminium wires and cables that we plan to develop which is with reference to the existing equipment and machinery currently used at Tongchuang Plant to produce the same products. Depending on the complexity of the production process, the typical production processes of finished aluminium wires and cables involve drawing/annealing, stranding/bunching and other further processes. The high speed production line for aluminium alloy is typically used in the drawing/annealing processing stage. The rigid stranding machines and tubular wire stranding machines are used in the stranding/bunching processing stage. The aforesaid machines are needed as part of the typical production process and will be assigned to these three production lines with additional machines to be purchased by our internal resources as appropriate.

Our proposed additional production site is expected to occupy an area of approximately 7,000 sq.m. As advised by our PRC Legal Advisers, our proposed construction of the additional production site at our Guangyuan Plant is required to obtain or go through the following material governmental approvals, registration or filings: technical transformation investment filing (四川省技術改造投資項目備案) with local development and reform authority, construction land planning permit* (建設用地規劃許可證), construction project planning permit (建設工程規劃許可證) from local planning authority, environmental impact approval (環境影響評價) from local environmental protection authority, construction permit (建築工程施工許可證) from local construction authority. The whole application and aforesaid approval processes is expected to complete within four months under normal circumstances. As at the Latest Practicable Date, we have not yet obtained any relevant approvals for constructing the additional production site at the Guangyuan Plant and as advised by our PRC Legal Advisers, there are no material difficulties or legal obstacles in obtaining the above licences or approvals. We completed our technical transformation investment filing (四川省技術改造投資項目備案) with local development and reform authority on 19 December 2019 and we have already obtained the construction land planning permit (建設用地規劃許可證). We plan to submit our construction project planning permit (建設工程規劃許可證) application to local planning authority and environmental impact approval (環境影響評價) application to local environmental protection authority no later than end of August 2020. Subject to obtaining the approvals of the submitted applications, we will further submit the applications for the remaining approvals no later than September 2020 and expect to carry out construction work in around October 2020 and complete in around December 2020.

Currently, our Guangyuan Plant mainly produces semi-finished wires, whereas our Tongchuang Plant mainly produces finished aluminium wires and cables for OEM customers. For FY2017, FY2018 and FY2019, our Guangyuan Plant has three key production lines for the production of aluminium rods with annual production capacity of approximately 13,500 tonnes, with an average approximate annualised utilisation rate of approximately 59.1%, 106.2% and 110.3%, respectively. For details, see "Business — Production Facilities — Production capacity" in this prospectus.

We expect that the construction of our additional production site will be completed in the fourth quarter of 2020, and the three new additional production lines are expected to be installed in the fourth quarter in 2020 and commence operation in or about early 2021. Upon commencement of operation of the three new production lines, we expect that Guangyuan Plant will become capable of producing steel reinforced aluminium bare cables, aluminium overhead power cables and classic aluminium medium and low voltage cables with a maximum annual production capacity of 3,900 tonnes, 4,500 km and 4,500 km, respectively, upon completion of its expansion.

The table below sets forth the expected completion time, estimated average annual production capacity, estimated average annual production value, estimated average gross profit margin and estimated average annual net profit of the three new additional production lines in Guangyuan Plant:

Major products	**Expected completion time**	**Estimated average annual production capacity**	**Estimated average annual production value** *(Note 1)* *RMB'million*	**Estimated average gross profit margin** *(Note 2)*	**Estimated average annual gross profit** *RMB'million*
Steel reinforced aluminium bare cables (鋁製鋼芯鋁絞綫)	Fourth quarter of 2020	3,900 tonnes	48.6	3.4%	1.7
Aluminium overhead power cables (鋁製架空電纜)	Fourth quarter of 2020	4,500 km	18.2	8.5%	1.5
Classic aluminium medium and low voltage cables (鋁製傳統中低壓電力電纜)	Fourth quarter of 2020	4,500 km	108.3	14.8%	16.0
Total			175.1		19.2

Note:

1. Estimated average annual production value was calculated based on full production capacity and the average of average selling price of similar finished products sold by our Group during FY2018 and FY2019.

2. Estimated gross profit margin was calculated based on the average of gross profit margin of similar finished products produced and sold by our Group in FY2018 and FY2019.

Notwithstanding that copper wires and cables generally have relatively higher gross profit margin as compared to aluminium wires and cables, our Directors consider that further development of the aforementioned aluminium products is in line with the market trend that aluminium wires and cables demonstrated higher growth potential as both Sichuan and China's aluminium wires and cable markets are expected to grow at a higher CAGR in terms of sales revenue from 2019 to 2024 as compared to that of copper wire and cables. Based on the growth trend of aluminium wires and cables market which recorded a CAGR of 7.5% from 2013 to 2019 and is expected to achieve a CAGR of 4.5% from 2019 to 2024, and the environmentally friendly features and current low market price of aluminium, our Group believes that the aluminium wires and cables market is likely to have greater potential than copper wires and cables in the longrun, which recorded a CAGR of 1.3% from 2013 to 2019 and is expected to achieve a CAGR of 2.2% from 2019 to 2024.

The aforementioned aluminium products are mainly produced and applied for in the downstream power distribution network construction and upgrading in the cities and rural areas, as well as municipal infrastructure projects construction in China. According to the F&S Report, the above aluminium products have adequate market demand. According to the China Electricity Council, the investment in power distribution network construction and upgrading in China increased from approximately RMB389.4 billion in 2013 to approximately RMB485.6 billion in 2019, representing a CAGR of 3.7%. In addition, according to the "Power Distribution Network Construction & Reform Action Plan 2015–2020" (配電網建設改造行動計劃2015–2020) issued by the National Energy Administration of the PRC in 2015, no less than RMB2 trillion will be spent between 2015 and 2020 on upgrading China's power distribution network. For municipal infrastructure projects construction, the fixed asset investment of urban infrastructure construction has increased from RMB9.4 trillion to RMB18.7 trillion, representing a CAGR of 12.1% from 2013 to 2019.

Furthermore, our Guangyuan Plant is located in Guangyuan City, one of the three aluminium producing regions in Sichuan Province and currently a major player in the Sichuan aluminium product market. According to Guangyuan City government in 2018, Guangyuan aims to cultivate the local aluminium industry with a total output value exceeding RMB20 billion by 2020, which our Group foresees this as a good expansion opportunity to enlarge our scale of production of aluminium wires and cables to echo the local governments policy. In view of the expected higher growth of the aluminium cables and wires market and the initiatives of Guangyuan City government, we therefore plan to leverage on one of our competitive advantages, namely the strategic location of our Guangyuan Plant which enables us to capture more business opportunities and develop stable cooperative relationship with both the upstream and downstream players, and expand our existing production facilities for finished aluminium cables and wires to fully utilised the potential of our integrated production capabilities. Our Group is one of the local enterprises under the Guangyuan City government's long term initiative to expand aluminium outputs and further develop the local aluminium industry. Our expansion plan with respect to Guangyuan Plant, when implemented, would allow us to participate in and contribute to the local government's plan with our expanded production capacity and capture business opportunity that would arise therefrom.

We expect that our expansion plan with respect to our production facilities and production plant will enable us to capture additional demand from the market and will bring in additional revenue and profit for our Group in the future. For illustrative purposes only and subject to uncertainties, we estimate that the payback period is approximately two years after the commencement of the operation of the three new production lines. The payback period refers to the number of years required to recover the initial set up costs to be incurred in relation to the construction of our additional production site and purchase of new machines calculated based on our Group's estimated average annual net profit as below:

	RMB'million
Total investment costs (A)	**18.4 (equivalent to HK$20.9 million)**
Estimated annual gross profit of the three new production lines	19.2
Less:	
— Depreciation per year	(1.8)
— Estimated annual selling and administrative expenses *(Note)*	(5.3)
Estimated annual net profit of the three new production lines (B)	**12.1**
Payback period (A)/(B)	**2 years**

Note: Annual selling and administrative expenses were estimated based on a fixed percentage (3.0%) of the total revenue to be generated with reference to the historical ratio of selling and administrative expenses as of revenue during the Track Record Period.

For further details of the relevant risks and uncertainties, see "Risk Factors — Risks Relating to Our Business — We may not be able to successfully implement our business strategies and deliver the expected results" in this prospectus.

Our Directors believe that our expansion plan will (i) increase our production capacity and our capability of taking in more customers and purchase orders; (ii) allow us to specialise the production of semi-finished as well as finished aluminium wires by our Guangyuan Plant and the production of OEM products by our Tongchuang Plant; and (iii) increase our revenue and profit as a result of the operation of the three new production lines.

Repaying part of our existing loan to improve our capital base

We had a total indebtedness of RMB99.7 million and a gearing ratio of 71.5% as at 31 December 2019. We plan to repay part of our existing loan with the 15% interest rate per annum with a view to reduce our gearing ratio as well as our interest expenses. Our Directors presently intended to apply HK$7.0 million or 25.0% of the net proceeds from the Share Offer for repaying part of our existing loan as follows:

Financial institution	Borrower	Loan term	Outstanding balance as at the Latest Practicable Date	Interest rate per annum	Usage
			RMB'000	*%*	
Guangyuan Lizhou Small Scale Lending Co., Ltd* 廣元市利州金坤小額貸款有限公司	Guangyuan Saftower	Maturity date is August 2021	7,800	15.0	Working capital, purchase of raw material

For FY2017, FY2018 and FY2019, we incurred finance costs of RMB4.3 million, RMB6.5 million and RMB7.9 million, respectively. Our gearing ratio was 123.5%, 107.7% and 71.5% as at 31 December 2017, 31 December 2018 and 31 December 2019, respectively. As illustrated above, the interest expenses of the loan above would be approximately RMB1.2 million per year. We expect that upon repayment of the above loan, we would be able to save interest expenses of approximately RMB1.2 million per year and our pro forma gearing ratio based on 31 December 2019 is expected to be reduced to approximately 65.4%.

Funding the upfront costs for the commercial production of the Shuneng Plant to enhance the vertical expansion of our production capability

Guangyuan Shuneng was established in the PRC on 24 January 2018 as a limited liability company, with a registered capital of RMB8 million as at the date of its establishment. At its establishment, it had been owned as to 60% by Guangyuan Saftower and 40% by Tongsheng Guochuang. On 18 November 2019, upon the approval of Guangyuan AMR, Guangyuan Shuneng completed a 40% capital reduction of the registered capital payable by Tongsheng Guochuang. As a result, Tongsheng Guochuang is no longer a shareholder of Guangyuan Shuneng and Guangyuan Shuneng became our indirect wholly owned subsidiary. For details, see "History, Development and Reorganisation — Corporate Development — Guangyuan Shuneng" in this prospectus. Guangyuan Shuneng established Shuneng Plant in April 2019 with an approximate gross floor area of 1,268.5 sq.m. As at the Latest Practicable Date, our Shuneng Plant was at the trial production stage and was designed mainly for producing unprocessed rods, which would allow our Group to achieve the vertical expansion of our production capability. We expect that our Shuneng Plant will commence commercial production by third quarter of 2020. In order to support Shuneng Plant's development and in view of Guangyuan Shuneng became the indirect wholly owned subsidiary of our Company upon completion of its capital reduction, we plan to fund the upfront costs, mainly including costs for raw materials in preparation for the commencement of commercial production of Shuneng Plant by way of capital injection to Guangyuan Shuneng. We plan to apply HK$2.8 million or 10.0% of net proceeds from the Share Offer to fund the proposed capital injection to Guangyuan Shuneng.

BASES AND ASSUMPTIONS

The implementation plans set out above are based on the following general bases and assumptions:

- our Group will have sufficient financial resources to meet the planned capital expenditure and business development requirements during the period to which the business objectives relate;
- there will be no material changes in the funding required for each of the scheduled achievements as outlined under the paragraph headed "Implementation plans" above in this section and for each of our business strategies described in this prospectus from the amount as estimated by our Directors;
- there will be no material adverse changes in the existing laws and regulations, policies or industry or regulatory treatment relating to our Group, or in the political, economic, fiscal or market conditions in which our Group operates;
- we will be able to retain our senior management team and key staff in our expansion;
- we will be able to recruit additional key management personnel and staff when required;
- there will be no material change in the bases or rates of taxation and duties in the PRC;
- we will be able maintain our customers and sustain demand for our products;
- there will be no disasters, natural, political or otherwise, which would materially disrupt the business or operations of our Group or cause substantial loss, damage or destruction to its property or facilities; and
- our Group will not be adversely affected by the risk factors as set out in "Risk Factors" in this prospectus.

PUBLIC OFFER UNDERWRITERS

Zhong Jia Securities Limited
Alliance Capital Partners Limited
Ferran Securities Limited
Get Nice Securities Limited
DL Securities (HK) Limited
First Fidelity Capital (International) Limited
I Win Securities Limited
Livermore Holdings Limited
Red Eagle Securities Limited
uSmart Securities Limited

PLACING UNDERWRITERS

Zhong Jia Securities Limited
Alliance Capital Partners Limited
Ferran Securities Limited
Get Nice Securities Limited
DL Securities (HK) Limited
First Fidelity Capital (International) Limited
I Win Securities Limited
Livermore Holdings Limited
Red Eagle Securities Limited
uSmart Securities Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Public Offer

Public Offer Underwriting Agreement

Pursuant to the Public Offer Underwriting Agreement, our Company is offering 20,000,000 Public Offer Shares for subscription by the public in Hong Kong on, and subject to, the terms and conditions set out in this prospectus and the Application Forms.

Subject to:

(a) the Stock Exchange granting the listing of, and permission to deal in, our Shares in issue and to be issued as mentioned in this prospectus and such listing and permission not subsequently being revoked; and

(b) certain other conditions set out in the Public Offer Underwriting Agreement (including but not limited to the Offer Price being agreed upon between us and the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters)), the Public Offer Underwriters have agreed severally, and not jointly, to subscribe for, or procure subscribers for, the Public Offer Shares which are being offered but are not taken up under the Public Offer, on the terms and conditions set out in this prospectus, the Application Forms and the Public Offer Underwriting Agreement. If, for any reason, the Offer Price is not agreed between us and the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters), the Share Offer will not proceed and will lapse.

The Public Offer Underwriting Agreement is conditional upon and subject to the Placing Underwriting Agreement becoming unconditional and not having been terminated.

Grounds for termination

The obligations of the Public Offer Underwriters to subscribe or procure subscribers for the Public Offer Shares will be subject to termination by notice in writing to our Company from the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters) with immediate effect if any of the following events occur at or prior to 8:00 a.m. on the Listing Date:

(a) there shall develop, occur, exist or come into effect:

(i) any change or prospective change (whether or not permanent) in the business or in the earnings, operations, financial or trading position of our Group; or

(ii) any change or development involving a prospective change or development, or any event or series of event resulting or representing or is/are likely to result in any change or development involving a prospective change or deterioration (whether or not permanent) in local, national, regional or international financial, political, military, industrial, economic, legal framework, regulatory, fiscal, currency, credit or market conditions (including, without limitation, conditions in stock and bond markets, money and foreign exchange markets and inter-bank markets) in or affecting any of Hong Kong, the PRC, BVI, Cayman Islands or any other jurisdictions where any member of our Group is incorporated or operates (collectively, the "**Relevant Jurisdictions**"); or

(iii) any deterioration of any pre-existing local, national, regional or international financial, economic, political, military, industrial, fiscal, regulatory, currency, credit or market conditions in or affecting any of the Relevant Jurisdictions; or

(iv) any new laws or any change (whether or not forming part of a series of changes) or development involving a prospective change in existing laws or any change or development involving a prospective change in the interpretation or application thereof by any court or governmental authority in or affecting any of the Relevant Jurisdictions; or

(v) a change or development or event involving a prospective change in taxation or exchange control (or in the implementation of any exchange control) or foreign investment regulations in or affecting any of the Relevant Jurisdictions adversely affecting an investment in shares; or

(vi) any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or crisis involving or affecting any of the Relevant Jurisdictions; or

(vii) any event, act or omission which gives rise or is likely to give rise to any liability of any of our Company, our Controlling Shareholders and/or our executive Directors under the Public Offer Underwriting Agreement pursuant to the indemnities contained herein; or

(viii) the imposition or declaration of (i) any suspension or restriction on dealings in shares or securities generally on the Stock Exchange or any other major international stock exchange or (ii) any moratorium on commercial banking activities or disruption in commercial banking activities or foreign exchange trading or securities settlement or clearance services in or affecting any of the Relevant Jurisdictions; or

(ix) the imposition of economic or other sanctions, in whatever form, directly or indirectly, in or affecting any of the Relevant Jurisdictions; or

(x) any event, or series of events, in the nature of force majeure (including without limitation, any acts of God, acts of government, declaration of a national or international emergency or war, acts or threat of war, calamity, crisis, economic sanction, riot, public disorder, civil commotion, fire, drought, severe snow or hail storms, flooding, explosion, earthquake, hurricanes, tornadoes, volcanic eruption, epidemic pandemic, outbreak of disease (including, without limitation, COVID-19, Severe Acute Respiratory Syndrome (SARS), swine or avian flu, H5N1, H1N1, H7N9, Ebola virus, Middle East respiratory syndrome and such related/mutated forms), radiation or chemical contaminations, terrorism, strike or lockout) in or affecting any of the Relevant Jurisdictions; or

(xi) any change or development involving a prospective change, or a materialisation of any of the risks set out in the section headed "Risk Factors" in this prospectus; or

(xii) any change in the system under which the value of the HK dollar is linked to that of the U.S. dollars or a material devaluation of HK dollars against any foreign currency; or

(xiii) any demand by any creditor for repayment or payment of any indebtedness of any member of our Group or in respect of which any member of our Group is liable prior to its stated maturity; or

(xiv) save as disclosed in this prospectus, a contravention by any member of our Group of the GEM Listing Rules or applicable Laws; or

(xv) a prohibition on our Company for whatever reason from offering, allotting, issuing or selling any of the Shares (including the Shares which may be issued pursuant to the Offer Size Adjustment Option) pursuant to the terms of the Share Offer; or

(xvi) material non-compliance of any statement or disclosure of this prospectus or Application Forms or any aspect of the Share Offer with the GEM Listing Rules or any other applicable laws; or

(xvii) other than with the prior approval of the Joint Bookrunners (for themselves and on behalf of other Public Offer Underwriters), the issue by our Company of a supplementary prospectus (or any other documents used in connection with the contemplated subscription and sale of the Shares) pursuant to the Companies Ordinance or the GEM Listing Rules or any requirement or request of the Stock Exchange and/or the SFC; or

(xviii) an order is made or a petition is presented for the winding-up or liquidation of any member of our Group or any member of our Group making any composition or arrangement with its creditors or entering into a scheme of arrangement or any resolution being passed for the winding-up of any member of our Group or a provisional liquidator, receiver or manager being appointed over all or part of the assets or undertaking of any member of our Group or anything analogous thereto in respect of any member of our Group; or

(xix) any material loss or damage sustained by any member of our Group; or

(xx) save as disclosed in this prospectus, any litigation or claim of material importance of any third party being threatened or instigated against any member of our Group; or

(xxi) a Director being charged with an indictable offence or prohibited by the operation of law or is otherwise disqualified from being a director or from taking part in the management of a company; or

(xxii) the chairman or president of our Company vacating his office; or

(xxiii) the commencement by any governmental, regulatory or judicial body or organisation of any action against a Director or an announcement by any governmental, regulatory or judicial body or organisation that it intends to take any such action; or

(xxiv) our Company withdraws any of this prospectus or the Application Forms (and/or any other documents used in connected with the contemplated subscription of the Offer Shares); or

(xxv) any person (other than the Sole Sponsor, the Joint Bookrunners and any of the Public Offer Underwriters and their legal advisers) has withdrawn or sought to withdraw its consent to being named in this prospectus or the Application Forms, or to the issue of any such documents; or

(xxvi) any matter or event resulting in a breach of any of the warranties, representations or undertakings contained in the Public Offer Underwriting Agreement or there has been a material breach of any other provisions thereof;

which, whether individually or in the aggregate, in the sole and absolute opinion of the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters):

(i) is or will or may individually or in the aggregate have a Material Adverse Effect (as defined in the Public Offer Underwriting Agreement) on the business, financial, trading or other condition or prospects of the Group taken as a whole; or

(ii) has or will or may have a Material Adverse Effect (as defined in the Public Offer Underwriting Agreement) on the success of the Public Offer, the Placing and/or the Share Offer or the level of Offer Shares being applied for or accepted or the distribution of Offer Shares; or

(iii) is or will or may make it impracticable, inadvisable, inexpedient or not commercially viable (i) for any material part of the Public Offer Underwriting Agreement, the Placing Underwriting Agreement, the Public Offer, the Placing and/or the Share Offer to be performed or implemented in accordance with its terms or (ii) to proceed with or to market the Share Offer on the terms and in the manner contemplated in this prospectus; or

(b) any of the Public Offer Underwriters shall become aware of the fact that, or have cause to believe that:

(i) any of the warranties given by our Company, our Controlling Shareholders and/or our executive Directors under the Public Offer Underwriting Agreement or pursuant to the Placing Underwriting Agreement is untrue, inaccurate, misleading or breached in any material respect when given or as repeated as determined by the Joint Bookrunners (in their sole and absolute discretion), or has been declared or determined by any court or governmental authorities to be illegal, invalid or unenforceable in any material respect;

(ii) any statement contained in this prospectus, the Application Forms, the formal notice or any announcement issued by our Company in respect of the Public Offer, the Placing and/or the Share Offer (including any supplemental or amendment thereto) was or is untrue, incorrect or misleading in any material respect, or any matter arises or is discovered which would, if this prospectus were to be issued at that time, constitute a material omission therefrom as determined by the Joint Bookrunners (in their sole and absolute discretion), or that any forecasts, expressions of opinion, intention or expectation expressed in this prospectus, the Application Forms, the formal notice and/or any announcements issued by our Company in connection with the Public Offer, the Placing and/or the Share Offer (including any supplemental or amendment thereto) are not fair and honest and based on reasonable assumptions in any material respect, when taken as a whole; or

(iii) there has been a material breach on the part of any of our Company, our Controlling Shareholders and/or our executive Directors of any of the provisions of the Public Offer Underwriting Agreement or the Placing Underwriting Agreement.

Undertakings given to the Stock Exchange pursuant to the GEM Listing Rules

By our Company

We have undertaken to the Stock Exchange that we shall not issue any further Shares or securities convertible into our equity securities (whether or not of a class already listed) or enter into any agreement to issue any such Shares or securities within six months from the Listing Date (whether or not such issue of Shares will be completed within six months from the Listing Date), except in certain circumstances prescribed by Rule 17.29 of the GEM Listing Rules.

By our Controlling Shareholders

Pursuant to Rule 13.16A(1) of the GEM Listing Rules, each of our Controlling Shareholders has undertaken to us and to the Stock Exchange that except pursuant to the Share Offer or the Offer Size Adjustment Option or for the circumstances permitted pursuant to the GEM Listing Rules, he/it shall not and shall procure the relevant registered holder(s) shall not:

(a) in the period commencing on the date by reference to which disclosure of his/its shareholdings in our Company is made in this prospectus and ending on the date which is twelve months from the Listing Date (the "**First Twelve-Month Period**"), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares that he/it is shown to beneficially own in this prospectus (the "**Relevant Shares**"); or

(b) in the period of a further twelve months commencing on the date on which the First Twelve-Month Period expires (the "**Second Twelve-Month Period**"), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Relevant Shares if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he/it will cease to be a Controlling Shareholder.

Each of our Controlling Shareholders has further undertaken to us and the Stock Exchange that, within the period commencing on the date by reference to which disclosure of his/its shareholdings in our Company is made in this prospectus and ending on the date which is 24 months from the Listing Date, he/it will:

(i) in the event that he/it pledges or charges an direct or indirect interest in the Shares or other securities of our Company pursuant to a pledge or charge in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) as security for a bona fide commercial loan under Rule 13.18(1) of the GEM Listing Rules or pursuant to any right or waiver granted by the Stock Exchange pursuant to Rule 13.18(4) of the GEM Listing Rules, inform our Company immediately thereafter, disclosing the details specified in Rule 17.43(1) to (4) of the GEM Listing Rules; and

(ii) having pledged or charged any interest in the Shares or other securities of our Company referred to in paragraph (i) above, inform our Company immediately in the event that he/it becomes aware that the pledgee or chargee has disposed of or intends to dispose of such interest and of the number of Shares or other securities of our Company affected.

We will also inform the Stock Exchange as soon as we have been informed of the matters mentioned in the paragraphs (i) and (ii) above by any of our Controlling Shareholders and subject to the then requirements of the GEM Listing Rules disclose such matters by way of an announcement which is published in accordance with Rules 16.17 and 16.18 of the GEM Listing Rules as soon as possible.

Undertakings given under the Public Offer Underwriting Agreement

Undertakings by our Company

We have, pursuant to the Public Offer Underwriting Agreement, undertaken to each of the Sole Sponsor, the Joint Bookrunners and the Public Offer Underwriters that, except pursuant to the Share Offer (including pursuant to the Offer Size Adjustment Option) during a period of six months commencing from the Listing Date (the "**First Six-Month Period**"), our Company will not without the prior written consent of the Sole Sponsor and the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters) and unless in compliance with the requirements of the GEM Listing Rules:

(a) offer, accept subscription for, pledge, charge, allot, issue, sell, lend, mortgage, assign, contract to allot, issue or sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, make any short sale, lend, mortgage, assign or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally or repurchase, any of its share capital or any equity securities or any interest therein (including but not limited to any securities convertible into or exercisable or exchangeable for or that represent the right to receive such share capital or equity securities or any interest therein); or

(b) enter into any swap, derivative, lending, repurchase and mortgage or other arrangement that or transfers to another, in whole or in part, any of the economic consequences of ownership of such share capital or equity securities; or

(c) enter into any transaction with the same economic effect as any transaction specified above; or

(d) agree or contract to, or publicly announce any intention to enter into, any transaction specified above,

in each case, whether any of the transactions above is to be settled by delivery of Shares or other securities of our Company, or in cash or otherwise (whether or not the issue of such Shares or other shares or securities will be completed within the First Six-Month Period). In the event that, during the period of six months commencing on the date on which the First Six-Month Period expires, our Company enters into any of the transactions specified above or offers to or agrees to or announces any intention to effect any such transaction, our Company shall take all reasonable steps to ensure that it will not create a disorderly or false market in any Shares or other securities of our Company.

Undertakings by our Controlling Shareholders

Each of our Controlling Shareholders has jointly and severally undertaken to each of our Company, the Sole Sponsor, the Joint Bookrunners and the Pubic Offer Underwriters that, save as permitted under the GEM Listing Rules, he/it shall not and shall procure his or its close associates (as defined under the GEM Listing Rules) and the relevant registered holders shall not:

(a) in the First Twelve-Month Period, sell, dispose of, nor enter into any agreement to dispose of or otherwise create any pledge, charge, lien, mortgage, option, restriction, right of first refusal, security interest, claim, pre-emption rights, equity interest, third party rights or interests or rights of the same nature as that of the foregoing or other encumbrances or security interest of any kind or another type of preferential arrangement (including without limitation, retention arrangement) having similar effect ("**Encumbrances**") in respect of any of the Relevant Shares; or

(b) in the Second Twelve-Month Period, sell, dispose of, nor enter into any agreement to dispose of or otherwise create any Encumbrances in respect of any of the Shares if, immediately following such disposal or upon the exercise or enforcement of such Encumbrances, he/it would, either individually or taken together with the others of them, cease to be a Controlling Shareholder of our Company,

provided that the restrictions in the sub-paragraphs (a) and (b) above shall not apply to any Shares which the Controlling Shareholders or any of his/its respective associates may acquire or become interested in following the Listing Date.

Each of our Controlling Shareholders has further undertaken to each of our Company, the Sole Sponsor, the Joint Bookrunners and the Public Offer Underwriters that, within the period commencing on the date by reference to which disclosure of its shareholdings in our Company is made in this prospectus and ending on the date which is 24 months from the Listing Date, it will:

(i) in the event that he/it pledges or charges any of his/its direct or indirect interests in the Shares under Rule 13.18(1) of the GEM Listing Rules or pursuant to any right or waiver granted by the Stock Exchange pursuant to Rule 13.18(4) of the GEM Listing Rules at any time during the relevant periods specified in the paragraphs above, he/it must inform our Company, the Sole Sponsor and the Joint Bookrunners immediately thereafter, disclosing the details as specified in Rules 17.43(1) to (4) of the GEM Listing Rules; and

(ii) having pledged or charged any of his/its interests in the Shares under sub-paragraph (i) above, he/it must inform our Company, the Sole Sponsor and the Joint Bookrunners immediately in the event that he/it becomes aware that the pledgee or chargee has disposed of or intends to dispose of such interest and of the number of the Shares affected.

Undertakings by our existing Shareholders other than our Controlling Shareholders (the "Other Shareholders")

Xseven Investment has undertaken to each of our Company, the Sole Sponsor and the Joint Bookrunners (for themselves and on behalf of the Underwriters) that without the prior written consent of our Company, the Sole Sponsor and the Joint Bookrunners (for themselves and on behalf of the Underwriters), it shall not at any time within the period commencing on the Listing Date and ending on the date which is twelve months from the Listing Date (i.e. 10 July 2021) (the "**Twelve-Month Period**"), sell, dispose of, nor enter into any agreement to dispose of or otherwise create any pledge, charge, lien, mortgage, options, restriction, right of first refusal, security interest, claim, pre-emption rights, equity interest, or encumbrances or security interest of any kind or another type of preferential arrangement (including without limitation, retention arrangement) having similar effect in respect of, all Shares or securities of our Company held by it.

Xseven Investment has further undertaken to our Company, the Sole Sponsor and the Joint Bookrunners (for themselves and on behalf of the Underwriters) that, within the Twelve-Month Period, it will:

(a) when it pledges or charges any of its direct or indirect interests in the Shares beneficially owned by it in favour of a financial institution, immediately inform our Company, the Sole Sponsor and the Joint Bookrunners of such pledge or charge together with the number of Shares so pledged or charged; and

(b) when it receives indications, either verbal or written, from the pledgee or chargee that any of the pledged or charged Shares beneficially owned by it will be disposed of, immediately inform our Company, the Sole Sponsor and the Joint Bookrunners in writing of such indications.

Each of our existing Shareholders other than our Controlling Shareholders and Xseven Investment, namely Bonyer Investment, Rocky Base Investment, Bigroad Investment, Hisky Investment, Dibell Investment, Gun Wealth Investment, ZH Fortune Investment, Lockxy Investment and Ms. Zhao Qi, has undertaken to each of our Company, the Sole Sponsor and the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters) that without the prior written consent of the Sole Sponsor, Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters) and our Company, it/she shall not at any time within the period commencing on the Listing Date and ending on the date which is six months from the Listing Date (i.e. 10 January 2021), sell, dispose of, nor enter into any agreement to dispose of or otherwise create any pledge, charge, lien, mortgage, options, restriction, right of first refusal, security interest, claim pre-emption rights, equity interest or encumbrances or security interest of any kind or another type of preferential arrangement (including without limitation, retention arrangement) having similar effect in respect of, more than one-third of the Shares or securities of our Company held by them.

Each of our existing Shareholders other than our Controlling Shareholders and Xseven Investment have further undertaken to our Company, the Sole Sponsor and the Joint Bookrunners (for themselves and on behalf of the Underwriters) that, within the period commencing on the Listing Date and ending on the date which is six months from the Listing Date, it will:

(i) when it/she pledges or charges any of its/her direct or indirect interests in more than one-third of the Shares or securities of our Company held by it/her in favour of a financial institution, immediately inform our Company, the Sole Sponsor and the Joint Bookrunners of such pledge or charge together with the number of Shares so pledged or charged; and

(ii) when it/she receives indications, either verbal or written, from the pledgee or chargee that any of the Shares beneficially owned by it/her so pledged or charged under paragraph (i) above will be disposed of, immediately inform our Company, the Sole Sponsor and the Joint Bookrunners in writing of such indications.

The above restrictions shall not apply to, among others:

(a) any charge, mortgage or pledge by the Other Shareholders of the Shares during the relevant lock-up periods mentioned above in favour of a financial institution to secure a loan or financing facility made to the Other Shareholders (the "**Loan**") if the person making the Loan undertakes to be bound by the restrictions on disposal herein during the relevant lock-up periods and which restrictions shall include any disposal of the Shares on exercise of any enforcement action or foreclosure following a default under the Loan; or

(b) any transfer with the prior written consent of the Sole Sponsor, Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters) and our Company; or

(c) any Shares acquired in open market transaction after the completion of the Share Offer; or

(d) any transfer to any of the Other Shareholders' affiliate, provided that, prior to such transfer, such affiliate gives a written undertaking (addressed to and in favour of our Company in terms satisfactory to it and substantially the same as the Other Shareholders' lock-up undertaking) agreeing to, and the Other Shareholders undertake to procure that such affiliate will, be bound by the undertaking.

Underwriters' interests in our Group

Save for their respective obligations under the Public Offer Underwriting Agreement and the Placing Underwriting Agreement or as otherwise disclosed in this prospectus, as of the Latest Practicable Date, none of the Underwriters was interested directly or indirectly in any of our Shares or securities or any shares or securities of any other member of our Group or had any right or option (whether legally enforceable or not) to subscribe for, or to nominate persons to subscribe for, any of our Shares or securities or any shares or securities of any other member of our Group.

Following the completion of the Share Offer, the Underwriters and their affiliated companies may hold a certain portion of our Shares as a result of fulfilling their respective obligations under the Public Offer Underwriting Agreement and Placing Underwriting Agreement.

The Sole Sponsor's Independence

The Sole Sponsor satisfies the independence criteria applicable to sponsors set out in Rule 6A.07 of the GEM Listing Rules.

The Placing

Placing

In connection with the Placing, we entered into the Placing Underwriting Agreement with, among others, the Placing Underwriters. Under the Placing Underwriting Agreement, the Placing Underwriters would, subject to certain conditions, severally but not jointly, agree to purchase the Placing Shares or procure purchasers for the Placing Shares initially being offered pursuant to the Placing. For details, see "Structure and Conditions of the Share Offer — Placing" in this prospectus.

Under the Placing Underwriting Agreement, we granted to the Placing Underwriters the Offer Size Adjustment Option, exercisable in whole or in part at one or more times, at the sole and absolute discretion of the Joint Bookrunners (for themselves and on behalf of the Placing Underwriters) at any time during the period from the date of this prospectus up to 6:00 p.m. on the business day immediately prior to the date of the announcement of the level of indications of interest in the Share Offer, to require us to issue and allot up to an aggregate of 30,000,000 additional Offer Shares, representing 15% of the Offer Shares initially available under the Share Offer and at the Offer Price, to cover, among other things, any over-allocations in the Placing, if any. The Offer Size Adjustment Option will lapse if it is not exercised within the above period.

Total Commission and Expenses

We will pay the Joint Bookrunners (for themselves and on behalf of the other Underwriters) an underwriting commission of 12% of the aggregate Offer Price of the Public Offer Shares initially offered under the Public Offer (excluding any Placing Shares reallocated to the Public Offer and any Public Offer Shares reallocated to the Placing), out of which the Underwriters will pay all sub-underwriting commission, if any. For unsubscribed Public Offer Shares reallocated to the Placing, we will pay an underwriting commission at the rate applicable to the Placing and such commission will be paid to the Joint Bookrunners and the relevant Placing Underwriters, but not the Public Offer Underwriters. We will pay the Joint Bookrunners (for themselves and on behalf of the other Underwriters) an underwriting commission of 12% of the aggregate Offer Price of the Placing Shares initially offered under the Placing.

In addition to the above underwriting commission, the Underwriters will also receive an incentive bonus of up to 6% of the aggregate Offer Price of the Offer Shares initially offered under the Share Offer if the final Offer Price is fixed at HK$0.30 or above.

Assuming the Offer Size Adjustment Option is not exercised and based on an Offer Price of HK$0.325 (being the mid-point of the stated range of the Offer Price between HK$0.25 and HK$0.40), the aggregate commissions and estimated expenses, together with the Stock Exchange listing fee, SFC transaction levy, Stock Exchange trading fee, legal and other professional fees, printing and other fees and expenses relating to the Share Offer, are estimated to amount in aggregate to HK$37.0 million in total and are payable by us.

Indemnity

We have undertaken to indemnify and keep indemnified on demand (on an after-tax basis) and hold harmless each of the Sole Sponsor and the Public Offer Underwriters (for themselves and on trust for its directors, officers, employees, agents, assignees and affiliates) from and against certain losses which they may suffer, including losses arising from their performance of their obligations under the Public Offer Underwriting Agreement.

Restrictions on the Offer Shares

No action has been taken to permit a public offering of the Offer Shares, other than in Hong Kong, or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation.

Hard Underwriting Agreement

Hard Underwriting Agreement

On 23 June 2020, our Company entered into Hard Underwriting Agreement. The underwriting commitment may be satisfied through the following methods:

(a) the subscriptions of the Offer Shares (i) solely entered through exclusive agents of the relevant Underwriter and/or the relevant Underwriter directly; and (ii) in respect of duplicate orders from other Joint Bookrunners, provided that the relevant Underwriter can provide evidence which is reasonably satisfactory to our Company showing that the orders were first placed through the relevant Underwriter one calendar day(s) before such duplicate orders were placed through any other Joint Bookrunners (excluding subscriptions from the list of investors agreed between our Company and the relevant Underwriter prior the Hard Underwriting Agreement). For the avoidance of doubt, duplicate orders placed through other Joint Bookrunners on the same day during the book building period shall be shared equally among such Joint Bookrunners;

(b) in relation to subscriptions by same investors through the relevant Underwriter and other Joint Bookrunners, such subscriptions shall be regarded as subscriptions solely entered through the relevant Underwriter if such investors have specified the same in their orders (for the avoidance of doubt, if such investors make subscriptions through the relevant Underwriter and other Joint Bookrunners, but specify certain amounts of the subscriptions are entered solely through or solely attributable to the relevant Underwriter, such certain amounts of the subscriptions will be regarded as solely entered through the relevant Underwriter), provided that the relevant Underwriter can provide evidence which is reasonably satisfactory to our Company showing such effect, or otherwise such orders shall be allocated equally amongst the Joint Bookrunners who have received such orders on the first day investor subscribed;

(c) the subscriptions of the Offer Shares through the relevant Underwriter under the Public Offer; and/or

(d) the subscriptions of the Offer Shares by the relevant Underwriter.

Each of the relevant Underwriter irrevocably agrees that it will perform its underwriting commitment under the respective Hard Underwriting Agreements in the aggregate amount of HK$50.0 million pursuant to the Public Offer Underwriting Agreement and the Placing Underwriting Agreement.

Conditions

The underwriting commitment of each of the relevant Underwriter under the Hard Underwriting Agreement is subject to the following conditions:

(a) the relevant Underwriter being appointed by our Company as one of the Joint Bookrunners for the Share Offer;

(b) the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Offer Shares (and such listing and permission not subsequently revoked prior to Listing);

(c) the Underwriting Agreements have become unconditional and have not been terminated in accordance with their respective terms; and

(d) the final Offer Price shall be fixed at HK$0.25 per Offer Share.

Grounds for termination

If the conditions (a) and (b) above are not fulfilled or satisfied by 8:00 a.m. on the Listing Date, the obligations of the relevant Underwriter under the Hard Underwriting Agreement shall lapse and be null and void and neither our Company nor the Directors shall have any claim against the relevant Underwriter for costs, damages, compensation or otherwise save for such claims that are caused by the Underwriter's own fraud, gross negligence, willful default or misconduct and the Hard Underwriting Agreement shall terminate.

Fees

Our Company shall pay to the relevant Underwriter upon Listing an underwriting commission as specified in the Underwriting Agreements.

In the event the final Offer Price is fixed at HK$0.30 or above, in addition to the underwriting commission specified in the Underwriting Agreements, the Company shall pay the relevant Underwriter an incentive bonus of up to 6% of the aggregate Offer Price of the Offer Shares initially offered under the Share Offer.

THE SHARE OFFER

This prospectus is published in connection with the Public Offer as part of the Share Offer. The Share Offer comprises:

- the Public Offer of initially 20,000,000 Offer Shares (subject to reallocation as mentioned below) in Hong Kong as described below in the paragraph headed "The Public Offer"; and
- the Placing of initially 180,000,000 Offer Shares (subject to reallocation and the Offer Size Adjustment Option as described below) to professional, institutional corporate and other investors as described below in the paragraph headed "The Placing".

Investors may either:

- apply for the Public Offer Shares under the Public Offer; or
- apply for or indicate an interest for the Placing Shares under the Placing,

but may not do both.

The 200,000,000 Offer Shares in the Share Offer will represent 25% of our enlarged share capital immediately after the completion of the Capitalisation Issue and the Share Offer, without taking into account the exercise of the Offer Size Adjustment Option or any option that may be granted under the Share Option Scheme. If the Offer Size Adjustment Option is exercised in full, the Offer Shares will represent 27.71% of our enlarged share capital immediately following the completion of the Capitalisation Issue and the Share Offer without taking into account the exercise of any options that may be granted under the Share Option Scheme.

References to applications, application forms, application monies or procedure for applications relate solely to the Public Offer.

THE PUBLIC OFFER

Number of Offer Shares initially offered

We are initially offering for subscription by the public in Hong Kong 20,000,000 Offer Shares, representing 10% of the total number of Offer Shares initially available under the Share Offer. Subject to the reallocation of Offer Shares between the Placing and the Public Offer, the number of Offer Shares offered under the Public Offer will represent 2.5% of our enlarged issued share capital immediately after completion of the Capitalisation Issue and the Share Offer, assuming the Offer Size Adjustment Option is not exercised.

The Public Offer is open to members of the public in Hong Kong as well as to institutional and professional investors. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities that regularly invest in shares and other securities.

Completion of the Public Offer is subject to the conditions as set forth below in "Conditions of the Share Offer".

Allocation

Allocation of Public Offer Shares to investors under the Public Offer will be based on the level of valid applications received under the Public Offer. The basis of allocation may vary depending on the number of Public Offer Shares validly applied for by applicants. We may, if necessary, allocate the Public Offer Shares on the basis of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Public Offer Shares and those applicants who are not successful in the ballot may not receive any Public Offer Shares.

Multiple or suspected multiple applications under the Public Offer and any application for more than 20,000,000 Public Offer Shares will be rejected.

Reallocation

The allocation of the Offer Shares between the Public Offer and the Placing is subject to reallocation. If the number of Offer Shares validly applied for under the Public Offer represents (i) less than 15 times but not undersubscribed, (ii) 15 times or more but less than 50 times, (iii) 50 times or more but less than 100 times, and (iv) 100 times or more of the number of Offer Shares initially available under the Public Offer, the Offer Shares will be reallocated to the Public Offer from the Placing. As a result of such reallocation, the total number of Public Offer Shares will be increased to 40,000,000 Offer Shares (in the case of (i)), 60,000,000 Offer Shares (in the case of (ii)), 80,000,000 Offer Shares (in the case of (iii)) and 100,000,000 Offer Shares (in the case of (iv)), representing 20%, 30%, 40% and 50% of the Offer Shares initially available under the Share Offer (before any exercise of the Offer Size Adjustment Option), respectively. If the Public Offer Shares are undersubscribed, the Joint Bookrunners have the authority to reallocate all or any unsubscribed Public Offer Shares to the Placing, in such proportions as the Joint Bookrunners deem appropriate.

In addition, the Joint Bookrunners may reallocate Offer Shares from the Placing to the Public Offer to satisfy valid applications under the Public Offer. In accordance with Guidance Letter HKEX-GL91-18 issued by the Stock Exchange, if such reallocation is done other than pursuant to Practice Note 6 of the GEM Listing Rules, the maximum total number of Offer Shares that may be reallocated to the Public Offer following such reallocation shall be not more than double the initial allocation to the Public Offer (i.e. 40,000,000 Offer Shares); and the final Offer Price shall be fixed at the low end of the indicated Offer Price range stated in this prospectus (i.e. HK$0.25 per Offer Share).

In each case, the number of Offer Shares allocated to the Placing will be correspondingly reduced in such manner as the Joint Bookrunners deem appropriate.

If the Public Offer is not fully subscribed for, the Joint Bookrunners have the authority to reallocate all or any unsubscribed Public Offer Shares to the Placing, in such proportions as the Joint Bookrunners deem appropriate.

Applications

Each applicant under the Public Offer will be required to give an undertaking and confirmation in the application submitted by him that he and any person(s) for whose benefit he is making the application has not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Placing Shares under the Placing, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or it has been or will be placed or allocated Placing Shares under the Placing.

Applicants under the Public Offer are required to pay, on application, maximum price of HK$0.40 per Offer Share in addition to brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% on each Offer Share, amounting to a total of HK$4,040.31 for one board lot of 10,000 Shares. If the Offer Price, as finally determined on the Price Determination Date in the manner as described below in the paragraph headed "Pricing and Allocation" in this section, is less than the maximum price of HK$0.40 per Offer Share, appropriate refund payments (including brokerage, SFC transaction levy and Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. For further details, see "How to Apply for Public Offer Shares" in this prospectus.

THE PLACING

Number of Offer Shares Initially Offered

We will be initially offering for subscription under the Placing 180,000,000 Offer Shares, representing 90% of the Offer Shares under the Share Offer. Subject to the reallocation of Offer Shares between the Placing and the Public Offer, the number of Offer Shares offered under the Placing will represent 22.5% of our enlarged issued share capital immediately after completion of the Capitalisation Issue and the Share Offer, assuming the Offer Size Adjustment Option is not exercised.

Allocation

The Placing Shares will conditionally be offered to selected professional, institutional, corporate and other investors anticipated to have a sizeable demand for our Offer Shares in Hong Kong. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Prospective professional, institutional, corporate and other investors will be required to specify the number of the Placing Shares under the Placing they would be prepared to acquire either at different prices or at a particular price. This process, known as "book-building," is expected to continue up to the Price Determination Date.

Allocation of the Placing Shares pursuant to the Placing will be determined by the Joint Bookrunners and will be based on a number of factors including the level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further, and/or hold or sell its Shares, after the listing of the Shares on GEM. Such allocation is intended to result in a distribution of the Placing Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of our Company and our Shareholders as a whole.

The Joint Bookrunners (on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the Placing and who has made an application under the Public Offer to provide sufficient information to the Joint Bookrunners so as to allow them to identify the relevant applications under the Public Offer and to ensure that they are excluded from any applications of Public Offer Shares under the Public Offer.

Reallocation

The total number of Offer Shares to be issued pursuant to the Placing may change as a result of the clawback arrangement as described above in the paragraph headed "The Public Offer — Reallocation" or the Offer Size Adjustment Option in whole or in part and/or any reallocation of unsubscribed Offer Shares originally included in the Public Offer.

OFFER SIZE ADJUSTMENT OPTION

In connection with the Share Offer, it is expected that we will grant the Offer Size Adjustment Option to the Placing Underwriters.

Pursuant to the Offer Size Adjustment Option, our Company may be required to allot and issue up to an aggregate of 30,000,000 additional new Shares at the Offer Price, representing up to 15% of the Offer Shares initially available under the Share Offer. The Offer Size Adjustment Option can only be exercised at any time from the date of this prospectus to before 6:00 p.m. on the business day immediately prior to the date of the announcement of the level of indication of interest in the Share Offer, otherwise it will lapse. Any such additional Shares to be issued pursuant to the Offer Size Adjustment Option will not be used for price stabilisation purpose and is not subject to the Securities and Futures (Price Stabilising) Rules (Chapter 571W of the Laws of Hong Kong).

If the Offer Size Adjustment Option is exercised in full, the additional Shares to be issued pursuant thereto will represent 3.61% of our enlarged issued share capital immediately following the completion of the Capitalisation Issue, the Share Offer and the exercise of the Offer Size Adjustment Option but without taking into account any Shares which may be allotted and issued pursuant to the exercise of any options that may be granted under the Share Option Scheme. We intend to apply such additional net proceeds in the same proportions as our intended use of proceeds. For details, see section headed "Future plans and use of proceeds" in this prospectus.

Our Company will disclose in its allotment results announcement whether and to what extent the Offer Size Adjustment Option has been exercised, and will confirm in the announcement that, if the Offer Size Adjustment Option is not exercised by that time, then the Offer Size Adjustment Option will have lapsed and cannot be exercised on any future date. The allotment results announcement will be published on the Stock Exchange's website at ***www.hkexnews.hk*** and our Company's website at ***www.saftower.cn***.

PRICING AND ALLOCATION

Our Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters) will determine the Offer Price and sign an agreement on the Price Determination Date, when market demand for the Offer Shares will be determined. The Price Determination Date is expected to be on or around Thursday, 2 July 2020, and in any event, not later than Friday, 3 July 2020.

The Offer Price will not be more than HK$0.40 per Offer Share and is expected to be not less than HK$0.25 per Offer Share, unless otherwise announced by no later than the morning of the last day for lodging applications under the Public Offer as further explained below. If you apply for the Offer Shares under the Public Offer, you must pay the maximum price of HK$0.40 per Offer Share, plus brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%.

If the Offer Price, as finally determined in the manner described below, is lower than HK$0.40, we will refund the respective difference, including brokerage, SFC transaction levy and Stock Exchange trading fee attributable to the surplus application monies. We will not pay interest on any refunded amounts. For further details, see "How to Apply for Public Offer Shares" in this prospectus.

The Placing Underwriters will be soliciting from prospective investors indications of interest in acquiring Offer Shares in the Placing. Prospective professional and institutional investors will be required to specify the number of Offer Shares under the Placing they would be prepared to acquire either at different prices or at a particular price. This process, known as "book-building", is expected to continue up to, and to cease on or around, the last day for lodging applications under the Public Offer.

The Joint Bookrunners (for themselves and on behalf of the Underwriters) may, where considered appropriate based on the level of interest expressed by prospective professional, institutional and other investors during a book-building process, and with the consent of our Company, reduce the number of Offer Shares and/or the Offer Price range below that stated in this prospectus prior to the morning of the last day for lodging applications under the Public Offer. In such a case, we will as soon as practicable following the decision to make such reduction and in any event not later than the morning of the last day for lodging applications under the Public Offer publish a notice on our website at ***www.saftower.cn*** and the website of the Stock Exchange at ***www.hkexnews.hk*** (the contents of the website do not form a part of this prospectus). Upon issue of such a notice, the revised number of Offer Shares and/or Offer Price range will be final and conclusive and the Offer Price, if agreed upon by us, will be fixed within such revised Offer Price range.

Before submitting applications for the Public Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares and/or the Offer Price range may not be made until the day which is the last day for lodging applications under the Public Offer. Such notice will also confirm or revise, as appropriate, the working capital statement, the Share Offer statistics as currently set out in "Summary" in this prospectus, and any other financial information which may change as a result of such reduction. In the absence of any such notice so published, the Offer Price, if agreed upon with our Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters) will under no circumstances be set outside the Offer Price range as stated in this prospectus.

If you have already submitted an application for the Public Offer Shares before the last day for lodging applications under the Public Offer, you will not be allowed to subsequently withdraw your application. However, if the number of Offer Shares and/or the Offer Price range is reduced, a withdrawal mechanism will be utilised, where, our Company, among other things, is required to (i) issue a supplemental prospectus as a result of material changes in the information e.g. the Offer Price in the prospectus; and (ii) extend the offer period and to allow potential investors, if they so desire, to confirm their applications using an opt-in approach (i.e. requiring investors to positively confirm their applications for shares despite the change). If the number of Offer Shares and/or the indicative Offer Price range is reduced, applicants who have submitted an application under the Public Offer will be entitled to withdraw their applications unless positive confirmations from the applicants to proceed are received.

In the event of a reduction in the number of Offer Shares, the Joint Bookrunners may, at its discretion, reallocate the number of Offer Shares to be offered in the Public Offer and the Placing, provided that the number of Offer Shares comprised in the Public Offer shall not be less than 10% of the total number of Offer Shares available under the Share Offer (assuming the Offer Size Adjustment Option is not exercised).

The final Offer Price, the level of indication of interest in the Placing, the basis of allotment of Offer Shares available under the Public Offer and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Public Offer are expected to be made available in a variety of channels in the manner described in "How to Apply for Public Offer Shares — 11. Publication of Results" in this prospectus.

CONDITIONS OF THE SHARE OFFER

Acceptance of all applications for Offer Shares is conditional on:

- the Stock Exchange granting approval for the listing of, and permission to deal in, our Shares in issue and to be issued as described in this prospectus (including the Shares which may be allotted and issued pursuant to the exercise of the Offer Size Adjustment Option and the options which may be granted under the Share Option Scheme);

- the Offer Price having been agreed between us and the Joint Bookrunners (for themselves and on behalf of the Underwriters); and

- the obligations of the Public Offer Underwriters under the Public Offer Underwriting Agreement and the obligations of the Placing Underwriters under the Placing Underwriting Agreement becoming unconditional and not having been terminated in accordance with the terms of the respective agreements,

in each case on or before the dates and times specified in the Public Offer Underwriting Agreement and/or the Placing Underwriting Agreement, as the case may be (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than Friday, 24 July 2020, being the 30th date after the date of this prospectus.

If, for any reason, the Offer Price is not agreed between us and the Joint Bookrunners (for themselves and on behalf of the Underwriters) on or before Friday, 3 July 2020, the Share Offer will not proceed and will lapse.

The consummation of each of the Public Offer and the Placing is conditional upon, among other things, each other offering becoming unconditional and not having been terminated in accordance with its respective terms. If the above conditions are not fulfilled or waived prior to the times and dates specified, the Share Offer will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Public Offer will be published by our Company on our website at ***www.saftower.cn*** and the website of the Stock Exchange at ***www.hkexnews.hk*** on the next day following such lapse. In such an event, all application monies will be returned, without interest, on the terms set out in "How to Apply for Public Offer Shares — 13. Refund of Application Monies" in this prospectus. In the meantime, all application monies will be held in separate bank account(s) with the receiving bank or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

UNDERWRITING AGREEMENTS

The Public Offer is fully underwritten by the Public Offer Underwriters under the terms of the Public Offer Underwriting Agreement and is subject to, among other conditions, we and the Joint Bookrunners (for themselves and on behalf of the Underwriters) agreeing on the Offer Price on the Price Determination Date.

The Placing is fully underwritten by the Placing Underwriters under the terms of the Placing Underwriting Agreement and is subject to, among other conditions, we and the Joint Bookrunners (for themselves and on behalf of the Underwriters) agreeing on the Offer Price on the Price Determination Date.

Certain terms of the underwriting arrangements, the Public Offer Underwriting Agreement and the Placing Underwriting Agreement, are summarised in the section headed "Underwriting" in this prospectus.

DEALING ARRANGEMENTS

Assuming that the Public Offer becomes unconditional at or before 8:00 a.m. in Hong Kong on Friday, 10 July 2020, it is expected that dealings in our Shares on GEM will commence at 9:00 a.m. on Friday, 10 July 2020.

The Shares will be traded in board lots of 10,000 Shares each.

1. HOW TO APPLY

If you apply for Public Offer Shares, then you may not apply for or indicate an interest for Placing Shares.

To apply for Public Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **HK eIPO White Form** service at ***www.hkeipo.hk*** or the **IPO APP**; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Company, the Joint Bookrunners, the **HK eIPO White Form** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY

You can apply for Public Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC.

If you apply online through the **HK eIPO White Form** service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the Application Form must be signed by a duly authorised officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Joint Bookrunners may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of **HK eIPO White Form** service for the Public Offer Shares.

Unless permitted by the GEM Listing Rules, you cannot apply for any Public Offer Shares if you are:

- an existing beneficial owner of Shares in our Company and/or any its subsidiaries;
- a Director or chief executive officer of our Company and/or any of its subsidiaries;
- a connected person (as defined in the GEM Listing Rules) of our Company or will become a connected person of our Company immediately upon completion of the Share Offer; and
- an associate (as defined in the GEM Listing Rules) of any of the above;
- have been allocated or have applied for any Placing Shares or otherwise participate in the Placing.

3. APPLYING FOR PUBLIC OFFER SHARES

Which Application Channel to Use

For Public Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through ***www.hkeipo.hk*** or the **IPO APP**.

For Public Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Wednesday, 24 June 2020 until 12:00 noon on Thursday, 2 July 2020 from:

(i) any of the following offices of the Public Offer Underwriters:

Zhong Jia Securities Limited	Room 9, 8/F, One Island South 2 Heung Yip Street, Hong Kong
Alliance Capital Partners Limited	Room 1502–1503A, Wing On House 71 Des Voeux Road Central, Central, Hong Kong

Ferran Securities Limited	1201, OTB Building 259–265 Des Voeux Road Central Hong Kong
Get Nice Securities Limited	10/F Cosco Tower Grand Millennium Plaza 183 Queen's Road Central Hong Kong
DL Securities (HK) Limited	Flat 01, 28/F., Vertical Square 28 Heung Yip Road Wong Chuk Hang, Hong Kong
First Fidelity Capital (International) Limited	Unit 1405, Allied Kajima Building 138 Gloucester Road Wanchai, Hong Kong
I Win Securities Limited	Room 1916, Hong Kong Plaza 188 Connaught Road West Sai Wan, Hong Kong
Livermore Holdings Limited	Unit 1214A, 12/F., Tower II Cheung Sha Wan Plaza 833 Cheung Sha Wan Road Kowloon, Hong Kong
Red Eagle Securities Limited	Unit 1107, 11/F., Cosco Tower Grand Millennium Plaza 183 Queen's Road Central, Hong Kong
uSmart Securities Limited	Unit 2606, 26/F FWD Financial Centre 308 Des Voeux Road Central Hong Kong

(ii) any of the following branches of the receiving bank:

Bank of China (Hong Kong) Limited

District	Branch Name	Address
Hong Kong Island	King's Road Branch	131–133 King's Road North Point Hong Kong
Kowloon	Whampoa Garden Branch	Shop G8B, Site 1 Whampoa Garden Hung Hom Kowloon
New Territories	Texaco Road Branch	Shop A112 East Asia Gardens 36 Texaco Road Tsuen Wan New Territories

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Wednesday, 24 June 2020 until 12:00 noon on Thursday, 2 July 2020 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

Time for Lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order marked payable to "BANK OF CHINA (HONG KONG) NOMINEES LIMITED — CHINA SAFTOWER PUBLIC OFFER" attached and securely stapled, should be deposited in the special collection boxes provided at any of the branches of the receiving bank listed above, at the following dates and times:

Wednesday, 24 June 2020	—	9:00 a.m. to 5:00 p.m.
Friday, 26 June 2020	—	9:00 a.m. to 5:00 p.m.
Saturday, 27 June 2020	—	9:00 a.m. to 1:00 p.m.
Monday, 29 June 2020	—	9:00 a.m. to 5:00 p.m.
Tuesday, 30 June 2020	—	9:00 a.m. to 5:00 p.m.
Thursday, 2 July 2020	—	9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Thursday, 2 July 2020, the last application day or such later time as described in "Effect of Bad Weather on the Opening of the Applications Lists" in this section.

4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **HK eIPO White Form** service, among other things, you:

(i) undertake to execute all relevant documents and instruct and authorise our Company and/or the Joint Bookrunners (or their agents or nominees), as agents of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Public Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;

(ii) agree to comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association;

(iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;

(iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;

(v) confirm that you are aware of the restrictions on the Share Offer in this prospectus;

(vi) agree that none of our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Share Offer is or will be liable for any information and representations not in this prospectus (and any supplement to it);

(vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the Placing nor participated in the Placing;

(viii) agree to disclose to our Company, our Hong Kong Branch Share Registrar, receiving bank, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;

(ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;

(x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;

(xi) agree that your application will be governed by the laws of Hong Kong;

(xii) represent, warrant and undertake that (i) you understand that the Public Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Public Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;

(xiii) warrant that the information you have provided is true and accurate;

(xiv) agree to accept the Public Offer Shares applied for, or any lesser number allocated to you under the application;

(xv) authorise our Company to place your name(s) or the name of the HKSCC Nominees, on our Company's register of members as the holder(s) of any Public Offer Shares allocated to you, and our Company and/or our agents to send any Share certificate(s) and/or any e-Auto Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you have chosen to collect the Share certificate(s) and/or refund cheque(s) in person;

(xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;

(xvii) understand that our Company, the Directors, the Sole Sponsor, the Joint Bookrunners, and the Joint Lead Managers will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Public Offer Shares to you and that you may be prosecuted for making a false declaration;

(xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **HK eIPO White Form** Service Provider by you or by any one as your agent or by any other person; and

(xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

Additional Instructions for Yellow Application Form

You may refer to the **YELLOW** Application Form for details.

5. APPLYING THROUGH HK eIPO WHITE FORM SERVICE

General

Individuals who meet the criteria in "Who can apply" in this section above, may apply through the **HK eIPO White Form** service for the Offer Shares to be allotted and registered in their own names through the designated website at ***www.hkeipo.hk*** or the **IPO APP**.

Detailed instructions for application through the **HK eIPO White Form** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to our Company. If you apply through the designated website, you authorise the **HK eIPO White Form** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **HK eIPO White Form** service.

Time for Submitting Applications under the HK eIPO White Form service

You may submit your application to the **HK eIPO White Form** Service Provider at ***www.hkeipo.hk*** or the **IPO APP** (24 hours daily, except on the last application day) from 9:00 a.m. on Wednesday, 24 June 2020 until 11:30 a.m. on Thursday, 2 July 2020 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Thursday, 2 July 2020 or such later time under the "10. Effects of Bad Weather on the Opening of the Applications Lists" in this section.

No Multiple Applications

If you apply by means of **HK eIPO White Form** service, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **HK eIPO White Form** service to make an application for Public Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **HK eIPO White Form** service more than once and obtaining different payment reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **HK eIPO White Form** service or by any other means, all of your applications are liable to be rejected.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give **electronic application instructions** to apply for the Public Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling 2979-7888 or through the CCASS Internet System (***https://ip.ccass.com***) (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Centre
1/F, One & Two Exchange Square
8 Connaught Place, Central
Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Public Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Joint Bookrunners and our Hong Kong Branch Share Registrar.

Giving Electronic Application Instructions to HKSCC via CCASS

Where you have given **electronic application instructions** to apply for the Public Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

(i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;

(ii) HKSCC Nominees will do the following things on your behalf:

- agree that the Public Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;

- agree to accept the Public Offer Shares applied for or any lesser number allocated;

- undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the Placing;

- declare that only one set of **electronic application instructions** has been given for your benefit;

- (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorised to give those instructions as their agent;

- confirm that you understand that our Company, our Directors, the Sole Sponsor, the Joint Bookrunners and the Joint Lead Managers will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Public Offer Shares to you and that you may be prosecuted if you make a false declaration;

- authorise our Company to place HKSCC Nominees' name on our Company's register of members as the holder of the Public Offer Shares allocated to you and to send Share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;

- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;

- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;

- agree that none of our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Share Offer, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);

- agree to disclose your personal data to our Company, the Sole Sponsor, our Hong Kong Branch Share Registrar, the receiving bank, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or its respective advisers and agents;

- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;

- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Public Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;

- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by our Company's announcement of the Public Offer results;

- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for giving **electronic application instructions** to apply for Public Offer Shares;

- agree with our Company, for itself and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association; and

- agree that your application, any acceptance of it and the resulting contract will be governed by the laws of Hong Kong.

Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Public Offer Shares on your behalf;

- instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies(including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and

- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 10,000 Public Offer Shares. Instructions for more than 10,000 Public Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Public Offer Shares will be considered and any such application is liable to be rejected.

Time for Inputting Electronic Application Instructions(1)

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Wednesday, 24 June 2020	—	9:00 a.m. to 8:30 p.m.
Friday, 26 June 2020	—	8:00 a.m. to 8:30 p.m.
Monday, 29 June 2020	—	8:00 a.m. to 8:30 p.m.
Tuesday, 30 June 2020	—	8:00 a.m. to 8:30 p.m.
Thursday, 2 July 2020	—	8:00 a.m. to 12:00 noon

Note:

(1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Wednesday, 24 June 2020 until 12:00 noon on Thursday, 2 July 2020 (24 hours daily, except on Thursday, 2 July 2020 the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Thursday, 2 July 2020, the last application day or such later time as described in "10. Effect of Bad Weather on the Opening of the Application Lists" in this section.

No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Public Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Public Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

Personal Data

The section of the Application Form headed "Personal Data" applies to any personal data held by our Company, the Sole Sponsor, our Hong Kong Branch Share Registrar, the receiving bank, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Public Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Public Offer Shares through the **HK eIPO White Form** service is also only a facility provided by the **HK eIPO White Form** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, our Directors, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **HK eIPO White Form** service will be allotted any Public Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC's Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Thursday, 2 July 2020.

8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Public Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through **HK eIPO White Form** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

"Unlisted company" means a company with no equity securities listed on the Stock Exchange.

"Statutory control" means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

9. HOW MUCH ARE THE PUBLIC OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for our Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **HK eIPO White Form** service in respect of a minimum of 10,000 Public Offer Shares. Each application or electronic application instruction in respect of more than 10,000 Public Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at ***www.hkeipo.hk*** or the **IPO APP**.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see "Structure and Conditions of the Share Offer — Pricing and Allocation" in this prospectus.

10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a "black" rainstorm warning; or
- an announcement of Extreme Conditions

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, 2 July 2020. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Thursday, 2 July 2020 or if there is a tropical cyclone warning signal number 8 or above or a "black" rainstorm warning signal or Extreme Conditions in force in Hong Kong that may affect the dates mentioned in the section headed "Expected Timetable" in this prospectus, an announcement will be made in such event.

11. PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the level of indication of interest in the Placing, the level of applications in the Public Offer and the basis of allocation of the Public Offer Shares on Thursday, 9 July 2020 on our Company's website at ***www.saftower.cn*** and the website of the Stock Exchange at ***www.hkexnews.hk***.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Public Offer will be available at the times and date and in the manner specified below:

- in the announcement to be posted on our Company's website at ***www.saftower.cn*** and the Stock Exchange's website at ***www.hkexnews.hk*** by no later than 9:00 a.m. on Thursday, 9 July 2020;
- from the designated results of allocations website at ***www.tricor.com.hk/ipo/result*** or ***www.hkeipo.hk/iporesult*** or from the "Allotment Result" function in the **IPO APP** with a "search by ID" function on a 24-hour basis from 8:00 a.m. on Thursday, 9 July 2020 to 12:00 midnight on Wednesday, 15 July 2020;
- by telephone enquiry line by calling 3691 8488 between 9:00 a.m. and 6:00 p.m. from Thursday, 9 July 2020 to Tuesday, 14 July 2020 (excluding Saturday, Sunday and Public Holiday);
- in the special allocation results booklets which will be available for inspection during opening hours from Thursday, 9 July 2020 to Monday 13 July 2020 at all the receiving bank's designated branches.

If our Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Public Offer Shares if the conditions of the Share Offer are satisfied and the Share Offer is not otherwise terminated. Further details are contained in the section headed "Structure and Conditions of the Share Offer" in this prospectus.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Public Offer Shares will not be allotted to you:

(i) If your application is revoked:

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or to **HK eIPO White Form** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(ii) If our Company or our agents exercise their discretion to reject your application:

Our Company, the Joint Bookrunners, the **HK eIPO White Form** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(iii) If the allotment of Public Offer Shares is void:

The allotment of Public Offer Shares will be void if the Listing Committee of the Stock Exchange does not grant permission to list our Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies our Company of that longer period within three weeks of the closing date of the application lists.

(iv) If:

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Public Offer Shares and Placing Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **HK eIPO White Form** service are not completed in accordance with the instructions, terms and conditions on the designated website or in the **IPO APP**;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- our Company or the Joint Bookrunners believe that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 100% of the Public Offer Shares initially offered under the Public Offer.

13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum Offer Price of HK$0.40 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Public Offer are not fulfilled in accordance with "Structure and Conditions of the Share Offer — Conditions of the Share Offer" in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker's cashier order will not be cleared.

Any refund of your application monies will be made on Thursday, 9 July 2020.

14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one Share certificate for all Public Offer Shares allotted to you under the Public Offer (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the Share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of our Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- Share certificate(s) for all the Public Offer Shares allotted to you (for **YELLOW** Application Forms, Share certificates will be deposited into CCASS as described below); and

- refund cheque(s) crossed "Account Payee Only" in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Public Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest). Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on dispatch/collection of Share certificates and refund monies as mentioned below, any refund cheques and Share certificates are expected to be posted on or around Thursday, 9 July 2020. The right is reserved to retain any Share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker's cashier's order(s).

Share certificates will only become valid at 8:00 a.m. on Friday, 10 July 2020 provided that the Share Offer has become unconditional and the right of termination described in the "Underwriting" section in this prospectus has not been exercised. Investors who trade shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

Personal Collection

(i) If you apply using a WHITE Application Form

If you apply for 1,000,000 or more Public Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or Share certificate(s) from our Hong Kong Branch Share Registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, 9 July 2020 or such other date as notified by us.

If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorisation from your corporation stamped with your corporation's chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to our Hong Kong Branch Share Registrar.

If you do not collect your refund cheque(s) and/or Share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Public Offer Shares, your refund cheque(s) and/or Share certificate(s) will be sent to the address on the relevant Application Form on Thursday, 9 July 2020, by ordinary post and at your own risk.

(ii) If you apply using a YELLOW Application Form

If you apply for 1,000,000 Public Offer Shares or more, please follow the same instructions as described above for collection of your refund cheque(s). If you have applied for less than 1,000,000 Public Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on Thursday, 9 July 2020, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Thursday, 9 July 2020, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- *If you apply through a designated CCASS Participant (other than a CCASS Investor Participant)*

  For Public Offer Shares credited to your designated CCASS Participant's stock account (other than CCASS Investor Participant), you can check the number of Public Offer Shares allotted to you with that CCASS Participant.

- *If you are applying as a CCASS Investor Participant*

  Our Company will publish the results of CCASS Investor Participants' applications together with the results of the Public Offer in the manner described in "Publication of Results" above. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m., Thursday, 9 July 2020 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Public Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

(iii) If you apply through the HK eIPO White Form service

If you apply for 1,000,000 Public Offer Shares or more and your application is wholly or partially successful, you may collect your Share certificate(s) from the Hong Kong Branch Share Registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, 9 July 2020, or such other date as notified by our Company as the date of despatch/collection of Share certificates/e-Auto Refund payment instructions/refund cheques.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Public Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on Thursday, 9 July 2020 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Auto Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

(iv) If you apply via Electronic Application Instructions to HKSCC

Allocation of Public Offer Shares

For the purposes of allocating Public Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Thursday, 9 July 2020, or, on any other date determined by HKSCC or HKSCC Nominees.

- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Public Offer in the manner specified in "Publication of Results" above on Thursday, 9 July 2020. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, 9 July 2020 or such other date as determined by HKSCC or HKSCC Nominees.

- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.

- If you have applied as a CCASS Investor Participant, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Thursday, 9 July 2020. Immediately following the credit of the Public Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Public Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Thursday, 9 July 2020.

15. ADMISSION OF OUR SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, our Shares and we comply with the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in our Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the GEM Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling our Shares to be admitted into CCASS.

The following is the text of a report, received from the Company's reporting accountants, BDO Limited, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.

Tel : +852 2218 8288
Fax: +852 2815 2239
www.bdo.com.hk

25th Floor Wing On Centre
111 Connaught Road Central
Hong Kong

電話：+852 2218 8288
傳真：+852 2815 2239
www.bdo.com.hk

香港干諾道中111號
永安中心25樓

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF CHINA SAFTOWER INTERNATIONAL HOLDING GROUP LIMITED AND ALLIANCE CAPITAL PARTNERS LIMITED

Introduction

We report on the historical financial information of China Saftower International Holding Group Limited (the "Company") and its subsidiaries (together the "Group") set out on pages I-4 to I-78, which comprises the consolidated statements of financial position as at 31 December 2017, 31 December 2018 and 31 December 2019 and the statements of financial position of the Company as at 31 December 2018 and 31 December 2019, and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the periods then ended (the "Relevant Periods") and a summary of significant accounting policies and other explanatory information (together the "Historical Financial Information"). The Historical Financial Information set out on pages I-4 to I-78 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 24 June 2020 (the "Prospectus") in connection with the initial listing of shares of the Company on GEM of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the Company's financial position as at 31 December 2018 and 31 December 2019, the Group's financial position as at 31 December 2017, 31 December 2018 and 31 December 2019 and of the Group's financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on GEM of the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

Dividends

We refer to Note 13 to the Historical Financial Information which states that no dividends have been paid by the Company in respect of the Relevant Periods.

No financial statements for the Company

No financial statements have been prepared for the Company since its date of incorporation.

BDO Limited
Certified Public Accountants
Chan Wing Fai
Practising Certificate no. P05443

Hong Kong
24 June 2020

I. HISTORICAL FINANCIAL INFORMATION

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The financial statements of the Group for the Relevant Periods, on which the Historical Financial Information is based, were audited by BDO Limited in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the "**Underlying Financial Statements**").

The Historical Financial Information is presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand ("**RMB'000**") except when otherwise indicated.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended 31 December		
		2017	**2018**	**2019**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	7	262,295	552,656	685,530
Cost of sales		(247,899)	(514,300)	(631,656)
Gross profit		14,396	38,356	53,874
Other income and gains	8	8,935	9,249	20,838
Selling and distribution expenses		(2,702)	(4,999)	(9,068)
Administrative and other expenses		(13,286)	(12,235)	(15,491)
Listing expenses		—	(3,851)	(8,920)
Finance costs	9	(4,257)	(6,515)	(7,877)
Share of profit of a joint venture		88	1,548	538
Profit before income tax expense	10	3,174	21,553	33,894
Income tax expense	12	(997)	(4,157)	(4,141)
Profit and total comprehensive income for the year		2,177	17,396	29,753
Profit and total comprehensive income attributable to:				
Owners of the Company		2,180	17,486	26,607
Non-controlling interests		(3)	(90)	3,146
		2,177	17,396	29,753
Earnings per share for the profit attributable to owners of the Company during the year (expressed in RMB per share)				
— Basic and diluted	14	N/A	N/A	N/A

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		As at 31 December		
		2017	2018	2019
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS AND LIABILITIES				
Non-current assets				
Property, plant and equipment	15	93,079	89,245	119,013
Intangible assets	16	85	127	112
Interest in a joint venture	17	24,106	25,100	—
Deferred tax assets	18	1,729	141	—
Right-of-use assets	19	11,428	10,781	10,134
Prepayments	22	595	4,993	190
		131,022	130,387	129,449
Current assets				
Inventories	20	15,186	8,497	20,771
Trade and bills receivables	21	27,873	66,941	148,035
Prepayments, deposits and other receivables	22	12,788	60,767	33,301
Amounts due from shareholders	23	23	373	5
Cash and cash equivalents	24	4,907	1,614	2,726
		60,777	138,192	204,838
Total assets		191,799	268,579	334,287
Current liabilities				
Contract liabilities	25	6,301	6,713	6,804
Trade and bills payables	26	34,224	56,377	67,849
Accruals and other payables	27	18,159	18,417	14,477
Amount due to a shareholder	23	12,309	899	—
Borrowings	28	56,000	91,630	95,478
Deferred income	29	368	368	368
Lease liabilities	30	2,844	1,238	356
Income tax payable		2	2,441	2,172
		130,207	178,083	187,504
Net current (liabilities)/assets		(69,430)	(39,891)	17,334
Total assets less current liabilities		61,592	90,496	146,783

		As at 31 December		
		2017	2018	2019
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Non-current liabilities				
Borrowings	28	—	—	3,684
Deferred income	29	3,189	2,821	2,453
Deferred tax liabilities	18	—	—	1,061
Lease liabilities	30	438	314	184
		3,627	3,135	7,382
Net assets		57,965	87,361	139,401
EQUITY				
Equity attributable to owners of the Company				
Share capital	31	—	—*	—*
Reserves	32	57,968	87,454	111,757
		57,968	87,454	111,757
Non-controlling interests		(3)	(93)	27,644
Total equity		57,965	87,361	139,401

* Represents the amount less than RMB1,000

STATEMENTS OF FINANCIAL POSITION OF THE COMPANY

		As at 31 December	
		2018	**2019**
	Notes	*RMB'000*	*RMB'000*
ASSETS AND LIABILITIES			
Non-current asset			
Investment in a subsidiary		—*	—*
Net asset		—*	—*
EQUITY			
Equity attributable to owners of the Company			
Share capital	31	—*	—*
Total equity		—*	—*

* Represents the amount less than RMB1,000

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Equity attributable to owners of the Company						
	Share capital RMB'000 (Note 31)	Capital reserves RMB'000 (Note 32)	(Accumulated losses)/ retained earnings RMB'000 (Note 32)	Statutory reserves RMB'000 (Note 32)	Sub-total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2017	—	60,000	(4,215)	3	55,788	—	55,788
Profit and total comprehensive income for the year	—	—	2,180	—	2,180	(3)	2,177
Transfer to statutory reserves	—	—	(383)	383	—	—	—
At 31 December 2017 and 1 January 2018	—	60,000	(2,418)	386	57,968	(3)	57,965
Profit and total comprehensive income for the year	—	—	17,486	—	17,486	(90)	17,396
Capital injection to a subsidiary *(Note i)*	—	12,000	—	—	12,000	—	12,000
Issue of ordinary share *(Note 31(a))*	—*	—	—	—	—*	—	—*
Transfer to statutory reserves	—	—	(2,147)	2,147	—	—	—
At 31 December 2018 and 1 January 2019	—	72,000	12,921	2,533	87,454	(93)	87,361
Profit and total comprehensive income for the year	—	—	26,607	—	26,607	3,146	29,753
Acquisition of a subsidiary *(Note 36)*	—	—	—	—	—	27,971	27,971
Issue of ordinary shares *(Note 31(b)&(c))*	—*	—	—	—	—*	—	—*
Deemed distribution to the then shareholders of a subsidiary pursuant to the Reorganisation *(Note ii)*	—	(2,304)	—	—	(2,304)	—	(2,304)
Dividend to non-controlling interests *(Note 13)*	—	—	—	—	—	(3,380)	(3,380)
Transfer to statutory reserves	—	—	(3,790)	3,790	—	—	—
At 31 December 2019	—*	69,696	35,738	6,323	111,757	27,644	139,401

* Represents the amount less than RMB1,000

Notes:

(i) By two payments made on 17 December 2018 and 25 December 2018 respectively, Mr. Dang Fei contributed a total of RMB12,000,000 towards 廣元蜀塔科技有限公司 (Guangyuan Saftower Technology Company Limited*) as capital injection.

(ii) As part of the Reorganisation as defined in Note 2, 蜀塔企業管理(廣元)有限公司 (Saftower Management (Guangyuan) Limited*) acquired 96% of the equity interests of 廣元蜀塔科技有限公司 (Guangyuan Saftower Technology Company Limited*) from the then shareholders, at cash considerations of RMB2,304,000.

* *English translated names are for identification purpose only*

CONSOLIDATED STATEMENTS OF CASH FLOWS

		Year ended 31 December		
		2017	2018	2019
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Cash flows from operating activities				
Profit before income tax expense		3,174	21,553	33,894
Adjustments for:				
Depreciation of property, plant and equipment	10	4,926	5,173	5,766
Depreciation of right-of-use assets	10	283	647	647
(Gains)/losses on disposal of property, plant and equipment, net	10	(1,517)	11	—
Gain on a bargain purchase	8	—	—	(942)
Amortisation of intangible assets	10	13	15	15
Allowance for/(reversal of) ECLs on trade receivables	10	289	566	(1,136)
(Reversal of)/allowance for ECLs on other receivables	10	(12)	(20)	64
Written-off of prepayments and other receivables	10	300	353	—
Release of deferred income	10	(123)	(368)	(368)
Share of profit of a joint venture		(88)	(1,548)	(538)
Finance costs	9	4,257	6,515	7,877
Interest income	8	(5)	(7)	(16)
		11,497	32,890	45,263
(Increase)/decrease in inventories		(2,765)	6,692	4,702
Decrease/(increase) in trade and bills receivables		70	(39,634)	(49,531)
(Increase)/decrease in prepayments, deposits and other receivables		(589)	(48,312)	32,275
Increase/(decrease) in contract liabilities		3,889	412	(3,572)
Increase/(decrease) in trade and bills payables		14,148	22,153	(589)
(Decrease)/increase in accruals and other payables		(13,819)	4,553	(6,143)
(Increase)/decrease in amounts due from shareholders		(23)	(350)	368
Cash generated from/(used in) operations		12,408	(21,596)	22,773
Income tax paid		—	(130)	(3,491)
Net cash generated from/(used in) operating activities		12,408	(21,726)	19,282

		Year ended 31 December		
		2017	2018	2019
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Cash flows from investing activities				
Purchase of intangible assets		(27)	(57)	—
Purchase of property, plant and equipment		(27,265)	(10,056)	(10,352)
Purchase of right-of-use assets		(578)	—	—
Investment in a joint venture		(3,104)	—	—
Dividend received from a joint venture		—	551	—
Acquisition of a subsidiary	36	—	—	90
Receipt of a government grant		3,680	—	—
Interest received		5	7	16
Net cash used in investing activities		(27,289)	(9,555)	(10,246)
Cash flows from financing activities				
Capital injection to a subsidiary		—	12,000	—
Proceeds from borrowings		60,000	91,880	103,140
Repayments of borrowings		(42,000)	(56,250)	(95,608)
Interest paid on borrowings		(4,330)	(6,269)	(7,783)
Repayments of lease liabilities		(596)	(1,963)	(1,090)
Increase/(decrease) in amount due to a shareholder		3,034	(11,410)	(899)
Deemed distribution to the then shareholders of a subsidiary pursuant to the Reorganisation		—	—	(2,304)
Decrease in amount due to a related company		(366)	—	—
Dividend paid to non-controlling interests		—	—	(3,380)
Net cash generated from/(used in) financing activities		15,742	27,988	(7,924)
Net increase/(decrease) in cash and cash equivalents		861	(3,293)	1,112
Cash and cash equivalents at beginning of year		4,046	4,907	1,614
Cash and cash equivalents at end of year		4,907	1,614	2,726

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands on 9 October 2018. The address of the Company's registered office is 4th Floor, Harbour Place, 103 South Church Street, P.O. Box 10240, Grand Cayman KY1-1002, Cayman Islands and its principal place of business is No. 88, Qingma Road, Modern Industrial Port (South Area), Pidu District, Chengdu, Sichuan Province, the People's Republic of China (the "**PRC**").

The Company is an investment holding company. The Company and its subsidiaries now comprising the group (the "**Group**") are principally engaged in the manufacturing and sales of wires and cables and sales of aluminium products in the PRC (the "**Listing businesses**").

No audited statutory financial statements have been prepared for the Company since its date of incorporation as the Company is not required to issue audited financial statements under statutory requirements of its place of incorporation.

As at the date of this report, the Company has direct and indirect interests in the following subsidiaries and the particulars of which are set out below:

Name of subsidiary	Place and date of incorporation/ establishment and form of business structure	Issued and fully paid share capital/ paid-up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities	*Notes*
Bida Investment Limited ("**Bida Investment**")	The British Virgin Islands ("**BVI**") 5 November 2018 Limited liability company	United States Dollars ("**US$**") 1	100%	—	Investment holding	(i)
China Saftower International Limited ("**Saftower International**")	Hong Kong 5 December 2018 Limited liability company	Hong Kong Dollars ("**HK$**") 1	—	100%	Investment holding	(ii)
Weichi Investment Limited ("**Weichi Investment**")	BVI 15 November 2018 Limited liability company	US$1	—	100%	Investment holding	(i)
Wechi Int'l Investment Limited ("**Wechi Int'l**")	Hong Kong 27 December 2018 Limited liability company	HK$1	—	100%	Investment holding	(ii)
蜀塔企業管理(廣元)有限公司 (Saftower Management (Guangyuan) Limited)* ("**Saftower Management**")	The PRC 14 May 2019 Limited liability company	RMB100,000	—	100%	Investment holding	(i)
廣元蜀塔科技有限公司 (Guangyuan Saftower Technology Company Limited)* ("**Guangyuan Saftower Technology**")	The PRC 14 September 2018 Limited liability company	RMB2,400,000	—	100%	Investment holding	(i)

* *English translated names are for identification purpose only*

Name of subsidiary	Place and date of incorporation/ establishment and form of business structure	Issued and fully paid share capital/ paid-up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities	*Notes*
四川蜀塔實業有限公司 (Sichuan Saftower Industry Company Limited)* ("**Sichuan Saftower**")	The PRC 24 June 2004 Limited liability company	RMB60,000,000	—	100%	Manufacturing, processing and sale of wires and cables and sale of aluminium products	(iii)
廣元蜀塔電纜有限公司 (Guangyuan Saftower Cable Company Limited)* ("**Guangyuan Saftower**")	The PRC 16 February 2015 Limited liability company	RMB25,200,000	—	100%	Manufacturing, processing and sale of semi-finished wires and trading of aluminium products	(iii)
四川量電電纜科技有限公司 (Sichuan Liangdian Cable Technology Company Limited)* ("**Sichuan Liangdian**")	The PRC 19 March 2015 Limited liability company	RMB100,000	—	100%	Sales of wires and cables	(i)
拉薩蜀塔科技發展有限公司 (Lhasa Saftower Technology Development Company Limited)* ("**Lhasa Saftower**")	The PRC 14 January 2013 Limited liability company	RMB100,000	—	100%	Inactive	(i)
廣元蜀能合金材料有限公司 (Guangyuan Shuneng Alloy Materials Company Limited)* ("**Guangyuan Shuneng**")	The PRC 24 January 2018 Limited liability company	RMB4,800,000	—	100%	Production of aluminium rod materials	(i)
廣元同創新材料有限公司 (Guangyuan Tongchuang New Materials Company Limited)* ("**Guangyuan Tongchuang**")	The PRC 14 July 2017 Limited liability company	RMB60,000,000	—	56.67%	Manufacturing, processing and sale of aluminium wires and cables and trading of aluminium products	(iv)

Notes:

(i) No audited statutory financial statements have been prepared for these entities as they are not required to issue audited financial statements under statutory requirements of their respective place of incorporation.

(ii) No audited statutory financial statements have been prepared for Saftower International and Wechi Int'l as they are newly incorporated.

(iii) The audited financial statements of these entities for the year ended 31 December 2017 were prepared in accordance with PRC Generally Accepted Accounting Principles ("**PRC GAAP**") and were audited by WUYIGE Certified Public Accountants LLP (大信會計師事務所(特殊普通合伙)). The audited financial statements of these entities for the years ended 31 December 2018 and 2019 were not prepared as they are not required to issue audited financial statements under statutory audit requirements of their respective place of incorporation.

(iv) The audited financial statements of this entity for the years ended 31 December 2017 and 2018 were prepared in accordance with PRC GAAP and were audited by Sichuan Zhongheng Anxin Certified Public Accountants (四川中衡安信會計師事務所). The audited financial statements of this entity for the year ended 31 December 2019 were not prepared as it is not required to issue audited financial statements under statutory audit requirements of its respective place of incorporation.

* *English translated names are for identification purpose only*

2. REORGANISATION, BASIS OF PREPARATION AND PRESENTATION

Prior to the incorporation of the Company and the completion of the reorganisation, the Listing Businesses were conducted through Sichuan Saftower and its subsidiaries (the "**Sichuan Saftower Group**"). Sichuan Saftower was controlled by Mr. Dang Fei and Mr. Dang Jun. As detailed in the section headed "History, Development and Reorganisation" in the Prospectus, the Group underwent a reorganisation (the "**Reorganisation**") to rationalise its corporate structure in connection with the listing of the shares of the Company on GEM of the Stock Exchange (the "**Listing**").

The Company was incorporated in the Cayman Islands on 9 October 2018 as an exempted company with limited liability under the Cayman Islands Companies Law. Pursuant to the Reorganisation as detailed in the section headed "History, Development and Reorganisation" in the Prospectus, the Company became the holding company of the companies now comprising the Group on 29 May 2019. The Company and Bida Investment, Saftower International, Weichi Investment, Wechi Int'l, Saftower Management, Guangyuan Saftower Technology (together, the "**Non-operating Companies**") are newly incorporated companies as part of the Reorganisation of Sichuan Saftower and none of these new holding companies carried out any business since their incorporation.

The Reorganisation only involved inserting the Non-operating Companies as holding companies of Sichuan Saftower, which has no substance. The holding companies have not been involved in any business and do not meet the definition of a business. Accordingly, for the purpose of this report, the Historical Financial Information has been prepared based on that of Sichuan Saftower Group using the predecessor carrying amounts.

For the purpose of this report, the consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows of the Group for the Relevant Periods include the results and cash flows of all companies now comprising the Group, as if the current group structure had been in existence throughout the Relevant Periods, or since their respective dates of acquisition or incorporation/establishment, whichever is the shorter period. The consolidated statements of financial position of the Group as at 31 December 2017, 31 December 2018 and 31 December 2019 have been prepared to present the assets and liabilities of companies now comprising the Group as if the current group structure had been in existence at these dates or since their respective dates of acquisition or incorporation/establishment, whichever is the shorter period. All significant intra-group transactions and balances have been eliminated upon consolidation.

Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full upon consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The Historical Financial Information has been prepared in accordance with the accounting policies set out in Note 4 below, which conform to Hong Kong Financial Reporting Standards ("**HKFRSs**") (which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards ("**HKASs**") and Interpretations) issued by the HKICPA and applicable disclosure provisions of the Rules Governing the Listing of Securities on GEM of the Stock Exchange of Hong Kong Limited throughout the Relevant Periods.

HKFRS 9 "Financial Instruments" ("**HKFRS 9**") and HKFRS 15 "Revenue from Contracts with Customers" ("**HKFRS 15**") are mandatorily effective for the financial year beginning on or after 1 January 2018. HKFRS 16 "Leases" ("**HKFRS 16**") is mandatorily effective for financial year beginning on or after 1 January 2019. In preparation of the Historical Financial Information, these new standards together with other newly effective standards, amendments to standards and interpretations, which are mandatory for the financial year beginning 1 January 2019 and before, have been consistently applied to the Group throughout the Relevant Periods. We have also early adopted "Amendments to HKFRS 10 and HKAS 28 — Sales or Contribution of Assets between Investor and its Associate or Joint Venture", which have no significant impact on the Group's financial position/performance, although the mandatory effective date of such amendments is to be determined.

The Historical Financial Information has been prepared under the historical cost basis.

The Historical Financial Information is prepared in RMB, which is also the functional currency of the Company and its subsidiaries and all values are rounded to the nearest thousands except when otherwise indicated.

It should be noted that accounting estimates and assumptions are used in the preparation of the Historical Financial Information. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in Note 5.

3. IMPACT OF ISSUED BUT NOT YET EFFECTIVE HKFRSs

The Group has not early applied the following new and revised HKFRSs that have been issued, potentially relevant to the Group's operation, but are not yet effective, during the Relevant Periods in the Historical Financial Information.

Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting[1]
Amendments to HKFRS 3	Definition of a Business[1]
Amendments to HKAS 1 and HKAS 8	Definition of Material[1]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[1]
HKFRS 17	Insurance Contracts[2]
Amendments to HKAS 1	Classification of Liabilities as current or non-current[3]

1 Effective for annual periods beginning on or after 1 January 2020
2 Effective for annual periods beginning on or after 1 January 2021
3 Effective for annual periods beginning on or after 1 January 2022

The directors do not anticipate that the application of the new and revised HKFRSs will have material impact on the Group's financial performance and position and/or the disclosures to the Group's Historical Financial Information.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of the Historical Financial Information are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

4.1 Business combination and basis of consolidation

The consolidated financial statements comprise the financial statements of the Group. Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The results of subsidiaries acquired or disposed of during the Relevant Periods are included in the consolidated statement of comprehensive income from the dates of acquisition or up to the dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

Acquisition of subsidiaries or businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interests that represent present ownership interests in the subsidiary either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other non-controlling interests are measured at fair value unless another measurement basis is required by HKFRSs. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case the costs are deducted from equity.

Any contingent consideration to be transferred by the acquirer is recognised at acquisition-date fair value. Subsequent adjustments to consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

Subsequent to acquisition, the carrying amount of non-controlling interests that represent present ownership interests in the subsidiary is the amount of those interests at initial recognition plus such non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to such non-controlling interests even if this results in those non-controlling interests having a deficit balance.

4.2 Subsidiaries

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: (1) power over the investee, (2) exposure, or rights, to variable returns from the investee, and (3) the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

In the Company's statements of financial position, investments in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivables.

4.3 Non-controlling interests

Non-controlling interests in a subsidiary relate to the equity in the subsidiary which is not attributable directly or indirectly to the owners of the parent. This is shown separately in the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of financial position and the consolidated statements of changes in equity.

Non-controlling interests in the acquiree that are a present ownership interest and entitle its holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value, of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis.

4.4 Joint arrangements

The group is a party to a joint arrangement where there is a contractual arrangement that confers joint control over the relevant activities of the arrangement to the Group and at least one other party. Joint control is assessed under the same principles as control over subsidiaries.

The Group classifies its interests in joint arrangements as either:

- *Joint ventures:* where the Group has rights to only the net assets of the joint arrangement; or
- *Joint operations:* where the Group has both the rights to assets and obligations for the liabilities of the joint arrangement.

In assessing the classification of interests in joint arrangements, the Group considers:

- The structure of the joint arrangement;
- The legal form of joint arrangements structured through a separate vehicle;
- The contractual terms of the joint arrangement agreement; and
- Any other facts and circumstances (including any other contractual arrangements).

Interests in joint ventures are accounted for using the equity method whereby they are initially recognised at cost and thereafter, their carrying amount are adjusted for the Group's share of the post-acquisition change in the joint ventures' net assets except that losses in excess of the Group's interest in the joint venture are not recognised unless there is an obligation to make good those losses.

Profits and losses arising on transactions between the Group and its joint ventures are recognised only to the extent of unrelated investors' interests in the joint ventures. The investor's share in the joint venture's profits and losses resulting from these transactions is eliminated against the carrying value of the joint venture. Where unrealised losses provide evidence of impairment of the asset transferred they are recognised immediately in profit or loss.

Any premium paid for an interest in a joint venture above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the interest in a joint venture. Where there is objective evidence that the interest in a joint venture has been impaired, the carrying amount of the investment is tested for impairment in the same way as other non-financial assets.

The Group accounts for its interests in joint operations by recognising its share of assets, liabilities, revenues and expenses in accordance with its contractually conferred rights and obligations.

The Company's interests in joint ventures are stated at cost less impairment losses, if any. Results of joint ventures are accounted for by the Company on the basis of dividends received and receivable.

The Group has early adopted "Amendments to HKFRS 10 and HKAS 28 — Sales or Contribution of Assets between an Investor and its Associate or Joint Venture" since 1 January 2017.

The amendments clarify the extent of gains or losses to be recognised when an entity sells or contributes assets to its associate or joint venture. When the transaction involves a business the gain or loss is recognised in full, conversely when the transaction involves assets that do not constitute a business the gain or loss is recognised only to the extent of the unrelated investors' interests in the joint venture or associate.

4.5 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised as an expense in profit or loss during the financial period in which they are incurred.

Property, plant and equipment are depreciated so as to write off their cost net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The useful lives are as follows:

Buildings	30 years
Leasehold improvements	5 years
Plant and machinery	10–30 years
Furniture and fixtures	3–5 years
Computer and office equipment	3–10 years
Motor vehicles	5–10 years

Construction in progress is stated at cost less impairment losses. Cost comprises direct costs of construction as well as borrowing costs capitalised during the periods of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to the appropriate class of property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided for in respect of construction in progress until it is completed and ready for its intended use.

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

4.6 Leases

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on the straight-line basis over the lease term.

The Group as lessee

All leases (irrespective of they are operating leases or finance leases) are required to be capitalised in the consolidated statement of financial position as right-of-use assets and lease liabilities, but accounting policy choices exist for an entity to choose not to capitalise (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low-value. The Group has elected not to recognise right-of-use assets and lease liabilities for low-value assets and leases for which at the commencement date have a lease term less than 12 months. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

Right-of-use asset

The right-of-use asset should be recognised at cost and would comprise: (i) the amount of the initial measurement of the lease liability (see below for the accounting policy to account for lease liability); (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. Except for right-of-use asset that meets the definition of an investment property or a class of property, plant and equipment to which the Group applies the revaluation model, the Group measures the right-of-use assets applying a cost model. Under the cost model, the Group measures the right-to-use at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability. For right-of-use asset that meets the definition of an investment property, they are carried at fair value and for right-of-use asset that meets the definition of a leasehold land and buildings held for own use, they are carried at fair value.

The Group accounts for leasehold land and buildings that are held for rental or capital appreciation purpose under HKAS 40 and are carried at fair value. The Group accounts for leasehold land and buildings which is held for own use under HKAS 16 and are carried at fair value. Other than the above right-of-use assets, the Group also has leased a number of properties under tenancy agreements which the Group exercises it judgement and determines that it is a separate class of asset apart from the leasehold land and buildings which is held for own use. As a result, the right-of-use asset arising from the properties under tenancy agreements are carried at depreciated cost.

Lease liability

The lease liability is recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses the Group's incremental borrowing rate.

The following payments for the right-to-use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable: (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent to the commencement date, the Group measures the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and (iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g., a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in substance fixed lease payments or a change in assessment to purchase the underlying asset.

The Group applies HKAS 36 to determine whether the right-of-use asset is impaired and accounts for any identified impairment loss.

As a practical expedient, HKFRS 16 permits a lessee not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single component. The Group has not used this practical expedient.

4.7 Intangible assets (other than goodwill)

(i) Intangible assets acquired separately are initially recognised at cost. The cost of intangible assets acquired in a business combination is fair value at the date of acquisition. Subsequently, intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses.

Amortisation is provided on a straight-line basis over their useful lives as follows. Intangible assets with indefinite useful lives are carried at cost less any accumulated impairment losses. The amortisation expense is recognised in profit or loss and included in administrative expenses.

Computer software	10 years

The management of the Group considers the expected usage of the computer software by the Group, technological obsolescence and other factors to justify the useful lives of the computer software.

(ii) Internally generated intangible assets (research and development costs)

Expenditure on internally developed products is capitalised if it can be demonstrated that:

- it is technically feasible to develop the product for it to be sold;
- adequate resources are available to complete the development;
- there is an intention to complete and sell the product;
- the Group is able to sell the product;
- sale of the product will generate future economic benefits; and expenditure on the project can be measured reliably.

Capitalised development costs are amortised over the periods the Group expects to benefit from selling the products developed. The amortisation expense is recognised in profit or loss and included in cost of sales.

Development expenditure not satisfying the above criteria and expenditure on the research phase of internal projects are recognised in profit or loss as incurred.

(iii) Impairment

Intangible assets with finite lives are tested for impairment when there is an indication that an asset may be impaired. Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, irrespective of whether there is any indication that they may be impaired. Intangible assets are tested for impairment by comparing their carrying amounts with their recoverable amounts (see Note 4.15).

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount.

4.8 Financial instruments

(i) Financial assets

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at fair value through profit or loss ("**FVTPL**"), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

Financial assets with embedded derivatives are considered in their entirely when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There is one measurement category into which the Group classifies its debt instruments:

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets at amortised cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.

(ii) Impairment loss on financial assets

The Group recognises loss allowances for expected credit loss ("**ECL**") on financial assets measured at amortised cost. The ECLs are measured on either of the following bases: (1) 12 months ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date; and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument. The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets' original effective interest rate.

The Group has elected to measure loss allowances for trade receivables using HKFRS 9 simplified approach and has calculated ECLs based on lifetime ECLs. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other debt financial assets, the ECLs are based on the 12-months ECLs. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group rebutted the presumption of a financial asset has increased credit risk significantly if it is more than 30 days past due based on the customers' past payment history and current ability of making payments. The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 180 days past due.

The Group rebutted the presumption of default under ECL model for a financial asset over 90 days past due based on the customers' past payment history and current ability of making payments. The Group considers that default has occurred when a financial asset is more than 1 year past due. The Group considers a financial asset to be credit-impaired when: (1) significant financial difficulty of the issuer or the borrower; (2) a breach of contract, such as a default or past due event; (3) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; (4) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; (5) the disappearance of an active market for that financial asset because of financial difficulties; or (6) the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable.

— when there is a breach of financial covenants by the counterparty; or

— information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Interest income on credit-impaired financial assets is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset. For non credit-impaired financial assets interest income is calculated based on the gross carrying amount.

(iii) Financial liabilities

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at amortised cost are initially measured at fair value, net of directly attributable costs incurred.

Financial liabilities at amortised cost

Financial liabilities at amortised cost including trade and other payables, borrowings, amount due to a shareholder, and lease liabilities are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

(iv) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the Relevant Periods. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(v) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(vi) Derecognition

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKFRS 9.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

Where the Group issues its own equity instruments to a creditor to settle a financial liability in whole or in part as a result of renegotiating the terms of that liability, the equity instruments issued are the consideration paid and are recognised initially and measured at their fair value on the date the financial liability or part thereof is extinguished. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments are measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability or part thereof extinguished and the consideration paid is recognised in profit or loss for the year.

4.9 Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

4.10 Revenue recognition

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Depending on the terms of the contract and the laws that apply to the contract, control of the goods or service may be transferred over time or at a point in time. Control of the goods or service is transferred over time if the Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates or enhances an asset that the customer controls as the Group performs; or
- does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the goods or services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods or services.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amounts receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. For contracts where the period between the payment and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

(i) Sales of wires and cables

Customers obtain control of the wires and cables when the goods are delivered to and have been accepted. Revenue is thus recognised upon when the customers accepted the wires and cables. There is generally only one performance obligation. Invoices are usually payable within 90 days.

(ii) Sales of aluminium products

Customers obtain control of the aluminium products when the goods are delivered to and have been accepted. Revenue is thus recognised upon when the customers accepted the aluminium products. There is generally only one performance obligation. Invoices are usually payable within 5 days.

(iii) Warranties

The Group normally provides warranty services from 1 to 2 years to its customers regarding the sales of wires and cables. The customers do not have an option to purchase warranty separately. The Group accounts for warranty in accordance with HKAS 37 *"Provisions, Contingent Liabilities and Contingent Assets"* unless the warranty provides the customer with a service in addition to the assurance that the product complies with agreed-upon specification (i.e. service-type warranties).

(iv) Other income

Agency fee income is recognised when the goods on which the agency fee is calculated are delivered.

Rental income under operating leases is recognised on a straight-line basis over the term of the relevant lease.

Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.

Dividend income is recognised when the right to receive the dividend is established.

Contract assets and liabilities

A contract asset represents the Group's right to consideration in exchange for services that the Group has transferred to a customer that is not yet unconditional. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to a contract are accounted for and presented on a net basis.

Contract costs

The Group recognises an asset from the costs incurred to fulfil a contract when those costs meet all of the following criteria:

(a) the costs relate directly to a contract or to an anticipated contract that the entity can specifically identify;

(b) the costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligation in the future; and

(c) the costs are expected to be recovered.

The asset recognised is subsequently amortised to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the cost relate. The asset is subject to impairment review.

4.11 Income taxes

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates appropriate to the expected manner in which the carrying amount of the asset or liability is realised or settled and that have been enacted or substantively enacted at the end of reporting period.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and jointly controlled entity, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income or when they relate to items recognised directly in equity in which case the taxes are also recognised directly in equity.

4.12 Cash and cash equivalents

For the purpose of the consolidated statements of financial position, cash and cash equivalents comprise cash on hand and at banks, which are not restricted as to use.

For the purpose of the consolidated statements of cash flows, cash and cash equivalents comprise cash on hand and at banks, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, and form an integral part of the Group's cash management.

4.13 Foreign currency

Transactions entered into by group entities in currencies other than the currency of the primary economic environment in which they operate (the "**functional currency**") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.

On consolidation, income and expense items of foreign operations are translated into the presentation currency of the Group (i.e. RMB) at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of foreign operations are translated at the rate ruling at the end of reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as foreign exchange reserve (attributed to minority interests as appropriate). Exchange differences recognised in profit or loss of group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the foreign operation concerned are reclassified to other comprehensive income and accumulated in equity as foreign exchange reserve.

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are reclassified to profit or loss as part of the profit or loss on disposal.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of reporting period. Exchange differences arising are recognised in the foreign exchange reserve.

4.14 Employee benefits

(i) Short term employee benefits

Short term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Short term employee benefits are recognised in the year when the employees render the related service.

(ii) Defined contribution retirement plan

Contributions to defined contribution retirement plans are recognised as an expense in profit or loss when the services are rendered by the employees.

(iii) Termination benefits

Termination benefits are recognised on the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

4.15 Impairment of assets (other than financial assets)

At the end of each reporting period, the Group reviews the carrying amounts of the following assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- right-of-use assets;
- prepayments;
- intangible assets;
- interest in a joint venture; and
- investment in a subsidiary

If the recoverable amount (i.e. the greater of the fair value less costs of disposal and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another HKFRS, in which case the impairment loss is treated as a revaluation decrease under that HKFRS.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another HKFRS, in which case the reversal of the impairment loss is treated as a revaluation increase under that HKFRS.

Value in use is based on the estimated future cash flows expected to be derived from the asset or the cash-generating unit ("CGU"), discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. A CGU is the smallest identifiable group of assets that generate cash flows that are largely independent of the cash flows from other assets or groups of assets.

4.16 Borrowing costs

Borrowing costs attributable directly to the acquisition, construction or production of qualifying assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

4.17 Provision and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which it is probable will result in an outflow of economic benefits that can be reliably estimated.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

4.18 Related parties

(a) A person or a close member of that person's family is related to the Group if that person:

(i) has control or joint control of the Group;
(ii) has significant influence over the Group; or
(iii) is a member of key management personnel of the Group or the Company's parent.

(b) An entity is related to the Group if any of the following conditions apply:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
(iii) Both entities are joint ventures of the same third party.
(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
(v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group.
(vi) The entity is controlled or jointly controlled by a person identified in (a).
(vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).
(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(i) that person's children and spouse or domestic partner;
(ii) children of that person's spouse or domestic partner; and
(iii) dependents of that person or that person's spouse or domestic partner.

4.19 Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statements of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

4.20 Segment reporting

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors of the Group, being the chief operating decision maker ("CODM") for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. The business components in the internal Historical Financial Information reported to the CODM are determined following the Group's major products and service lines stated in Note 6.

The measurement policies the Group uses for reporting segment results under HKFRS 8 are the same as those used in its financial statements prepared under HKFRSs, except interest income, unallocated financial costs, and unallocated corporate expenses, which are not directly attributable to the business activities of any operating segment, are not included in arriving at the operating results of the operating segment.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 4, the management are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

These estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

In addition to information disclosed elsewhere in these financial statements, other key sources of estimation uncertainty at the end of each of the Relevant Periods, that have a significant risk of resulting a material adjustment to the carrying amounts of assets and liabilities and reported amounts of revenue and expenses within the next reporting period, are discussed below.

(i) Estimated useful lives of property, plant and equipment and intangible assets

In determining the useful lives of property, plant and equipment and intangible assets, the Group has to consider various factors, such as expected usage of the asset, expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way. Depreciation and amortisation charge are revised if the estimated useful lives of items of property, plant and equipment and intangible assets are different from the previous estimation. Estimated useful life is reviewed, at the end of each of the Relevant Periods, based on changes in circumstances.

(ii) Impairment of non-financial assets

The Group assesses at the end of each of the Relevant Periods whether there is an indication that an asset may be impaired. If any such indication exists, the Group makes an estimate of the recoverable amount of the asset. This requires an estimation of the value-in-use of the CGU to which the asset is allocated. Estimating the value-in-use requires the Group to make an estimate of the expected future cash flows from CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows. A change in the estimated future cash flows and/or the discount rate applied will result in an adjustment to the estimated impairment provision previously made.

(iii) Assessment of the net realisable value of inventories

Inventories are stated at the lower of cost and net realisable value. Management carries out an assessment to determine if there are inventories that have to be written down to net realisable value as at the end of the reporting period. Management estimates the net realisable value of inventories based on the latest market prices and current market conditions.

(iv) Impairment of trade and other receivables

Management determines the provision for the trade receivables based on the ECLs which uses a lifetime expected loss allowance for all trade receivables. Management also determines the provision for the other receivables based on the ECLs which use either 12 months or lifetime ECLs depending whether the credit risk has increased significantly since initial-recognition or being credit-impaired for all other receivables. The loss allowance for financial assets are based on assumptions about risk of default and expected loss rate. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment which may impact the customers' ability to repay the outstanding balances in order to estimate the ECLs for the impairment assessment.

(v) Income taxes and deferred tax

The Group is subject to income taxes in the PRC. Significant judgement is required in determining the provision for income taxes. Transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provision in the period in which such determination is made.

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that future taxable profits would be available against which the losses and other deductible temporary differences could be utilised. Significant management judgement is required to determine the amount of deferred tax assets that could be recognised, based on the likely timing and extent of future taxable profits together with future tax planning strategies.

6. SEGMENT INFORMATION

Operating segment

During the Relevant Periods, the Group was principally engaged in manufacturing and sales of wires and cables and sales of aluminium products in the PRC. Information reported to the Group's CODM, for the purpose of resources allocation and performance assessment, focuses on the operating results of the Group as a whole. The Group's resources are integrated and as a result, no discrete operating segment financial information is available. For management purpose, the Group has only one reportable operating segment which is the manufacturing and sales of wires and cables and sales of aluminium products. Accordingly, no operating segment information is presented.

Geographic information

The Group's revenue during the Relevant Periods was all derived from customers based in the PRC and all the Group's non-current assets are located in the PRC. Therefore, no geographical segment reporting is presented.

Information about major customers

Revenue from customers for the Relevant Periods contributing over 10% of the total revenue of the Group is as follows:

	Year ended 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Customer I	51,475	N/A[(1)]	N/A[(1)]
Customer II	42,443	71,567	N/A[(1)]
Customer III	N/A[(1)]	N/A[(1)]	70,965

[(1)] The corresponding revenue did not contribute over 10% of the total revenue of the Group.

7. REVENUE

Revenue represents the amount received and receivable from manufacturing and sales of wires and cables and sales of aluminium products during the Relevant Periods.

	Year ended 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Revenue from contracts with customers			
Type of goods			
Manufacturing and sales of wires and cables, recognised at a point in time	246,161	414,065	640,195
Sales of aluminium products, recognised at a point in time	16,134	138,591	45,335
	262,295	552,656	685,530

The Group applies the practical expedient of not disclosing the transaction price allocated to remaining performance obligations that is part of a contract that has original expected duration of one year or less.

8. OTHER INCOME AND GAINS

		Year ended 31 December		
		2017	**2018**	**2019**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Other income				
Interest income		5	7	16
Government grants and subsidies	(i)	5,427	3,949	15,008
Agency fee income		—	3,321	3,134
Sales of scrap metals and consumables	(ii)	1,192	141	—
Rental income	(iii)	601	1,807	530
		7,225	9,225	18,688
Gains				
Gains on disposal of property, plant and equipment		1,525	—	—
Gain on a bargain purchase *(Note 36)*		—	—	942
Reversal of ECLs on trade receivables *(Note 21)*		—	—	1,136
Reversal of ECLs on other receivables *(Note 22)*		12	20	—
Others		173	4	72
		1,710	24	2,150
		8,935	9,249	20,838

Notes:

(i) The Group received government grants and subsidies in relation to the support of the Group's operations, purchase of plant and machinery and the reward of the employment of disabled people in the PRC. There were no unfulfilled conditions in relation to the grants and subsidies.

(ii) During the years ended 31 December 2017 and 31 December 2018, the Group sold its scrap metals and consumables to the then joint venture, Guangyuan Tongchuang of approximately RMB1,117,000 and RMB38,000 respectively (Note 35(a)).

(iii) During the Relevant Periods, the Group leased its buildings to the then joint venture, Guangyuan Tongchuang (Note 35(a)).

9. FINANCE COSTS

	Year ended 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Interest expenses on bank and other borrowings	4,117	6,282	7,799
Interest expenses on lease liabilities	140	233	78
	4,257	6,515	7,877

10. PROFIT BEFORE INCOME TAX EXPENSE

Profit before income tax expense is arrived after charging/(crediting):

	Year ended 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Costs of inventories recognised as expenses	247,899	514,300	631,656
Auditor's remuneration	151	127	—
Depreciation of property, plant and equipment	4,926	5,173	5,766
Depreciation of right-of-use assets	283	647	647
(Gains)/losses on disposal of property, plant and equipment, net	(1,517)	11	—
Amortisation of intangible assets	13	15	15
Research and development costs (other than amortisation costs)	850	803	1,381
Release of deferred income	(123)	(368)	(368)
Allowance for/(reversal of) ECLs on trade receivables *(Note 21)*	289	566	(1,136)
(Reversal of)/allowance for ECLs on other receivables *(Note 22)*	(12)	(20)	64
Written-off prepayments and other receivables	300	353	—
Listing expenses	—	3,851	8,920
Employee benefit expense (including directors' remuneration *(Note 11)*)			
Wages, salaries, allowances and other benefits	8,232	6,323	10,387
Contributions to defined contribution retirement plan	1,436	1,359	2,255
	9,668	7,682	12,642

11. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' remuneration

The remuneration paid or payable to each of the directors of the Company for the Relevant Periods is as follows:

	Fees	Salaries, allowances and other benefits	Contributions to defined contribution retirement plan	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2017				
Executive directors:				
Mr. Dang Fei	—	105	20	125
Mr. Wang Xiaozhong	—	70	15	85
Ms. Luo Xi	—	83	11	94
Mr. Luo Qiang	—	—	—	—
Non-executive director:				
Mr. Wang Haichen	—	—	—	—
	—	258	46	304
Year ended 31 December 2018				
Executive directors:				
Mr. Dang Fei	—	108	20	128
Mr. Wang Xiaozhong	—	66	16	82
Ms. Luo Xi	—	85	11	96
Mr. Luo Qiang	—	77	3	80
Non-executive director:				
Mr. Wang Haichen	—	—	—	—
	—	336	50	386
Year ended 31 December 2019				
Executive directors:				
Mr. Dang Fei	—	108	21	129
Mr. Wang Xiaozhong	—	66	21	87
Ms. Luo Xi	—	89	12	101
Mr. Luo Qiang	—	96	3	99
Non-executive director:				
Mr. Wang Haichen	—	—	—	—
	—	359	57	416

On 9 October 2018, Mr. Dang Fei and Mr. Wang Xiaozhong were appointed as the executive directors of the Company. On 22 May 2019, Ms. Luo Xi and Mr. Luo Qiang were appointed as the executive directors of the Company.

On 22 May 2019, Mr. Wang Haichen was appointed as non-executive director of the Company.

During the Relevant Periods, the independent non-executive directors have not yet been appointed and have not received any director's remuneration in the capacity of independent non-executive directors.

The emoluments shown above represent emolument received from the Group by the directors of the Company in their capacity as directors/employees of the Company's subsidiaries.

During the Relevant Periods, none of the directors waived or agreed to waive any remuneration and there were no emoluments paid by the Group to any of the directors as an inducement to join, or upon joining the Group, or as compensation for loss of office.

(b) Five highest paid individuals

The five highest paid individuals whose emoluments were the highest in the Group included 1, 2 and 2 directors for the years ended 31 December 2017, 31 December 2018 and 31 December 2019 respectively, whose emoluments are reflected in Note 11(a).

The analysis of emoluments of the remaining 4, 3 and 3 highest paid individuals for the years ended 31 December 2017, 31 December 2018 and 31 December 2019 respectively, are as follows:

	Year ended 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Salaries, allowances and other benefits	499	301	419
Contributions to defined contribution retirement plan	27	23	25
	526	324	444

The emoluments paid or payables to each of the above individuals were within the following bands:

	Year ended 31 December		
	2017	**2018**	**2019**
	No. of individuals	*No. of individuals*	*No. of individuals*
Nil to HK$1,000,000	4	3	3

12. INCOME TAX EXPENSE

The income tax expense in the consolidated statements of profit or loss and other comprehensive income during the Relevant Periods represents:

	Year ended 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Current tax			
— tax for the year	2	2,569	3,322
— over-provision in respect of prior years	—	—	(383)
	2	2,569	2,939
Deferred tax *(Note 18)*	995	1,588	1,202
Income tax expense	997	4,157	4,141

No Hong Kong profits tax was provided in the Historical Financial Information as the Group has no estimated assessable profits in Hong Kong during the Relevant Periods.

Provision for the Enterprise Income Tax ("**EIT**") in the PRC is calculated based on a statutory tax rate of 25% of the estimated assessable profits as determined in accordance with the income tax laws and regulations applicable to the operating subsidiaries in the PRC except certain subsidiaries are entitled to preferential tax rate of 15% in the PRC as mentioned below.

Sichuan Saftower was approved as High and New Technology Enterprise, and accordingly, it was subject to a preferential EIT tax rate of 15% during the years ended 31 December 2018 and 31 December 2019.

Guangyuan Tongchuang is subject to 10% income tax concession due to preferential tax policy of the development of the western region fulfilled for the year ended 31 December 2019. According to "Circular on Issues Concerning Relevant Tax Policies in Deepening the Implementation of the Western Development Strategy"《(關於深入實施西部大開發戰略有關稅收政策問題的通知》) (Cai Shui [2011] No. 58) (財稅[2011]58號), from 1 January 2011 to 31 December 2020, EIT imposed upon any enterprise established in western regions and included among the encouraged industries shall be collected at the reduced rate of 15%.

The income tax expense for the Relevant Periods can be reconciled to the profit before income tax expense in the consolidated statements of profit or loss and other comprehensive income as follows:

	Year ended 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Profit before income tax expense	3,174	21,553	33,894
Tax calculated at EIT of 25% in the PRC	794	5,388	8,474
Tax effect of non-taxable income	—	—	(155)
Tax effect of non-deductible expenses	181	1,058	27
Tax effect of temporary differences not recognised	230	139	(548)
Tax effect of income taxed at preferential tax rates	—	(1,713)	(2,383)
Tax concession	(186)	(328)	(757)
Tax effect of share of profit of a joint venture	(22)	(387)	(134)
Over provision in respect of prior years	—	—	(383)
Income tax expense	997	4,157	4,141

Deferred tax liabilities have not been established for the withholding tax that would be payable on the undistributed earnings of subsidiaries of RMB3,519,000, RMB17,256,000 and RMB51,494,000 as at 31 December 2017, 31 December 2018 and 31 December 2019 respectively as the Group is in a position to control the dividend policies of subsidiaries and it is probable that such amount with be reinvested in the foreseeable future.

Deferred tax liabilities have not been established for the withholding tax that would be payable on the undistributed earnings of the joint venture of RMB237,000 and RMB2,318,000 as at 31 December 2017 and 31 December 2018 respectively.

13. DIVIDENDS

No dividend has been paid or declared by the Company during the Relevant Periods.

During the year ended 31 December 2019, final dividends of approximately RMB4,894,000 in respect of the year ended 31 December 2018 were declared and paid by Guangyuan Tongchuang to its shareholders.

14. EARNINGS PER SHARE

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful due to the Reorganisation and the preparation of the financial performance of the Group for the Relevant Periods as set out in Note 2 above.

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings *RMB'000*	Construction in progress *RMB'000*	Leasehold improvements *RMB'000*	Plant and machinery *RMB'000*	Furniture and fixtures *RMB'000*	Computer and office equipment *RMB'000*	Motor vehicles *RMB'000*	Total *RMB'000*
Cost								
At 1 January 2017	66,185	3,697	2,045	16,952	451	1,123	3,456	93,909
Additions	1,915	12,964	—	20,620	—	355	—	35,854
Transfer	13,554	(13,554)	—	—	—	—	—	—
Disposals	(4,016)	—	—	(12,835)	(13)	(206)	(4)	(17,074)
At 31 December 2017 and 1 January 2018	77,638	3,107	2,045	24,737	438	1,272	3,452	112,689
Additions	810	—	—	380	43	7	110	1,350
Transfer	3,107	(3,107)	—	—	—	—	—	—
Disposals	—	—	—	(69)	—	—	(80)	(149)
At 31 December 2018 and 1 January 2019	81,555	—	2,045	25,048	481	1,279	3,482	113,890
Additions	4,031	2,643	—	8,648	59	7	1,263	16,651
Additions through business combination	—	—	—	18,352	42	486	3	18,883
Transfer	2,097	(2,643)	—	546	—	—	—	—
At 31 December 2019	87,683	—	2,045	52,594	582	1,772	4,748	149,424
Accumulated depreciation								
At 1 January 2017	5,654	—	1,602	4,874	258	535	2,491	15,414
Depreciation	2,097	—	409	1,870	81	179	290	4,926
Disposals	(95)	—	—	(572)	(11)	(51)	(1)	(730)
At 31 December 2017 and 1 January 2018	7,656	—	2,011	6,172	328	663	2,780	19,610
Depreciation	2,499	—	34	2,255	45	144	196	5,173
Disposals	—	—	—	(62)	—	—	(76)	(138)
At 31 December 2018 and 1 January 2019	10,155	—	2,045	8,365	373	807	2,900	24,645
Depreciation	2,702	—	—	2,733	56	181	94	5,766
At 31 December 2019	12,857	—	2,045	11,098	429	988	2,994	30,411
Net book value								
At 31 December 2017	69,982	3,107	34	18,565	110	609	672	93,079
At 31 December 2018	71,400	—	—	16,683	108	472	582	89,245
At 31 December 2019	74,826	—	—	41,496	153	784	1,754	119,013

As at 31 December 2017, 31 December 2018 and 31 December 2019, the Group's buildings with an aggregate net carrying amount of approximately RMB33,189,000, RMB32,712,000 and RMB31,513,000 respectively were pledged as securities for the bank borrowings as set out in Note 28.

As at 31 December 2019, the Group's plant and machinery with an aggregate net carrying amount of approximately RMB3,075,000 were pledged as securities for the bank borrowings as set out in Note 28.

As at 31 December 2017, 31 December 2018 and 31 December 2019, the Group's buildings with an aggregate net carrying amount of approximately RMB18,464,000, RMB17,832,000 and RMB17,201,000 respectively were pledged as securities for the other borrowings as set out in Note 28.

As at 31 December 2019, the Group's plant and machinery with an aggregate net carrying amount of approximately RMB5,237,000 were held under sale and leaseback liabilities.

During the year ended 31 December 2017, property, plant and equipment with an aggregate fair value of approximately RMB20,896,000 was disposed as a capital injection to a joint venture.

16. INTANGIBLE ASSETS

	Computer software *RMB'000*
Cost	
At 1 January 2017	119
Addition	27
At 31 December 2017 and 1 January 2018	146
Additions	57
At 31 December 2018, 1 January 2019 and 31 December 2019	203
Accumulated amortisation	
At 1 January 2017	48
Amortisation	13
At 31 December 2017 and 1 January 2018	61
Amortisation	15
At 31 December 2018 and 1 January 2019	76
Amortisation	15
At 31 December 2019	91
Net book value	
At 31 December 2017	85
At 31 December 2018	127
At 31 December 2019	112

17. INTEREST IN A JOINT VENTURE

	As at 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Share of net assets other than goodwill	24,106	25,100	—

Note: On 15 April 2019, the Group completed the acquisition of 16.67% equity interests in Guangyuan Tongchuang and paid up the unpaid capital of RMB10,000,000 to Guangyuan Tongchuang. Upon completion of the acquisition, the Group indirectly holds 56.67% equity interests in Guangyuan Tongchuang and Guangyuan Tongchuang became a non-wholly owned subsidiary of the Group (Note 36).

Particulars of the Group's joint venture during the Relevant Periods, which is unlisted is as follows:

Name of joint venture	Place of establishment and operation	Percentage of ownership interest/ voting power/profit sharing As at 31 December 2017	2018	2019	Principal activities
Guangyuan Tongchuang	The PRC	40%	40%	N/A	Manufacturing, processing and sale of aluminium wires and cables and trading of aluminium products

The summarised financial information in respect of the Group's interest in the joint venture which is accounted for using equity method is set out below:

	Year ended 31 December	
	2017	**2018**
	RMB'000	*RMB'000*
Revenue	78,299	189,068
Total comprehensive income	264	3,863
Dividends received by the Group from the joint venture	—	(551)
Included in the above amounts are:		
Depreciation	648	2,166
Interest income	28	1
Interest expenses	241	685
Income tax expense	48	640

	As at 31 December	
	2017	2018
	RMB'000	*RMB'000*
Current assets	47,153	73,604
Non-current assets	31,820	30,019
Total assets	78,973	103,623
Current liabilities	(6,017)	(29,393)
Non-current liabilities	(12,692)	(11,499)
Net assets	60,264	62,731
Included in the above amounts are:		
Cash and cash equivalents	919	176
Current financial liabilities (excluding trade and other payables)	1,123	2,493
Non-current financial liabilities (excluding other payable and provision)	12,692	11,499

18. DEFERRED TAX

	As at 31 December		
	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*
Deferred tax assets	1,729	141	—
Deferred tax liabilities	—	—	1,061

(i) Deferred tax assets

Details of the deferred tax assets of the Group recognised and movements during the Relevant Periods are as follows:

	Tax losses
	RMB'000
At 1 January 2017	2,724
Charge to profit or loss for the year	(995)
At 31 December 2017 and 1 January 2018	1,729
Charge to profit or loss for the year	(1,588)
At 31 December 2018 and 1 January 2019	141
Charge to profit or loss for the year	(141)
At 31 December 2019	—

(ii) Deferred tax liabilities

Details of the deferred tax liabilities of the Group recognised and movement, during the Relevant Periods are as follows:

	Accelerated tax depreciation *RMB'000*
At 1 January 2017, 31 December 2017, 1 January 2018, 31 December 2018 and 1 January 2019	—
Charge to profit or loss for the year	1,061
As at 31 December 2019	1,061

19. RIGHT-OF-USE ASSETS

	Land use rights *RMB'000*	Plant and machinery *RMB'000*	Total *RMB'000*
Cost			
At 1 January 2017	8,659	—	8,659
Additions	—	4,316	4,316
At 31 December 2017, 1 January 2018, 31 December 2018, 1 January 2019 and 31 December 2019	8,659	4,316	12,975
Accumulated depreciation			
At 1 January 2017	1,264	—	1,264
Depreciation	187	96	283
At 31 December 2017 and 1 January 2018	1,451	96	1,547
Depreciation	187	460	647
At 31 December 2018 and 1 January 2019	1,638	556	2,194
Depreciation	187	460	647
At 31 December 2019	1,825	1,016	2,841
Net book value			
At 31 December 2017	7,208	4,220	11,428
At 31 December 2018	7,021	3,760	10,781
At 31 December 2019	6,834	3,300	10,134

The right-of-use assets for the land use rights are leases in the PRC and are depreciated over range from 40 to 48 years on a straight-line basis.

As at 31 December 2017, 31 December 2018 and 31 December 2019, the Group's land use rights with an aggregate net carrying amount of approximately RMB7,208,000, RMB7,021,000 and RMB6,834,000 respectively were pledged as securities for the bank borrowings as set out in Note 28.

As at 31 December 2017, 31 December 2018 and 31 December 2019, the Group's land use right with a net carrying amount of approximately RMB1,017,000, RMB993,000 and RMB970,000 respectively was pledged as a security for the other borrowings as set out in Note 28.

20. INVENTORIES

	As at 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Raw materials	1,709	1,033	5,424
Work-in-progress	2,599	1,997	8,154
Finished goods	10,878	5,467	7,193
	15,186	8,497	20,771

21. TRADE AND BILLS RECEIVABLES

	As at 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables	30,597	70,031	147,189
Less: Allowance for ECLs on trade receivables	(2,724)	(3,290)	(2,154)
	27,873	66,741	145,035
Bills receivables	—	200	3,000
	27,873	66,941	148,035

The credit period granted to customers is ranging from 0 to 365 days as at the end of each of the Relevant Periods.

An ageing analysis of the Group's trade receivables as at the end of each of the Relevant Periods, based on invoice date, is as follows:

	As at 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
0 to 60 days	12,402	43,745	100,686
61 to 180 days	5,433	9,537	21,003
181 to 365 days	4,483	9,016	5,666
Over 365 days	8,279	7,733	19,834
	30,597	70,031	147,189

Movements in the allowance for ECLs on trade receivables are as follows:

	As at 31 December		
	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*
At beginning of year	2,512	2,724	3,290
Allowance made during the year *(Note 10)*	289	566	—
Reversal of ECLs previously recognised *(Note 8 and 10)*	—	—	(1,136)
Bad debts written-off	(77)	—	—
At end of year	2,724	3,290	2,154

As at 31 December 2018 and 31 December 2019, trade receivables of a customer of approximately RMB2,452,000 and RMB2,797,000 respectively were pledged as securities for the other borrowings as set out in Note 28.

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 31 December		
	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*
Non-current:			
Prepayments for purchase of property, plants and equipment	595	4,993	190
Current:			
Prepayments			
— Due from third parties	239	1,624	4,148
— Due from a related party *(Note 35(b))*	133	—	—
Prepayments to suppliers	2,742	38,872	8,296
Deposits	301	242	946
Other receivables	9,425	20,061	20,007
Less: Allowance for ECLs on other receivables	(52)	(32)	(96)
	12,788	60,767	33,301
	13,383	65,760	33,491

Movements in the allowance for ECLs on other receivables are as follows:

	As at 31 December		
	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*
At beginning of year	64	52	32
Allowance made during the year *(Note 10)*	—	—	64
Reversal of ECLs previously recognised *(Notes 8 and 10)*	(12)	(20)	—
At end of year	52	32	96

23. AMOUNTS DUE FROM/(TO) SHAREHOLDERS

The amounts due from/(to) shareholders are unsecured, non-interest bearing, repayable on demand, non-trade in nature and will be settled prior to the Listing.

	As at 31 December			Maximum balance outstanding during the year ended 31 December		
	2017	2018	2019	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Amounts due from shareholders						
Mr. Wang Xiaozhong	23	363	—	23	363	511
Mr. Dang Jun	—	10	—	—	10	10
Mr. Dang Fei	—	—	5	—	—	1,065
	23	373	5	23	373	1,586

	As at 31 December		
	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*
Amount due to a shareholder			
Mr. Dang Fei	(12,309)	(899)	—

24. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand and at banks which are not restricted as to use. Cash at banks earns interest at floating rates based on daily bank deposit rates. Cash and cash equivalents are denominated in RMB.

25. CONTRACT LIABILITIES

	As at 31 December		
	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*
Contract liabilities arising from sales of goods	6,301	6,713	6,804

The Group's contract liabilities represent advance consideration received from customers as at the end of each of the Relevant Periods.

Movements in the contract liabilities during the Relevant Periods are as follows:

	As at 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
At beginning of year	2,412	6,301	6,713
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at beginning of year	(1,604)	(6,025)	(6,137)
Increase in contract liabilities as a result of cash received, excluding amounts recognised during the year	5,493	6,437	6,228
At end of year	6,301	6,713	6,804

26. TRADE AND BILLS PAYABLES

	As at 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Trade payables			
— Due to third parties	9,672	23,711	67,849
— Due to a related party *(Note 35(b))*	24,352	32,666	—
	34,024	56,377	67,849
Bills payables	200	—	—
	34,224	56,377	67,849

The credit period on purchases from suppliers is generally ranging from 0 to 120 days as at the end of each of the Relevant Periods.

An ageing analysis of the Group's trade payables as at the end of each of the Relevant Periods, based on invoice date, is as follows:

	As at 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
0 to 60 days	26,841	47,443	44,544
61 to 180 days	5,900	8,023	7,218
181 to 365 days	1,177	748	2,198
Over 365 days	106	163	13,889
	34,024	56,377	67,849

27. ACCRUALS AND OTHER PAYABLES

	As at 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Accrued operating expenses			
— Due to third parties	61	1,878	3,010
— Due to a related party *(Note 35(b))*	175	549	—
Accrued listing expenses	—	1,585	2,838
Accrued employee benefit expenses	739	770	1,440
Payables for purchase of property, plant and equipment	6,672	2,364	3,795
Other taxes payables	90	215	562
Interest payables	80	93	109
Deposits received	9,083	9,733	174
Receipts in advance from a related party *(Note 35(b))*	1,201	1,212	—
Other payables	58	18	2,549
	18,159	18,417	14,477

28. BORROWINGS

	As at 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Current:			
Secured and guaranteed interest-bearing bank borrowings repayable within one year *(Note (i))*	41,000	60,230	55,640
Secured and guaranteed interest-bearing other borrowings repayable within one year *(Note (ii))*	15,000	31,400	37,600
Sale and leaseback liabilities	—	—	2,238
	56,000	91,630	95,478
Non-current:			
Sale and leaseback liabilities	—	—	3,684

Notes:

(i) The bank borrowings are secured by:

(a) Buildings with an aggregate net carrying amount of approximately RMB33,189,000, RMB32,712,000 and RMB31,513,000 as at 31 December 2017, 31 December 2018 and 31 December 2019 respectively as disclosed in Note 15;

(b) Land use rights with an aggregate net carrying amount of approximately RMB7,208,000, RMB7,021,000 and RMB6,834,000 as at 31 December 2017, 31 December 2018 and 31 December 2019 respectively as disclosed in Note 19;

(c) Property of close family members of directors of the Company as disclosed in Note 35(c);

(d) Properties of the directors of the Company as disclosed in Note 35(d);

(e) Properties of the independent third parties;

(f) Properties of the Group's key management personnel and their close family members as disclosed in Note 35(g); and

(g) Plant and machinery with an aggregate net carrying amount of approximately RMB3,075,000 as at 31 December 2019 as disclosed in Note 15.

(ii) The other borrowings are secured by:

(a) Buildings with an aggregate net carrying amount of approximately RMB18,464,000, RMB17,832,000 and RMB17,201,000 as at 31 December 2017, 31 December 2018 and 31 December 2019 respectively as disclosed in Note 15; and

(b) Land use rights with a net carrying amount of approximately RMB1,017,000, RMB993,000 and RMB970,000 as at 31 December 2017, 31 December 2018 and 31 December 2019 respectively as disclosed in Note 19; and

(c) Properties of an independent third party; and

(d) Inventories of a shareholder of the Company; and

(e) Trade receivables of approximately RMB2,452,000 and RMB2,797,000 as at 31 December 2018 and 31 December 2019 respectively as disclosed in Note 21.

(iii) The bank borrowings and other borrowings are guaranteed by:

(a) directors of the Company;

(b) a shareholder of the Company;

(c) close family members of directors of the Company; and

(d) independent third parties.

The Group's bank and other borrowings are scheduled to repay as follows:

	As at 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Within one year or on demand	56,000	91,630	93,240

The Group's sale and leaseback liabilities are scheduled to repay as follows:

	As at 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Within one year or on demand	—	—	2,238
In the second year	—	—	1,956
In the third to fifth years, inclusive	—	—	1,728
	—	—	5,922

29. DEFERRED INCOME

	As at 31 December		
	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*
At beginning of year	—	3,557	3,189
Addition	3,680	—	—
Credit to profit or loss	(123)	(368)	(368)
At end of year	3,557	3,189	2,821
Less: Current portion	(368)	(368)	(368)
Non-current portion	3,189	2,821	2,453

Deferred income of the Group represents a government grant in respect of the purchase of plant and machinery of the Group.

30. LEASE LIABILITIES

	Minimum lease payments As at 31 December			Present value of minimum lease payments As at 31 December		
	2017	2018	2019	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Minimum lease payments due						
— Within one year	2,046	1,322	368	1,795	1,238	356
— In the second year	1,239	143	143	1,173	130	137
— In the third to fifth years, inclusive	333	190	48	314	184	47
	3,618	1,655	559	3,282	1,552	540
Less: Future finance charges	(336)	(103)	(19)	—	—	—
Present value of lease liabilities	3,282	1,552	540	3,282	1,552	540
Less: Amounts due for settlement within one year (shown under current portion)				(1,795)	(1,238)	(356)
Amounts due for settlement after one year but contain a repayment on demand clause (shown under current portion)				(1,049)	—	—
Non-current portion				438	314	184

The Group leases plant and machinery and building for production and these lease liabilities are measured at net present value of minimum lease payments during the leases terms that are not yet paid.

31. SHARE CAPITAL

	Number	Amount *RMB'000*
Authorised:		
Ordinary shares of US$1 each upon incorporation *(Note (a))*	50,000	345
At 31 December 2018 and 1 January 2019	50,000	345
Increase in ordinary shares of HK$0.01 each *(Note (b))*	38,000,000	336
Cancellation of ordinary shares of US$1 each *(Note (b))*	(50,000)	(345)
At 31 December 2019	38,000,000	336
Issued and fully paid:		
Issue of ordinary share of US$1 upon incorporation *(Note(a))*	1	—*
At 31 December 2018 and 1 January 2019	1	—*
Issue of ordinary share of HK$0.01 each *(Note (b))*	780	—*
Repurchase of ordinary share of US$1 each *(Note (b))*	(1)	—*
Issue of ordinary shares of HK$0.01 each *(Note (c))*	9,220	—*
At 31 December 2019	10,000	—*

* Represents the amount less than RMB1,000

Notes:

(a) On 9 October 2018, the Company was incorporated in the Cayman Islands as an exempted company with limited liability with an authorised share capital of US$50,000 divided into 50,000 ordinary shares of US$1 each. Upon its incorporation, one ordinary share of US$1 each as fully paid (the "**USD-denominated Share**") was allotted and issued.

(b) On 8 January 2019, the authorised share capital of the Company was increased by HK$380,000 by the creation of 38,000,000 new ordinary shares of a par value of HK$0.01 each. The Company allotted and issued 780 such new ordinary shares as fully paid. At the same time, the Company repurchased the USD-denominated Share at a consideration of US$1 and the USD-denominated Share was cancelled upon repurchase. Immediately following such repurchase, the Company cancelled the 50,000 authorised but unissued shares of a par value of US$1 each in the share capital of the Company.

(c) On 20 May 2019, the Company allotted and issued 9,220 ordinary shares pursuant to Reorganisation. All the ordinary shares were credited as fully paid.

32. RESERVES

Details of the movements of the Group's reserves are as set out in the consolidated statements of changes in equity in Section I.

The following describes the nature and purpose of each reserve within owners' equity:

Reserves	Description and purpose
Capital reserves	The aggregate paid-up capital of the subsidiaries comprising the Group. In addition, on 29 May 2019, Saftower Management paid cash considerations of RMB2,304,000 to the then Shareholders of Guangyuan Saftower Technology in exchange for their equity interests in Guangyuan Saftower Technology as part of the Reorganisation.
Accumulated losses/retained earnings	Cumulative net gains and losses recognised in profit or loss.
Statutory reserves	In accordance with the Company Law of the PRC and the stipulated provisions of the articles of association of subsidiaries with limited liabilities in the PRC, appropriation of net profits (after offsetting accumulated losses from prior years) should be made by these companies to their respective statutory surplus reserve funds and discretionary reserve funds before distributions are made to the owners. The percentage of appropriation to statutory surplus reserve funds is 10%. The amount to be transferred to discretionary reserve fund is determined by the equity owners of these companies. When the balance of the statutory surplus reserve fund reaches 50% of the registered capital, such transfer needs not to be made. Both statutory surplus reserve fund and discretionary reserves fund can be capitalised as capital of an enterprise, provided that the remaining statutory surplus reserve fund shall not be less than 25% of the registered capital.

33. OPERATING LEASE COMMITMENTS

The Group as lessor

As at the end of each of the Relevant Periods, the Group, as the lessor, has future minimum lease rental receivables under non-cancellable operating leases of the Group are as follows:

	As at 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Within one year	2,000	2,000	—
After one year but within two years	2,000	2,000	—
After two years but within three years	2,000	2,000	—
After three years but within four years	2,000	2,000	—
After four years but within five years	2,000	2,000	—
After five years	9,333	7,333	—
	19,333	17,333	—

During the Relevant Periods, the Group leases its buildings to the then joint venture, Guangyuan Tongchuang (Note 35(a)).

34. CAPITAL COMMITMENTS

	As at 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Commitments for property, plant and equipment:			
Contracted but not provided	5,845	7,751	360

35. RELATED PARTY DISCLOSURES

(a) Save as disclosed elsewhere in the Historical Financial Information, the Group had the following material transactions with related parties during the Relevant Periods.

Name of related companies	Relationship	Nature of transactions	Year ended 31 December 2017	2018	2019
			RMB'000	*RMB'000*	*RMB'000*
Guangyuan Tongchuang	Joint venture	Dividend received	—	551	—
Guangyuan Tongchuang	Joint venture	Sales	12	244	709
Guangyuan Tongchuang	Joint venture	Purchases	45,901	94,473	28,018
Guangyuan Tongchuang	Joint venture	Sales of scrap metals and consumables	1,117	38	—
Guangyuan Tongchuang	Joint venture	Rental income	601	1,807	530
Guangyuan Tongchuang	Joint venture	Utility expenses	186	370	49
Chongqing Dexindi Trading Co., Ltd ("**Chongqing Dexindi**")	Related company *(note (f))*	Sales	21,078	3,228	—

The above related party transactions were conducted in accordance with terms mutually agreed between the parties.

(b) Balances with a related party

Name of related company	Relationship	Nature of balances	As at 31 December 2017	2018	2019
			RMB'000	*RMB'000*	*RMB'000*
Guangyuan Tongchuang	Joint venture	Prepayments (i)	133	—	—
Guangyuan Tongchuang	Joint venture	Trade payables (i)	24,352	32,666	—
Guangyuan Tongchuang	Joint venture	Receipts in advance (ii)	1,201	1,212	—
Guangyuan Tongchuang	Joint venture	Accruals (ii)	175	549	—

Notes:

(i) The balance is trade in nature.

(ii) The balance is non-trade in nature.

(c) As at the end of each of the Relevant Periods, close family members of the directors of the Company pledged their property as a security for the bank borrowings as set out in Note 28.

(d) As at the end of each of the Relevant Periods, directors of the Company pledged their properties as securities for the bank borrowings as set out in Note 28.

(e) Compensation to key management personnel

Remuneration for key management personnel of the Group, including amounts paid to the directors of the Company as disclosed in Note 11(a) and certain highest paid employees as disclosed in Note 11(b), during the Relevant Periods is as follows:

	Year ended 31 December 2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*
Salaries, allowances and other benefits	435	470	667
Contributions to defined contribution retirement plan	69	70	83
	504	540	750

(f) A shareholder of Chongqing Dexindi is a close family member of the Company's director.

(g) As at 31 December 2019, the Group's key management personnel and their close family members pledged their properties as securities for the bank borrowings as set out in Note 28.

36. ACQUISITION OF A SUBSIDIARY

On 15 April 2019, the Group completed the acquisition of 16.67% equity interests in Guangyuan Tongchuang and paid up the unpaid capital of RMB10,000,000 to Guangyuan Tongchuang. Guangyuan Tongchuang is engaged in the manufacturing, processing and sale of aluminium wires and cables and trading of aluminium products in the PRC. The acquisition was made with the aims to expand the Group's existing scale of operation and enlarge the Group's market presence.

Upon the completion of the acquisition, the Company indirectly holds 56.67% equity interests in Guangyuan Tongchuang and Guangyuan Tongchuang became a non-wholly owned subsidiary of the Group.

The fair value of the identifiable assets and liabilities arising from the acquisition of Guangyuan Tongchuang are as follows:

	RMB'000
Property, plant and equipment	18,883
Inventories	16,973
Trade and bills receivables	30,427
Prepayments, deposits and other receivables	4,938
Amount due from an owner	10,000
Cash and cash equivalents	90
Contract liabilities	(3,663)
Trade payables	(12,061)
Accruals and other payables	(756)
Income tax payable	(283)
	64,548
Non-controlling interests	(27,971)
Net assets acquired	36,577
Gain on a bargain purchase *(Note 8)*	(942)
	35,635
Satisfied by:	
Paying up the unpaid capital of the former owner	10,000
Interest in a joint venture	25,635
	35,635
An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:	
Cash and cash equivalents acquired	90

(i) The fair value of trade and bills receivables amounted to approximately RMB30,427,000. The gross amount of these receivables is approximately RMB30,427,000. None of these receivables have been impaired and it is expected that the full contractual amounts can be collected.

The fair value of other receivables amounted to approximately RMB3,841,000. The gross amount of these other receivables is approximately RMB3,841,000. None of these receivables have been impaired and it is expected that the full contractual amounts can be collected.

(ii) The acquisition-related costs of approximately RMB44,000 have been expensed and are included in administrative expenses.

(iii) In the opinion of the directors of the Group, a bargain purchase of approximately RMB942,000 was recognised in profit or loss upon the acquisition of Guangyuan Tongchuang and is attributable to the Group's bargaining power and ability in negotiating the agreed terms of transactions with the former owner.

(iv) Since the acquisition date, Guangyuan Tongchuang has contributed approximately RMB136,605,000 and RMB7,346,000 to the Group's revenue and profit or loss. If the acquisition had occurred on 1 January 2019, Group revenue and profit would have been approximately

RMB707,414,000 and RMB31,091,000 respectively. This pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2019, nor is it intended to be a projection of future performance.

(v) Gain on a bargain purchase included the gain on re-measurement of equity interests held in Guangyuan Tongchuang as at 15 April 2019 of approximately RMB184,000.

37. PRE-ACQUISITION FINANCIAL INFORMATION OF GUANGYUAN TONGCHUANG

As stated in Note 36, the Group acquired 16.67% equity interests in Guangyuan Tongchuang.

The financial information of Guangyuan Tongchuang for the period from 14 July 2017 to 31 December 2017, the year ended 31 December 2018 and the period from 1 January 2019 to 15 April 2019 ("**Period ended 15 April 2019**") (the "**Pre-Acquisition Financial Information**") has been prepared by the directors of Guangyuan Tongchuang in accordance with the accounting policies set out in Note 4, which conform with HKFRSs.

(a) Statements of profit or loss and other comprehensive income

	Notes	**Period from 14 July 2017 to 31 December 2017** *RMB'000*	**Year ended 31 December 2018** *RMB'000*	**Period ended 15 April 2019** *RMB'000*
Revenue	(i)	78,299	189,068	50,611
Cost of sales		(76,305)	(178,514)	(47,053)
Gross profit		1,994	10,554	3,558
Other income and gains	(ii)	105	839	251
Selling and distribution expenses		(89)	(2,033)	(690)
Administrative and other expenses		(1,457)	(4,172)	(1,243)
Finance costs	(iii)	(241)	(685)	(301)
Profit before income tax expense	(iv)	312	4,503	1,575
Income tax expense	(v)	(48)	(640)	(237)
Profit and total comprehensive income for the period/year		264	3,863	1,338

(b) Statements of financial position

	Notes	As at 31 December 2017 *RMB'000*	As at 31 December 2018 *RMB'000*	As at 15 April 2019 *RMB'000*
ASSETS AND LIABILITIES				
Non-current assets				
Property, plant and equipment	(vii)	18,103	17,669	18,883
Right-of-use assets	(viii)	13,702	12,285	11,871
Prepayments	(xi)	15	65	65
		31,820	30,019	30,819
Current assets				
Inventories	(ix)	5,030	6,766	16,973
Trade and bills receivables	(x)	24,438	51,198	30,427
Prepayments, deposits and other receivables	(xi)	6,766	5,464	4,873
Amount due from an owner	(xii)	10,000	10,000	10,000
Cash and cash equivalents	(xiii)	919	176	90
		47,153	73,604	62,363
Total assets		78,973	103,623	93,182
Current liabilities				
Contract liabilities	(xiv)	133	194	3,663
Trade payables	(xv)	4,380	25,458	12,061
Accruals and other payables	(xvi)	333	895	756
Borrowing	(xvii)	—	1,300	—
Lease liabilities	(xviii)	1,123	1,193	1,211
Income tax payable		48	353	283
		6,017	29,393	17,974
Net current assets		41,136	44,211	44,389
Total assets less current liabilities		72,956	74,230	75,208
Non-current liabilities				
Lease liabilities	(xviii)	12,692	11,499	11,139
		12,692	11,499	11,139
Net assets		60,264	62,731	64,069
EQUITY				
Registered capital	(xix)	60,000	60,000	60,000
Reserves		264	2,731	4,069
Total equity		60,264	62,731	64,069

(c) Statements of changes in equity

	Registered capital *RMB'000* *(Note (xix))*	Retained earnings *RMB'000*	Statutory reserves *RMB'000*	Total equity *RMB'000*
Upon establishment	60,000	—	—	60,000
Profit and total comprehensive income for the year	—	264	—	264
Transfer to statutory reserves	—	(27)	27	—
At 31 December 2017 and 1 January 2018	60,000	237	27	60,264
Profit and total comprehensive income for the year	—	3,863	—	3,863
Dividends *(note (vi))*	—	(1,396)	—	(1,396)
Transfer to statutory reserves	—	(386)	386	—
At 31 December 2018 and 1 January 2019	60,000	2,318	413	62,731
Profit and total comprehensive income for the period	—	1,338	—	1,338
Transfer to statutory reserves	—	(134)	134	—
At 15 April 2019	60,000	3,522	547	64,069

(d) Statements of cash flows

	Notes	Period from 14 July 2017 to 31 December 2017 *RMB'000*	Year ended 31 December 2018 *RMB'000*	Period ended 15 April 2019 *RMB'000*
Cash flows from operating activities				
Profit before income tax expense		312	4,503	1,575
Adjustments for:				
Depreciation of property, plant and equipment	(iv)	175	749	225
Depreciation of right-of-use assets	(iv)	473	1,417	414
Finance costs	(iii)	241	685	301
Interest income	(ii)	(28)	(1)	—
		1,173	7,353	2,515
Increase in inventories		(5,030)	(1,736)	(10,207)
(Increase)/decrease in trade and bills receivables		(24,438)	(26,760)	20,771
(Increase)/decrease in prepayments, deposits and other receivables		(3,730)	1,302	591
Increase in contract liabilities		133	61	3,469
Increase/(decrease) in trade payables		4,380	21,078	(13,397)
Increase/(decrease) in accruals and other payables		333	562	(139)

	Notes	Period from 14 July 2017 to 31 December 2017 RMB'000	Year ended 31 December 2018 RMB'000	Period ended 15 April 2019 RMB'000
Cash (used in)/generated from operations		(27,179)	1,860	3,603
Income tax paid		—	(335)	(307)
Net cash (used in)/generated from operating activities		(27,179)	1,525	3,296
Cash flows from investing activities				
Purchase of property, plant and equipment		(433)	(365)	(1,439)
Interest received		28	1	—
Net cash used in investing activities		(405)	(364)	(1,439)
Cash flows from financing activities				
Proceeds from borrowings		—	1,300	6,000
Repayments of borrowings		—	—	(7,300)
Interest paid on borrowings		—	—	(113)
Repayments of lease liabilities		(601)	(1,808)	(530)
Proceed from capital injections		29,104	—	—
Dividends paid		—	(1,396)	—
Net cash generated from/(used in) financing activities		28,503	(1,904)	(1,943)
Net increase/(decrease) in cash and cash equivalents		919	(743)	(86)
Cash and cash equivalents at beginning of period/year		—	919	176
Cash and cash equivalents at end of period/year		919	176	90

(i) Revenue and segment information

Revenue represents the amounts received and receivable from manufacturing, processing and sale of aluminium wires and cables and trading of aluminium products.

Operating segment

Guangyuan Tongchuang has one operating segment based on information reported to the CODM of Guangyuan Tongchuang for the purpose of resources allocation and performance assessment, focuses on the operating results of Guangyuan Tongchuang as a whole. As a result, there is only one reportable operating segment of Guangyuan Tongchuang.

The accounting policies of the operating segment are the same as the Group's accounting policies described in Note 4.

Geographic information

Revenue of Guangyuan Tongchuang was all derived from customers based in the PRC and all non-current assets of Guangyuan Tongchuang are located in the PRC. Therefore no geographical segment reporting is presented.

Information about major customers

Revenue from customers contributing over 10% of the total revenue of Guangyuan Tongchuang is as follows:

	Period from 14 July 2017 to 31 December 2017	Year ended 31 December 2018	Period ended 15 April 2019
	RMB'000	*RMB'000*	*RMB'000*
Customer i	29,767	93,108	28,018
Customer ii	17,915	N/A[1]	N/A[1]
Customer iii	16,134	N/A[1]	N/A[1]
Customer iv	N/A[1]	58,643	N/A[1]
Customer v	N/A[1]	N//A[1]	17,239

(1) The corresponding revenue did not contribute over 10% of total revenue of Guangyuan Tongchuang.

(ii) Other income and gains

	Period from 14 July 2017 to 31 December 2017	Year ended 31 December 2018	Period ended 15 April 2019
	RMB'000	*RMB'000*	*RMB'000*
Interest income	28	1	—
Government grants and subsidies	—	250	—
Scrap sales	77	586	251
Others	—	2	—
	105	839	251

(iii) Finance costs

	Period from 14 July 2017 to 31 December 2017	Year ended 31 December 2018	Period ended 15 April 2019
	RMB'000	*RMB'000*	*RMB'000*
Interest expenses on borrowings	—	—	113
Interest expenses on lease liabilities	241	685	188
	241	685	301

(iv) Profit before income tax expense

Profit before income tax expense is arrived after charging:

	Period from 14 July 2017 to 31 December 2017	Year ended 31 December 2018	Period ended 15 April 2019
	RMB'000	*RMB'000*	*RMB'000*
Auditor's remuneration	—	5	—
Depreciation of property, plant and equipment	175	749	225
Depreciation of right-of-use asset	473	1,417	414
Employee benefit expense (including directors' remuneration):			
Wages, salaries, allowances and other benefits	944	3,249	817
Contributions to defined contribution retirement plan	91	532	157
	1,035	3,781	974

(v) Income tax expense

	Period from 14 July 2017 to 31 December 2017	Year ended 31 December 2018	Period ended 15 April 2019
	RMB'000	*RMB'000*	*RMB'000*
Current tax	48	640	237
Income tax expense	48	640	237

Provision for the EIT in the PRC is calculated based on a statutory tax rate of 25% of the estimated assessable profits as determined in accordance with the income tax laws and regulations in the PRC. However, Guangyuan Tongchuang is entitled to preferential tax rate of 15% in the PRC as mentioned below.

Guangyuan Tongchuang is subject to 10% income tax concession due to preferential tax policy of the development of the western region fulfilled for the period from 14 July 2017 to 31 December 2017, the year ended 31 December 2018 and the Period ended 15 April 2019. According to "Circular on Issues Concerning Relevant Tax Policies in Deepening the Implementation of the Western Development Strategy" (《關於深入實施西部大開發戰略有關稅收政策問題的通知》) (Cai Shui [2011] No. 58) (財稅[2011] 58號), from 1 January 2011 to 31 December 2020, EIT imposed upon any enterprise established in western regions and included among the encouraged industries shall be collected at the reduced rate of 15%.

The income tax expense for the period/year can be reconciled to profit before income tax expense in the statements of profit or loss and other comprehensive income as follows:

	Period from 14 July 2017 to 31 December 2017	**Year ended 31 December 2018**	**Period ended 15 April 2019**
	RMB'000	*RMB'000*	*RMB'000*
Profit before income tax expense	312	4,503	1,575
Tax calculated at EIT of 25% in the PRC	78	1,126	394
Tax effect of non-deductible expenses	1	11	2
Tax effect of income taxed at preferential tax rate	(31)	(428)	(159)
Tax effect of temporary differences not recognised	—	(69)	—
Income tax expense	48	640	237

(vi) Dividends

	Period from 14 July 2017 to 31 December 2017	**Year ended 31 December 2018**	**Period ended 15 April 2019**
	RMB'000	*RMB'000*	*RMB'000*
Dividends paid	—	1,396	—

During the year ended 31 December 2018, dividends of approximately RMB1,396,000 in respect of the period from 14 July 2017 to 31 December 2017 were declared and paid by Guangyuan Tongchuang to its owners.

(vii) Property, plant and equipment

	Plant and machinery *RMB'000*	Furniture and fixtures *RMB'000*	Computer and office equipment *RMB'000*	Motor vehicle *RMB'000*	Total *RMB'000*
Cost					
Upon establishment	—	—	—	—	—
Additions	17,880	15	380	3	18,278
At 31 December 2017 and 1 January 2018	17,880	15	380	3	18,278
Additions	68	47	200	—	315
At 31 December 2018 and 1 January 2019	17,948	62	580	3	18,593
Additions	1,439	—	—	—	1,439
At 15 April 2019	19,387	62	580	3	20,032
Accumulated depreciation					
Upon establishment	—	—	—	—	—
Depreciation	166	1	8	—	175
At 31 December 2017 and 1 January 2018	166	1	8	—	175
Depreciation	672	13	64	—	749
At 31 December 2018 and 1 January 2019	838	14	72	—	924
Depreciation	197	6	22	—	225
At 15 April 2019	1,035	20	94	—	1,149
Carrying amount					
At 31 December 2017	17,714	14	372	3	18,103
At 31 December 2018	17,110	48	508	3	17,669
At 15 April 2019	18,352	42	486	3	18,883

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Plant and machinery	3%–10%
Furniture and fixtures	20%–30%
Computer and office equipment	10%–20%
Motor vehicle	10%

(viii) Right-of-use assets

	Buildings
	RMB'000
Cost	
Upon establishment	—
Addition	14,175
At 31 December 2017, 1 January 2018, 31 December 2018, 1 January 2019 and 15 April 2019	14,175
Accumulated depreciation	
Upon establishment	—
Depreciation	473
At 31 December 2017 and 1 January 2018	473
Depreciation	1,417
At 31 December 2018 and 1 January 2019	1,890
Depreciation	414
At 15 April 2019	2,304
Net book value	
At 31 December 2017	13,702
At 31 December 2018	12,285
At 15 April 2019	11,871

(ix) Inventories

	As at 31 December		As at 15 April
	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*
Raw materials	988	2,474	5,164
Work-in-progress	1,930	1,492	11,537
Finished goods	2,112	2,800	272
	5,030	6,766	16,973

(x) Trade and bills receivables

	As at 31 December		As at 15 April
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables			
— Due from third parties	86	16,532	11,921
— Due from a related party *(Note xx (b))*	24,352	32,666	8,506
	24,438	49,198	20,427
Bills receivables *(Note)*	—	2,000	10,000
	24,438	51,198	30,427

Note: During the Period ended 15 April 2019, the bills receivables were pledged for the other borrowings as disclosed in Note *xvii*.

The credit terms granted to customers range generally from 0 to 90 days.

An ageing analysis of trade receivables as at the end of each of the reporting period, based on invoice date, is as follows:

	As at 31 December		As at 15 April
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
0 to 60 days	24,438	34,116	14,916
61 to 180 days	—	15,082	675
181 to 365 days	—	—	4,836
	24,438	49,198	20,427

An ageing analysis of trade receivables as at the end of each of the reporting period, based on due date is as follows:

	As at 31 December		As at 15 April
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Current (not past due)	22,444	29,088	11,348
Past due 1 to 60 days	1,994	20,110	3,568
Past due 61 to 180 days	—	—	5,511
	24,438	49,198	20,427

The management of Guangyuan Tongchuang closely monitors the credit quality of trade receivables and considers the debts that neither past due nor impaired to be at good credit quality. Trade receivables that are neither past due nor impaired relates to wide range of customers for whom there was no history of default.

The management of Guangyuan Tongchuang consistently applies the same credit policy of the Group and monitors the credit risk exposure to trade and bill receivables during the reporting period.

At 31 December 2017, 31 December 2018 and 15 April 2019, Guangyuan Tongchuang has a concentration of credit risk on trade receivables from 1, 1 and 1 customers respectively. The management of the Group considers the credit risk of the trade and bill receivables from this customer is limited as the Group continuously perform credit evaluation on the financial conditions of the related party.

Guangyuan Tongchuang measures loss allowances for trade and bills receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix and no allowances for ECLs on trade and bill receivables was recognised during the reporting period.

(xi) Prepayments, deposits and other receivables

	As at 31 December		As at 15 April
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Non-current:			
Prepayments for purchase of property, plant and equipment	15	65	65
Current:			
Prepayments			
— Due from third parties	211	159	174
— Due from a related party *(Note xx (b))*	1,201	1,212	682
Prepayments to suppliers			
— Due from third parties	1,436	1,104	1
— Due from a related party *(Note xx (b))*	45	—	—
Deposits	—	175	175
Other receivables			
— Due from third parties	3,743	2,265	3,236
— Due from a related party *(Note xx (b))*	130	549	605
	6,766	5,464	4,873
	6,781	5,529	4,938

The management of Guangyuan Tongchuang consistently applies the same credit policy of the Group and monitors the credit risk exposure to deposits and other receivables during the reporting period.

Guangyuan Tongchuang has assessed the ECLs for deposits and other receivables under the 12 months ECL method and no allowances for ECLs on deposits and other receivables was recognised during the reporting period.

(xii) Amount due from an owner

The amount due from an owner is unsecured, non-interest bearing, repayable on demand and non-trade in nature.

	As at 31 December 2017 RMB'000	As at 31 December 2018 RMB'000	As at 15 April 2019 RMB'000	Maximum balance outstanding during the period from 14 July 2017 to 31 December 2017 RMB'000	Maximum balance outstanding during the year ended 31 December 2018 RMB'000	Maximum balance outstanding during the period ended 15 April 2019 RMB'000
Amount due from an owner						
Mr. Li Zhanwei	10,000	10,000	10,000	10,000	10,000	10,000

The management of Guangyuan Tongchuang considers the probability of default is negligible in view of the latest repayment history of the owner and no loss allowance was recognised during the reporting period.

(xiii) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and at banks which are not restricted as to use. Cash at banks earns interest at floating rates based on daily bank deposit rates. Cash and cash equivalents are denominated in RMB.

The management of Guangyuan Tongchuang consider the probability of default is negligible as the deposits are placed in banks having good reputation and no loss allowance was recognised during the reporting period.

(xiv) Contract liabilities

	As at 31 December 2017 RMB'000	As at 31 December 2018 RMB'000	As at 15 April 2019 RMB'000
Contract liabilities arising from sale of goods			
— Due to third parties	—	194	3,663
— Due to a related party *(Note xx (b))*	133	—	—
	133	194	3,663

Contract liabilities represent advance consideration received from customers as at the end of each of the reporting period.

Movements in the contract liabilities during the reporting period are as follows:

	Period from 14 July 2017 to 31 December 2017	Year ended 31 December 2018	Period ended 15 April 2019
	RMB'000	*RMB'000*	*RMB'000*
At beginning of period/year	—	133	194
Decrease in contract liabilities as a result of recognising revenue during the period/year that was included in the contract liabilities at beginning of period/year	—	(133)	(194)
Increase in contract liabilities as a result of cash received, excluding amounts recognised during the period/year	133	194	3,663
At end of period/year	133	194	3,663

(xv) Trade payables

	As at 31 December		As at 15 April
	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*
Trade payables			
— Due to third parties	4,380	25,458	11,259
— Due to related parties *(Note xx (b))*	—	—	802
	4,380	25,458	12,061

The credit period on purchase from suppliers is generally ranging from 0 to 120 days as at the end of each of the reporting period.

An ageing analysis of trade payables as at the end of each of the reporting period, based on invoice date, is as follows:

	As at 31 December		As at 15 April
	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*
0 to 60 days	3,965	23,134	9,958
61 to 180 days	415	1,679	2,000
181 to 365 days	—	638	96
Over 365 days	—	7	7
	4,380	25,458	12,061

The total contractual undiscounted cash flow of trade payables amounts to RMB4,380,000, RMB25,458,000 and RMB12,061,000 as at 31 December 2017, 31 December 2018 and 15 April 2019 respectively and trade payables are required to pay within one year.

(xvi) Accruals and other payables

	As at 31 December		As at 15 April
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Other payables			
— Due to third parties	10	415	691
— Due to a related party *(Note xx (b))*	—	—	3
Accrued expenses	294	459	62
Other taxes payable	29	21	—
	333	895	756

The total contractual undiscounted cash flow of accruals and other payables (excluding other taxes payable) amounts to RMB304,000, RMB874,000 and RMB756,000 as at 31 December 2017, 31 December 2018 and 15 April 2019 respectively and such accruals and other payables are required to pay within one year.

(xvii) Borrowing

	As at 31 December		As at 15 April
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Current:			
Unsecured and unguaranteed interest-free other borrowing repayable within one year	—	1,300	—

The borrowing is scheduled to repay as follows:

	As at 31 December		As at 15 April
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Within one year or on demand	—	1,300	—

The other borrowing is secured by bills receivables with an aggregate carrying amount of RMB10,000,000 as at 15 April 2019 as disclosed in Note *x*.

The following table details the interest rate profile of borrowing at the end of each of the reporting period.

	As at 31 December				As at 15 April	
	2017		**2018**		**2019**	
	Effective interest rate	**Carrying amount**	**Effective interest rate**	**Carrying amount**	**Effective interest rate**	**Carrying amount**
	%	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*
Fixed rate borrowings						
Borrowing	—	—	—	1,300	13%	—

The total contractual undiscounted cash flow of borrowing amounts to nil, RMB1,300,000 and nil as at 31 December 2017, 31 December 2018 and 15 April 2019 respectively and borrowing is required to pay within one year.

(xviii) Lease liabilities

	Minimum lease payments			Present values of minimum lease payments		
	As at 31 December		As at 15 April	As at 31 December		As at 15 April
	2017	**2018**	**2019**	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Minimum lease payments due						
— Within one year	1,808	1,818	1,818	1,123	1,193	1,211
— In the second year	1,818	1,818	1,818	1,193	1,256	1,275
— In the third to fifth years, inclusive	5,455	5,455	5,455	3,970	4,179	4,242
— After five years	8,484	6,666	6,136	7,529	6,064	5,622
	17,565	15,757	15,227	13,815	12,692	12,350
Less: Future finance charges	(3,750)	(3,065)	(2,877)	—	—	—
Present value of lease liabilities	13,815	12,692	12,350	13,815	12,692	12,350
Less: Current portion				(1,123)	(1,193)	(1,211)
Non-current portion				12,692	11,499	11,139

Guangyuan Tongchuang leases buildings for production and this lease liability is measured at net present value of minimum lease payments during the lease terms that are not yet paid.

The effective interest rates of lease liabilities are 5.15%, 5.15% and 5.15% which are fixed as at 31 December 2017, 31 December 2018 and 15 April 2019 respectively. The total contractual undiscounted cash flow of lease liabilities amounted to RMB17,565,000, RMB15,757,000 and RMB15,227,000 as at 31 December 2017, 31 December 2018 and 15 April 2019 respectively and lease liabilities are required to pay as disclosed under minimum lease payments.

(xix) Registered capital

The share capital of Guangyuan Tongchuang as at 31 December 2017, 31 December 2018 and 15 April 2019 represents the sum of registered capital of Guangyuan Tongchuang.

(xx) Related party disclosures

(a) Guangyuan Tongchuang had the following material related party transactions during the reporting periods:

Name of related companies	Relationship	Nature of transactions	Period from 14 July 2017 to 31 December 2017	Year ended 31 December 2018	Period ended 15 April 2019
			RMB'000	*RMB'000*	*RMB'000*
Guangyuan Saftower	Owner	Dividend paid	—	551	—
Guangyuan Saftower	Owner	Sales	16,134	1,365	—
Guangyuan Saftower	Owner	Purchases of scrap metals and consumables	1,117	38	—
Guangyuan Saftower	Owner	Rental expenses	601	1,807	530
Guangyuan Saftower	Owner	Reimbursement of utility expenses	186	370	49
Sichuan Saftower	Owner	Sales	29,767	93,108	28,018
Sichuan Saftower	Owner	Purchases	12	244	15
Guangyuan Shuneng	An associate of Tongsheng Guochuang who is one of the owners Guangyuan Tongchuang	Purchase	—	—	694

(b) Balance with related parties

Name of related companies	Relationship	Nature of balances	As at December 2017	As at December 2018	As at 15 April 2019
			RMB'000	*RMB'000*	*RMB'000*
Sichuan Saftower	Owner	Trade payables (i)	—	—	17
Sichuan Saftower	Owner	Trade receivables (i)	24,352	32,666	8,506
Guangyuan Saftower	Owner	Prepayments (ii)	1,201	1,212	682
Guangyuan Saftower	Owner	Prepayments to suppliers (i)	45	—	—
Guangyuan Saftower	Owner	Other receivables (ii)	130	549	605
Guangyuan Saftower	Owner	Contract liabilities (i)	133	—	—
Guangyuan Saftower	Owner	Other payables (ii)	—	—	3
Guangyuan Shuneng	An associate of Tongsheng Guochuang who is one of the owners of Guangyuan Tongchuang	Trade payables (i)	—	—	785

Notes:

(i) The balance is trade in nature.

(ii) The balance is non-trade in nature.

(c) During the Period ended 15 April 2019, Guangyuan Tongchuang pledged its bills receivables as securities for the facility of the other borrowings. As at 15 April 2019, the other borrowings were fully repaid.

(xxi) Note to the statements of cash flows

(a) Major non-cash transactions

(i) During the period from 14 July 2017 to 31 December 2017, Guangyuan Tongchuang initially recognises right-of-use assets and lease liabilities of approximately RMB14,175,000.

(ii) During the period from 14 July 2017 to 31 December 2017, property, plant and equipment with an aggregate fair value of approximately RMB20,896,000 was recognised as an consideration of capital injection from the Group.

(iii) During the period from 14 July 2017 to 31 December 2017, amount due from an owner, Mr. Li Zhanwei, of approximately RMB10,000,000 was capitalised into share capital of Guangyuan Tongchuang.

(b) Reconciliation of liabilities arising from financing activities:

	Borrowings	**Dividend payable**	**Lease liabilities**
	RMB'000	*RMB'000*	*RMB'000*
	(Note xvii)		*(Note xviii)*
Upon establishment	—	—	—
Changes from financing cash flows:			
Payments of lease liabilities	—	—	(601)
Total changes from cash flows	—	—	(601)
Non-cash changes:			
Additions of lease liabilities	—	—	14,175
Interest expenses — Lease liabilities	—	—	241
Total other changes	—	—	14,416
At 31 December 2017 and 1 January 2018	—	—	13,815
Changes from financing cash flows:			
Proceeds from borrowings	1,300	—	—
Dividends paid	—	(1,396)	—
Payments of lease liabilities	—	—	(1,808)
Total changes from cash flows	1,300	(1,396)	(1,808)
Non-cash changes:			
Interest expenses — Lease liabilities	—	—	685
2017 final dividends declared	—	1,396	—
Total other changes	—	1,396	685
At 31 December 2018 and 1 January 2019	1,300	—	12,692

	Borrowings *RMB'000* *(Note xvii)*	Dividend payable *RMB'000*	Lease liabilities *RMB'000* *(Note xviii)*
Changes from financing cash flows:			
Proceeds from borrowings	6,000	—	—
Repayments of borrowings	(7,300)	—	—
Payments of lease liabilities	—	—	(530)
Interest paid on borrowings	(113)	—	—
Total changes from cash flows	(1,413)	—	(530)
Non-cash changes:			
Interest expenses — Lease liabilities	—	—	188
Interest expenses — Borrowings	113	—	—
Total other changes	113	—	188
At 15 April 2019	—	—	12,350

38. LITIGATION

On 14 December 2018, the Group entered into the 2018 Aluminium Oxide Supply Agreement with Guizhou Galuminium Aluminium-oxide Co., Ltd ("**Guizhou Galuminium**") to purchase aluminium oxide as agent for Sichuan Guangyuan Aostar Aluminium Materials Company Limited. In March 2020, Guizhou Galuminium filed a claim against the Group alleging breach of contract and claiming payment of approximately RMB6,351,000, being the damages of the alleged unpurchased aluminium oxide for the year ended 31 December 2019 (RMB300 per unpurchased tonne). The Group received a notice from the People's Court of Qingzhen City, Guizhou Province (貴州省清鎮市人民法院) to conduct pre-litigation mediation with Guizhou Galuminium within 30 days (subject to extension if mutually agreed by the parties). The Group is still in negotiations with Guizhou Galuminium.

Having considered the facts and circumstances of the claim, the Directors determined that no provision for the claim was made for the year ended 31 December 2019. The legal opinion from the legal advisers mentioned that the risk that the Group will be ultimately held liable in respect of the claim is remote.

39. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

(a) Major non-cash transactions

(i) During the year ended 31 December 2017, the Group initially recognised right-of-use assets and lease liabilities of approximately RMB3,738,000.

(ii) During the year ended 31 December 2017, property, plant and equipment with an aggregate fair value of approximately RMB20,896,000 was disposed as an consideration of interest in a joint venture.

(iii) During the year ended 31 December 2017, inventories of approximately RMB3,107,000 was transferred to construction in progress.

(b) Reconciliation of liabilities arising from financing activities

Reconciliation of liabilities arising from financing activities:

	Borrowings *RMB'000* *(Note 28)*	Interest payables *RMB'000* *(Note 27)*	Lease liabilities *RMB'000* *(Note 30)*	Amount due to a shareholder *RMB'000* *(Note 23)*	Amount due to a related company *RMB'000*
At 1 January 2017	38,000	293	—	9,275	366
Changes from financing cash flows:					
Proceeds from borrowings/a shareholder	60,000	—	—	3,034	—
Repayments of borrowings/to a related company	(42,000)	—	—	—	(366)
Payments of lease liabilities	—	—	(596)	—	—
Interest paid on borrowings	—	(4,330)	—	—	—
Total changes from cash flows	18,000	(4,330)	(596)	3,034	(366)
Non-cash changes:					
Additions of lease liabilities	—	—	3,738	—	—
Interest expenses — Lease liabilities	—	—	140	—	—
Interest expenses — Borrowings	—	4,117	—	—	—
Total other changes	—	4,117	3,878	—	—
At 31 December 2017 and 1 January 2018	56,000	80	3,282	12,309	—
Changes from financing cash flows:					
Proceeds from borrowings	91,880	—	—	—	—
Repayments of borrowings/to a shareholder	(56,250)	—	—	(11,410)	—
Payments of lease liabilities	—	—	(1,963)	—	—
Interest paid on borrowings	—	(6,269)	—	—	—
Total changes from cash flows	35,630	(6,269)	(1,963)	(11,410)	—
Non-cash changes:					
Interest expenses — Lease liabilities	—	—	233	—	—
Interest expenses — Borrowings	—	6,282	—	—	—
Total other changes	—	6,282	233	—	—
At 31 December 2018 and 1 January 2019	91,630	93	1,552	899	—
Changes from financing cash flows:					
Proceeds from borrowings	103,140	—	—	—	—
Repayments of borrowings/to a shareholder	(95,608)	—	—	(899)	—
Payments of lease liabilities	—	—	(1,090)	—	—
Interest paid on borrowings	—	(7,783)	—	—	—
Total changes from cash flows	7,532	(7,783)	(1,090)	(899)	—
Non-cash changes:					
Interest expenses — Lease liabilities	—	—	78	—	—
Interest expenses — Borrowings	—	7,799	—	—	—
Total other changes	—	7,799	78	—	—
At 31 December 2019	99,162	109	540	—	—

40. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amount of each of the categories of the Group's financial instruments as at the end of each of the Relevant Periods are as follows:

	As at 31 December		
	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*
Financial assets			
Financial assets at amortised cost			
Trade and bills receivables	27,873	66,941	148,035
Deposits and other receivables	9,674	20,271	20,857
Amounts due from shareholders	23	373	5
Cash and cash equivalents	4,907	1,614	2,726
	42,477	89,199	171,623
Financial liabilities			
Financial liabilities at amortised cost			
Trade and bills payables	34,224	56,377	67,849
Accruals and other payables	7,785	7,257	13,741
Borrowings	56,000	91,630	99,162
Lease liabilities	3,282	1,552	540
Amount due to a shareholder	12,309	899	—
	113,600	157,715	181,292

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's activities expose it to credit risk, market risks (including foreign currency risk and interest rates risk) and liquidity risk arising in the ordinary course of business. The Group's overall risk management strategy seeks to minimise adverse effects from the volatility of financial markets on the Group's financial performance.

The directors of the Company are responsible for setting the objectives and underlying principles of financial risk management for the Group. The Group's management then establishes the detailed policies such as risk identification and measurement, exposure limits and hedging strategies, in accordance with the objectives and underlying principles approved by the board of directors.

There has been no change to the Company's exposure to these financial risks or the manner in which it manages and measures the risk. If necessary, market risk exposures are measured using sensitivity analysis indicated below.

(a) Credit risk and impairment assessment

The Group's credit risk is primarily attributable to trade and bills receivables, deposits and other receivables amounts due from shareholders and cash and cash equivalents. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

Trade and bills receivables arising from contracts with customers

In respect of trade and bills receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customers as well as pertaining to the economic environment in which the customers operate. Ongoing credit evaluation is performed on the financial condition of trade customers. Normally, the Group does not obtain collateral from customers except a customer, who was granted a credit period of 365 days in respect of sale of aluminium and copper cables and cable accessories and has business relationship with the Group since 2015, pledged the assets in favour to the Group. Therefore, the management of the Group is in the opinion that the Group does not have significant credit risk exposure of the customers.

The Group measures loss allowances for trade and bills receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables at the end of each of the Relevant Periods:

	Gross carrying amount	**Lifetime ECLs**	**Net carrying amount**
	RMB'000	*RMB'000*	*RMB'000*
As at 31 December 2017			
Current (not past due)	4,364	(1)	4,363
Past due 1 to 60 days	8,661	(1)	8,660
Past due 61 to 180 days	5,164	(29)	5,135
Past due 181 to 365 days	4,739	(120)	4,619
Past due over 365 days	7,669	(2,573)	5,096
	30,597	(2,724)	27,873
As at 31 December 2018			
Current (not past due)	43,684	(1)	43,683
Past due 1 to 60 days	6,671	(1)	6,670
Past due 61 to 180 days	7,620	(84)	7,536
Past due 181 to 365 days	4,796	(307)	4,489
Past due over 365 days	7,260	(2,897)	4,363
	70,031	(3,290)	66,741
As at 31 December 2019			
Current (not past due)	20,041	(1)	20,040
Past due 1 to 60 days	103,139	(1)	103,138
Past due 61 to 180 days	13,346	(99)	13,247
Past due 181 to 365 days	5,317	(273)	5,044
Past due over 365 days	5,346	(1,780)	3,566
	147,189	(2,154)	145,035

Expected loss rates are based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment which may impact the customers' ability to repay the outstanding balances in order to estimate the ECLs for the impairment assessment.

The rates of ECLs for trade and bills receivables within the age group of current (not past due), past due 1 to 60 days, past due 61 to 180 days, past due 181 to 365 days and past due over 365 days of collective assessment and for individual assessment range from 0.01% to 33.55%, 0.01% to 39.90% and 0.01% to 33.30% as at 31 December 2017, 31 December 2018 and 31 December 2019.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer or customers having similar characteristics rather than the industry or country in which the customers operate and therefore significant concentration of credit risk primarily arise when the Group has significant exposure to individual customers. As at 31 December 2017, 31 December 2018 and 31 December 2019, 11.0%, 29.6% and 42.8% of the total trade and bills receivables were due from Group's five largest customers, and nil, 2.0% and 5.8% of total trade and bills receivables were due from the Group's largest customer respectively.

Deposits and other receivables

As at 31 December 2017, 31 December 2018 and 31 December 2019, the management of the Group takes into account the historical default experience and forward-looking information, as appropriate, for example the Group considers the consistently low historical default rates of counterparties and concludes that credit risk inherent in the Group's outstanding deposits and other receivables is insignificant. The Group has assessed the ECLs for deposits and other receivables under the 12 months ECL method and recognised reversal of ECLs on deposits and other receivables of RMB12,000 and RMB20,000, and allowance for ECLs on other receivables of RMB64,000 during the years ended 31 December 2017, 31 December 2018 and 31 December 2019 respectively.

The rates of ECLs for deposits and other receivables of 12 months ECL assessment range from 0.01% to 0.94%, 0.01% to 1.33% and 0.01% to 1.20% as at 31 December 2017, 31 December 2018 and 31 December 2019 respectively.

Amounts due from shareholders

The management of the Group considers the probability of default is negligible in view of the latest repayment history of the shareholders and no loss allowance was recognised during the year ended 31 December 2017, 31 December 2018 and 31 December 2019 respectively.

Cash and cash equivalents

The management of the Group considers the probability of default is negligible as the deposits are placed in banks having good reputation and no loss allowance was recognised during the year ended 31 December 2017, 31 December 2018 and 31 December 2019 respectively.

(b) Foreign currency risk

The Group has no significant foreign currency risk as its business transactions, majority of its recognised assets and liabilities are principally denominated in RMB, its functional currency. Accordingly, sensitivity analysis has not been disclosed. The Group currently does not have any hedge instruments to hedge against other foreign currency transactions.

(c) Interest rate risk

The Group's interest-rate risk mainly arises from borrowings and lease liabilities as disclosed in Notes 28 and 30. Borrowings were issued at floating rate and at fixed rates which expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The Group has not used any financial instruments to hedge potential fluctuations in interest rates.

The following table details the interest rate profile of the Group's borrowings and lease liabilities at the end of each of the Relevant Periods.

	As at 31 December					
	2017		2018		2019	
	Effective interest rate	Carrying amount	Effective interest rate	Carrying amount	Effective interest rate	Carrying amount
	%	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*
Fixed rate borrowings:						
Borrowings	7.50%–16.00%	15,000	7.50%–15.00%	25,000	3.97%–15.00%	35,122
Lease liabilities	4.99%–10.71%	3,282	4.99%–10.71%	1,552	4.99%	540
Floating rate borrowing:						
Borrowings	5.19%–9.00%	41,000	4.35%–9.00%	66,630	4.35–9.00%	64,040

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for variable-rate borrowings and bank deposits. The analysis is prepared assuming that the amount of liabilities outstanding at the end of each of the Relevant Periods were outstanding for the whole year. 100 basis points increase or decrease represent management's assessment of the reasonably possible change in interest rates of borrowings and bank deposits.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent interest rate risk as the exposures at the end of the Relevant Periods do not reflect the exposures during the Relevant Periods.

If interest rates on borrowings and bank deposits had been 100 basis points higher/lower and all other variables were held constant, the potential effect on the Group's post-tax profit for the years ended 31 December 2017, 31 December 2018 and 31 December 2019 is as follows:

	Year ended 31 December		
	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*
Increase/(decrease) in profit for the year			
— as a result of increase in interest rate	(271)	(488)	(460)
— as a result of decrease in interest rate	271	488	460

(d) Liquidity risk

In the management of liquidity risk, the Group's policy is to regularly monitor its liquidity requirements in order to maintain sufficient reserve of cash and adequate committed lines of funding from major banks, if necessary, to meet its liquidity requirements in the short and long term. The liquidity policies have been followed by the Group during the Relevant Periods and are considered to have been effective in managing liquidity risk.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. For bank borrowings and lease liabilities which contain a repayment on demand clause which can be exercised at the banks' sole discretion, the analysis shows the cash outflow based on the earliest period in which the Group can be required to pay, that is if the lenders were to invoke their unconditional rights to call the loans with immediate effect. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rates at the end of each of the Relevant Periods.

	Carrying amount	Total contractual undiscounted cash flow	On demand or within 1 year	Between 1 to 2 years	Between 2 to 5 years
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2017					
Trade and bills payables	34,224	34,224	34,224	—	—
Accruals and other payables	7,785	7,785	7,785	—	—
Borrowings	56,000	57,921	57,921	—	—
Lease liabilities	3,282	3,618	3,142	143	333
Amount due to a shareholder	12,309	12,309	12,309	—	—
	113,600	115,857	115,381	143	333
At 31 December 2018					
Trade and bills payables	56,377	56,377	56,377	—	—
Accruals and other payables	7,257	7,257	7,257	—	—
Borrowings	91,630	94,030	94,030	—	—
Lease liabilities	1,552	1,655	1,322	143	190
Amount due to a shareholder	899	899	899	—	—
	157,715	160,218	159,885	143	190
At 31 December 2019					
Trade and bills payables	67,849	67,849	67,849	—	—
Accruals and other payables	13,741	13,741	13,741	—	—
Borrowings	99,162	106,767	102,576	2,286	1,905
Lease liabilities	540	559	368	143	48
	181,292	188,916	184,534	2,429	1,953

42. CAPITAL MANAGEMENT

The Group's objective of managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debts.

The capital structure of the Group consists of debts, which includes amount due to a shareholder, borrowings and lease liabilities, cash and cash equivalents and total equity, comprising share capital and reserves. The Group's risk management reviews the capital structure on a semi-annual basis. As part of this review, the management considers the cost of capital and the risks associated with each class of capital.

The net debt and net debt to equity ratio as at the end of each of the Relevant Periods is as follows:

	As at 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Borrowings	56,000	91,630	99,162
Lease liabilities	3,282	1,552	540
Amount due to a shareholder	12,309	899	—
Less: Cash and cash equivalents	(4,907)	(1,614)	(2,726)
Net debt	66,684	92,467	96,976
Total equity	57,965	87,361	139,401
Net debt to equity ratio	115%	106%	70%

43. EVENTS AFTER THE REPORTING PERIOD

Save as disclosed in this report, subsequent to 31 December 2019, the following significant event took place:

(a) Share Option Scheme

The Company has conditionally adopted the Share Option Scheme on 10 June 2020. A summary of the principal terms of the Share Option Scheme is set out in the section headed "Statutory and General Information — D. Share Option Scheme" in Appendix V to this prospectus.

(b) Impact of the Novel Coronavirus Pneumonia outbreak

Since early 2020, the outbreak of the novel coronavirus ("COVID-19") has brought about additional uncertainties in the Group's operating environment and may impact the business and operations of the Group as its operations are located in China.

As far as the Group's businesses are concerned, COVID-19 may cause (i) temporary suspension and shortage of labour and raw materials; (ii) delays in manufacturing, sales and delivery of the products; (iii) increasing pressure on costs and operational expenses as well as cash flow positions of certain projects; and (iv) potential impact on the financial results of the Group, the extent of which cannot be estimated as at the date of this report.

The Group will continue to closely monitor the development of the COVID-19 epidemic, assess and actively respond to its impact on the financial condition, operating results and other aspects of the Group. As of the date of this report, the assessment is still in progress. The actual impacts may differ from these estimates as the situation continues to evolve and further information may become available.

44. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of its subsidiaries in respect of any periods subsequent to 31 December 2019 up to the date of this report.

The information set out in this appendix does not form part of the accountants' report prepared by BDO Limited, Certified Public Accountants, Hong Kong, the independent reporting accountants of the Company, as set out in Appendix I to this prospectus, and is included herein for illustrative purposes only.

The unaudited pro forma financial information should be read in conjunction with the section headed "FINANCIAL INFORMATION OF OUR GROUP" in this prospectus and the Accountants' Report set forth in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA STATEMENT OF CONSOLIDATED NET TANGIBLE ASSETS

The following unaudited pro forma financial information prepared in accordance with paragraph 7.31 of the GEM Listing Rules and Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the HKICPA is for illustrative purpose only, and is set out herein to provide the prospective investors with further illustrative financial information about the effect of the Share Offer on the consolidated net tangible assets of the Group as at 31 December 2019 as if the Share Offer had taken place on 31 December 2019. Because of its hypothetical nature, the unaudited pro forma financial information may not give a true picture of the financial position of our Group had the Share Offer been completed on 31 December 2019 or at any future dates.

	Consolidated net tangible assets attributable to the owners of the Company as at 31 December 2019	**Estimated net proceeds from the Share Offer**	**Unaudited pro forma adjusted consolidated net tangible assets attributable to the owners of the Company**	**Unaudited pro forma adjusted consolidated net tangible assets per Share**	**Unaudited pro forma adjusted consolidated net tangible assets per Share**
	RMB'000	*RMB'000*	*RMB'000*	*RMB*	*HK$*
	(Note 1)	*(Note 2)*		*(Note 3)*	*(Note 4)*
Based on the Offer Price of HK$0.40 per Share	111,645	49,291	160,936	0.20	0.23
Based on the Offer Price of HK$0.25 per Share	111,645	25,531	137,176	0.17	0.19

Notes:

(1) The consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2019 is extracted from the consolidated net assets of approximately RMB111,757,000 adjusted by excluding the intangible assets of approximately RMB112,000 as at 31 December 2019, as shown in the Accountants' Report, the text of which is set out in Appendix I to this prospectus.

(2) The estimated net proceeds from the issue of new Shares pursuant to the Share Offer are based on 200,000,000 Offer Shares to be issued at the Offer Price of HK$0.25 and HK$0.40 per Share, being the lower end to higher end of the stated Offer Price range, respectively, after deduction of the underwriting fees and other related expenses payable by the Company. No account has been taken of the Shares which may be issued upon the exercise of options that may be granted under the Share Option Scheme and the Shares which may be issued upon the exercise of Offer Size Adjustment Option. The estimated net proceeds from the Share Offer are converted from Hong Kong dollars to RMB at an exchange rate of RMB1 to HK$1.14.

(3) The unaudited pro forma adjusted consolidated net tangible assets per Share is calculated based on 800,000,000 Shares in issue immediately following the completion of the Share Offer as set out in the "Share Capital" section to this prospectus, but takes no account of any Shares which may be issued upon the exercise of options that may be granted under the Share Option Scheme and the Shares which may be issued upon the exercise of Offer Size Adjustment Option or any Shares which may be allotted, issued or repurchase by our Company pursuant to the general mandates for the allotment and issue or repurchase of Shares.

(4) The unaudited pro forma adjusted consolidated net tangible assets per Share is converted to Hong Kong dollars at an exchange rate of RMB1 to HK$1.14. No presentation is made that the RMB amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that date.

(5) No adjustment has been made to the unaudited pro forma adjusted consolidated net tangible assets to reflect any trading results or other transactions of the Group enter into subsequent to 31 December 2019.

B. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report, prepared for the sole purpose of inclusion in this prospectus, received from the independent reporting accountants of the Company, BDO Limited, Certified Public Accountants, Hong Kong.

BDO

Tel : +852 2218 8288
Fax: +852 2815 2239
www.bdo.com.hk

25th Floor Wing On Centre
111 Connaught Road Central
Hong Kong

電話：+852 2218 8288
傳真：+852 2815 2239
www.bdo.com.hk

香港干諾道中111號
永安中心25樓

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the directors of China Saftower International Holding Group Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of China Saftower International Holding Group Limited (the "Company") by the directors of the Company for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of consolidated net tangible assets of the Company as at 31 December 2019 and related notes as set out on pages II-1 to II-2 of Appendix II of the Company's prospectus dated 24 June 2020 (the "Prospectus") in connection with the proposed initial public offering of the shares of the Company (the "Share Offer"). The applicable criteria on the basis of which the directors of the Company have compiled the unaudited pro forma financial information are described on pages II-1 to II-2 of Appendix II to the Prospectus.

The unaudited pro forma financial information has been compiled by the directors of the Company to illustrate the impact of the Share Offer on the Company's consolidated financial position as at 31 December 2019 as if the Share Offer had taken place at 31 December 2019. As part of this process, information about the Company's consolidated financial position has been extracted by the directors of the Company from the Company's financial information for the year ended 31 December 2019, on which an accountants' report set out in Appendix I of the Prospectus has been published.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The directors of the Company are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 7.31 of the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the "Code of Ethics for Professional Accountants" issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 7.31(7) of the GEM Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the directors of the Company have compiled the unaudited pro forma financial information in accordance with paragraph 7.31 of the GEM Listing Rules and with reference to AG 7 issued by HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in a prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Share Offer at 31 December 2019 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related unaudited pro forma adjustments give appropriate effect to those criteria; and
- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the entity, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the unaudited pro forma financial information has been properly complied by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Company; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 7.31(1) of the GEM Listing Rules.

BDO Limited
Certified Public Accountants
Hong Kong

24 June 2020

The following is the text of a valuation report, prepared for the purpose of incorporation in this prospectus received from Royson Valuation Advisory Limited, an independent valuer, in connection with its valuation as at 30 April 2020 of the property interests of the Group.

ROYSON

Royson Valuation Advisory Limited
Unit 1503, 15/F, The L. Plaza
367–375 Queen's Road Central
Hong Kong

Date: 24 June 2020

The Board
China Saftower International Holding Group Limited
Unit 901, 9th Floor, Belgian Bank Building
721–725 Nathan Road
Mongkok, Kowloon
Hong Kong

Dear Sirs,

INSTRUCTIONS

In accordance with your instructions for us to value various properties in which China Saftower International Holding Group Limited (the "**Company**") and its subsidiaries (hereinafter together referred to as the "**Group**") have interests in the People's Republic of China (the "**PRC**"), we confirm that we have carried out property inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market values of the property interests as at 30 April 2020 (the "**Valuation Date**").

This letter which forms part of our valuation report explains the basis and methodologies of valuation, clarifying assumptions, valuation considerations, title investigation and limiting conditions of this valuation.

BASIS OF VALUATION

Our valuation of the property interests represents the market value which we would define as intended to mean "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

VALUATION METHODOLOGY

In valuing the property interests of the property nos. 1 to 3, we have adopted depreciated replacement cost approach by a combination of the open market value of land portions and depreciated replacement cost of the buildings and structures standing on the land. Hence, the sum of the two results represents the value of the properties as a whole. In the valuation of the land portions, reference has been made to the comparables sales transactions as available in the subject localities.

As the nature of the buildings and structures cannot be valued on the basis of market value, they have therefore been valued on the basis of their depreciated replacement cost. The depreciated replacement cost approach considers the cost to reproduce or replace in new condition the property appraised in accordance with current construction costs for similar buildings and structures in the locality, with allowance for accrued depreciation as evidenced by observed condition or obsolescence present, whether arising from physical, functional or economic causes. The depreciated replacement cost approach generally furnished the most reliable indication of value for the property in the absence of a known market based on comparable sales. The approach is subject to adequate potential profitability of the business.

We have valued the property interests of the property no.4 on market basis and the direct comparison method is adopted where comparison based on comparable sales evidence is made. Comparable properties of similar size, character and location are analysed and carefully weighted against all the respective advantages and disadvantages of each property in order to arrive at a fair comparison of values.

VALUATION CONSIDERATIONS

In valuing the property interests, we have complied with all the requirements contained in Chapter 8 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited and the HKIS Valuation Standards published by The Hong Kong Institute of Surveyors.

VALUATION ASSUMPTIONS

Our valuations have been made on the assumption that the seller sells the property interests on the open market in their existing states without the benefit of a deferred term contracts, leasebacks, joint ventures, management agreements or any similar arrangements, which could serve to affect the values of the property interests.

In undertaking our valuation, we have assumed that, unless otherwise stated, transferable land use rights in respect of the property interests for specific terms at nominal annual land use fees have been granted and that any premium payable has already been fully paid. We have also assumed that the owners of the properties have enforceable titles to the properties and have free and uninterrupted rights to use, occupy or assign the properties for the whole of the respective unexpired terms as granted.

No allowance has been made in our valuation for any outstanding or additional land premium, charges, mortgages or amounts owing on the property interests valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property interests are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

TITLE INVESTIGATION

We have been, in some instances, shown copies of various title documents and other documents relating to the property interests and have made relevant enquiries. We have not examined the original documents to verify the existing title to the property interests and any material encumbrances that might be attached to the property interests or any lease amendments. However, we have relied considerably on the information given by the Company's PRC legal adviser, Tahota Law Firm, concerning the validity of the Group's title to the property interests located in the PRC.

All legal documents provided by the Company have been used for reference only. No responsibility regarding legal title to the property interests is assumed in this valuation report.

LIMITING CONDITIONS

We have inspected the exterior, and wherever possible, the interior of the properties but no structural survey had been made. In the course of our inspection, we did not note any serious defects. We are not, however, able to report that the properties are free from rot, infestation or any other structural defects. Further, no test has been carried out on any of the building services. All dimensions, measurements and areas are only approximates. We have not been able to carry out detailed on-site measurements to verify the site and floor areas of the properties and we have assumed that the areas shown on the copies of documents handed to us are correct.

The site inspection of the property was carried out on 14 and15 February 2019 by Mr. Wang Xiaoqiang (王小強) (B. Land Management), who has over 3 years' experience in property valuation.

We have relied to a considerable extent on information provided by the Company and have accepted advice given to us on such matters, in particular, but not limited to, the sales records, tenure, planning approvals, statutory notices, easements, particulars of occupancy, site and floor areas and all other relevant matters in the identification of the property interests.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Company. We have also been advised by the Company that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and we have no reason to suspect that any material information has been withheld.

Liability in connection with this valuation is limited to the client to whom this valuation is addressed and for the purpose for which it is carried out only. We will accept no liability to any other parties or any other purposes.

This valuation is to be used only for the purpose stated herein, any use or reliance for any other purpose, by you or third parties, is invalid. No reference to our name or our valuation report in whole or in part, in any document you prepare and/or distribute to third parties may be made without written consent.

The Novel Coronavirus Disease (COVID-19) has impacted on the global financial markets and the real estate market is being impacted by prevailing uncertainty. Many countries have implemented travel restrictions. Our valuation is reported on the basis of material valuation uncertainty. We cannot predict the progress of COVID-19 and its impact on the real estate market. The market condition may change significantly over a relatively short period of time. There may be material difference between our estimation of market value based on the current market and actual transaction price of the property. Given the uncertain impact of COVID-19 on the market, the valuation of the property is recommended to have under frequent review.

EXCHANGE RATE

Unless otherwise stated, all monetary amounts stated in this valuation are in Renminbi (RMB).

Our summary of values and "Property Particulars and Opinion of Value" are herewith attached.

Yours faithfully,
For and on behalf of
Royson Valuation Advisory Limited

Ian Ng
MHKIS RPS(GP)
Associate Director

Mr. Ian Ng is a Registered Professional Surveyor with over 10 years' experience in valuation of properties in Hong Kong, Macau Special Administrative Region and the PRC. Mr. Ng is a Professional Member of The Hong Kong Institute of Surveyors.

SUMMARY OF VALUES

	Property	Market Value in Existing State as at 30 April 2020
		RMB
	Property interests held and occupied by the Group in the PRC	
1	Land and buildings located at No.88 Qingma Road, Modern Industrial Park (South Area), Pidu District, Chengdu, Sichuan Province, the PRC	18,400,000
2	Land and buildings located at No.10 Nan Street, Xin Min Chang Town, Pidu District, Chengdu, Sichuan Province, the PRC	4,100,000
3	Land (Lot no. 008008000900) and buildings located at Sichuan-Zhejiang Park, Yuanjiaba Office, Guangyuan Economic Development Zone, Lizhou District, Guangyuan, Sichuan Province, the PRC	60,600,000
4	No.2001 on Level 20, Unit 1 of Block 6 and No.2 on Level 18, Unit 1 of Block 7, No.968 Zhong Xin Da Dao Si Duan, Pitong Town, Pidu District, Chengdu, Sichuan Province, the PRC	2,100,000
	Total:	85,200,000

PROPERTY PARTICULARS AND OPINION OF VALUE

Property interests held and occupied by the Group in the PRC

	Property	Description and Tenure	Particular of Occupancy	Market Value in Existing State as at 30 April 2020
1	Land and buildings located at No.88 Qingma Road, Modern Industrial Park (South Area), Pidu District, Chengdu, Sichuan Province, the PRC (位於中國四川省成都市郫都區現代工業港(南片區)清馬路88號之土地和房屋)	The property comprises a parcel of land with an area of approximately 12,361 sq.m. and five 1- to 3-storey workshop buildings erected thereon completed in 2010. The total gross floor area of the buildings is approximately 7,498 sq.m. The property is located at Qingma Road in Xian Dai Gong Ye Gang in Pi County. Developments in the vicinity are mainly industrial developments. The land use rights of the property were granted for a term expiring on 21 April 2057 for industrial use.	The property is currently occupied by the Group for manufacturing and warehouse purposes.	RMB18,400,000 (Renminbi Eighteen Million Four Hundred Thousand)

Notes:

(1) Pursuant to an Immovable Property Right Certificate — Chuan (2019) Pi Du Qu Bu Dong Chan Quan Di No. 0068631 (川 (2019) 郫都區不動產權第0068631號) issued by Pi County Bureau of Land Resources (郫縣國土資源局) dated 25 September 2019, the land use rights of a parcel of land with a site area of approximately 12,361 sq.m. and the building ownership rights of five 1- to 3-storey workshop buildings with a total gross floor area of approximately 7,498 sq.m. were granted to Sichuan Saftower Industry Company Limited (四川蜀塔實業有限公司) for a term expiring on 21 April 2057 for industrial use.

(2) The major certificates and permits of the property are summarized as follows:

(i)	Immovable Property Right Certificate	Yes

(3) We have been provided with a legal opinion regarding the property interests by the Company's PRC legal adviser, which contains, *inter alia*, the following:

(i) Sichuan Saftower Industry Company Limited legally owns the property and is entitled to lease, use, transfer, mortgage and dispose of the property in accordance with the PRC laws; and

(ii) The property is subject to a mortgage in favour of Hua Xia Bank Co., Limited Chengdu Branch (華夏銀行股份有限公司成都支行).

PROPERTY PARTICULARS AND OPINION OF VALUE

Property interests held and occupied by the Group in the PRC

	Property	Description and Tenure	Particular of Occupancy	Market Value in Existing State as at 30 April 2020
2	Land and buildings located at No.10 Nan Street, Xin Min Chang Town, Pidu District, Chengdu, Sichuan Province, the PRC (位於中國四川省成都市郫都區新民場鎮南街10號之土地和房屋)	The property comprises a parcel of land with an area of approximately 5,700.8 sq.m. and three 1- to 4-storey workshop buildings erected thereon completed in 2006. The gross floor area of the building is approximately 2,705.53 sq.m. The property is located at Nan Street in Xin Min Chang Town in Pi County. Developments in the vicinity are mainly industrial developments. The land use rights of the property were granted for a term expiring on 25 July 2047 for commercial and service uses.	The property is currently occupied by the Group for warehouse purpose.	RMB4,100,000 (Renminbi Four Million One Hundred Thousand)

Notes:

(1) Pursuant to an Immovable Property Right Certificate — Chuan (2019) Pi Du Qu Bu Dong Chan Quan Di No. 0005032 (川(2019)郫都區不動產權第0005032號) issued by Chengdu City Pi Du District Bureau of Land Resources (成都市郫都區國土資源局) dated 28 January 2019, the land use rights of a parcel of land with a site area of approximately 5,700.8 sq.m. were granted to Sichuan Saftower Industry Company Limited for a term expiring on 25 July 2047 for commercial and service uses.

(2) Pursuant to a Building Ownership Certificate- Cun Fang Quan Zheng Pi Zi Di No. 12110010 (村房權證郫字第12110010號) issued by Pi County Bureau of Development (郫縣建設局) dated 18 July 2006, the building ownership rights of three 1- to 4-storey workshop buildings with a total gross floor area of approximately 2,705.53 sq.m. are owned by Pixian Sandian Cables Company Limited (郫縣三電電纜有限責任公司).

(3) As advised by the Company, the property is not allowed for commercial development according to the prevailing zoning. As instructed by the Company, we have valued the property in the current industrial use and no redevelopment potential of the property has been taken into account.

(4) As advised by the Company, the name of Pixian Sandian Cables Company Limited has been changed to Sichuan Saftower Industry Company Limited.

(5) The major certificates and permits of the property are summarized as follows:

(i)	Immovable Property Right Certificate	Yes
(ii)	Building Ownership Certificate	Yes

(6) We have been provided with a legal opinion regarding the property interests by the Company's PRC legal adviser, which contains, *inter alia*, the following:

(i) Sichuan Saftower Industry Company Limited legally owns the property and is entitled to lease, use, transfer, mortgage and dispose of the property in accordance with the PRC laws; and

(ii) The property is subject a mortgage in favour of 成都蜀都中小企業融資擔保有限公司.

PROPERTY PARTICULARS AND OPINION OF VALUE

Property interests held occupied by the Group in the PRC

	Property	Description and Tenure	Particular of Occupancy	Market Value in Existing State as at 30 April 2020
3	Land (Lot no. 008008000900) and buildings located at Sichuan- Zhejiang Park, Yuanjiaba Office, Guangyuan Economic Development Zone, Lizhou District, Guangyuan, Sichuan Province, the PRC (位於中國四川省廣元市利州區廣元經濟開發區袁家壩辦事處川浙園區之土地(地號：008008000900)和房屋)	The property comprises a parcel of land with an area of approximately 65,027.87 sq.m. and various buildings erected thereon completed in between 2014 and 2017. The buildings comprise a 3-storey office building, a 3-storey dormitory building and four single storey workshop buildings. The total gross floor area of the buildings is approximately 20,780.14 sq.m. The property is located in Chuan Zhe Yuan Zone in Lizhou District. Developments in the vicinity are mainly industrial developments. The land use rights of the property were granted for a term expiring on 14 July 2061 for industrial use.	The property is currently occupied by the Group for manufacturing and warehouse purposes.	RMB60,600,000 (Renminbi Sixty Million Six Hundred Thousand)

Notes:

(1) Pursuant to a State-owned Land Use Rights Certificate — Guang Guo Yong (2015) Di No. 6544 (廣國用 (2015) 第6544號) issued by Guangyuan City Bureau of Land Resources (廣元市國土資源局) dated 13 August 2015, the land use rights of a parcel of land with a site area of approximately 65,027.87 sq.m. were granted to Guangyuan Saftower Cable Company Limited (廣元蜀塔電纜有限公司) for a term expiring on 14 July 2061 for industrial use.

(2) Pursuant to a Building Ownership Certificate — Guang Fang Quan Zheng Cheng Zi Di No. 2015081201744 (廣房權證城字第2015081201744號) issued by Guangyuan City Bureau of Real Estate Administration (廣元市房管局) registered on 13 August 2015, the building ownership rights of a 3-storey office building with a gross floor area of approximately 6,255.04 sq.m. are owned by Guangyuan Saftower Cable Company Limited.

(3) Pursuant to a Building Ownership Certificate — Guang Fang Quan Zheng Cheng Zi Di No. 2015081201480 (廣房權證城字第2015081201480號) issued by Guangyuan City Bureau of Real Estate Administration (廣元市房管局) registered on 13 August 2015, the building ownership rights of a 3-storey dormitory building with a gross floor area of approximately 2,740.42 sq.m. are owned by Guangyuan Saftower Cable Company Limited.

(4) Pursuant to four Immovable Property Right Certificates — Chuan (2019) Guangyuan City Bu Dong Chan Quan Di Nos. 0005456, 0005460, 0005546 and 0005466 (川 (2019) 廣元市不動產權第0005456, 0005460, 0005546 和0005466號) all dated 27 March 2019, the land use rights and the building ownership rights of four single storey Nos.1 to 4 workshop buildings with a total gross floor area of approximately 11,784.68 sq.m. were granted to Guangyuan Saftower Cable Company Limited for a term expiring on 14 July 2061 for industrial use.

(5) Pursuant to a document dated 29 July 2015, Guangyuan City Bureau of Land Resources issued a consent to permit to transfer the land use rights of the property to Guangyuan Saftower Cable Company Limited at the original land premium in the amount of RMB1,030,000.

(6) The major certificates and permits of the property are summarized as follows:

(i)	State-owned Land Use Rights Certificate	Yes
(ii)	Building Ownership Certificate	Yes
(iii)	Immovable Property Right Certificate	Yes

(7) We have been provided with a legal opinion regarding the property interests by the Company's PRC legal adviser, which contains, *inter alia*, the following:

(i) Guangyuan Saftower Cable Company Limited legally owns the property and is entitled to lease, use, transfer, mortgage and dispose of the property in accordance with the PRC laws; and

(ii) The property is subject to a mortgage in favour of 廣元市國開科技創業融資擔保有限公司.

PROPERTY PARTICULARS AND OPINION OF VALUE

Property interests held and occupied by the Group in the PRC

	Property	Description and Tenure	Particular of Occupancy	Market Value in Existing State as at 30 April 2020
4	No.2001 on Level 20, Unit 1 of Block 6 and No.2 on Level 18, Unit 1 of Block 7, No.968 Zhong Xin Da Dao Si Duan, Pitong Town, Pidu District, Chengdu, Sichuan Province, the PRC (中國四川省成都市郫都區郫筒鎮中信大道四段968號6棟1單元20層2001號和7棟1單元18層2號)	The property comprises a residential unit on Level 20 of a 26-storey residential building (Block 6) and a residential unit on Level 18 of 31-storey residential building (Block 7) both completed in 2013. The total gross floor area of the property is approximately 222.26 sq.m. The property is located at Zhong Xin Da Dao in Pitong Town in Pi County. Developments in the vicinity are mainly residential development. The land use rights of the property were granted for a term expiring on 11 June 2080 for residential use.	The property is currently vacant.	RMB2,100,000 (Renminbi Two Million One Hundred Thousand)

Notes:

(1) Pursuant to an Immovable Property Right Certificate — Chuan (2019) Pi Du Qu Bu Dong Chan Quan Di No. 0059047 (川 (2019) 郫都區不動產權第0059047號) issued by Chengdu City Pi Du District Bureau of Planning and Natural Resources (成都市郫都區規劃和自然資源局) dated 23 August 2019, the land use rights and the building ownership rights of a residential unit, No.2001 on Level 20, Unit 1 of Block 6, with a gross floor area of approximately 102.61 sq.m. were granted to Sichuan Saftower Industry Company Limited for a term expiring on 11 June 2080 for residential use.

(2) Pursuant to an Immovable Property Right Certificate — Chuan (2019) Pi Du Qu Bu Dong Chan Quan Di No. 0059571 (川 (2019) 郫都區不動產權第0059571號) issued by Chengdu City Pi Du District Bureau of Planning and Natural Resources (成都市郫都區規劃和自然資源局) dated 23 August 2019, the land use rights and the building ownership rights of a residential unit, No.2 on Level 18, Unit 1 of Block 7, with a gross floor area of approximately 119.65 sq.m. were granted to Sichuan Saftower Industry Company Limited for a term expiring on 11 June 2080 for residential use.

(3) Pursuant to a Sale and Purchase Contract dated 27 August 2014, No.2001 on Level 20, Unit 1 of Block 6, the property was acquired by Pixian Sandian Cables Company Limited at a consideration of RMB536,235.

(4) Pursuant to a Sale and Purchase Contract dated 21 August 2014, No.2 on Level 18, Unit 1 of Block 7, the property was acquired by Pixian Sandian Cables Company Limited at a consideration of RMB556,445.

(5) The major certificates and permits of the property are summarized as follows:

(i)	Immovable Property Right Certificate	Yes

(6) We have been provided with a legal opinion regarding the property interests by the Company's PRC legal adviser, which contains, *inter alia*, the following:

(i) Sichuan Saftower Industry Company Limited legally owns the property and is entitled to lease, use, transfer, mortgage and dispose of the property in accordance with the PRC laws; and

(ii) The property is subject mortgages in favour of Hua Xia Bank Co., Limited Chengdu Branch (華夏銀行股份有限公司成都支行) and 旺蒼縣農村信用合作聯社.

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of our Company and of certain aspects of Cayman Islands company law.

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on 9 October 2018 under the Companies Law. Our Company's constitutional documents consist of its Amended and Restated Memorandum of Association (**Memorandum**) and its Amended and Restated Articles of Association (**Articles**).

1. MEMORANDUM OF ASSOCIATION

(a) The Memorandum provides, *inter alia*, that the liability of members of our Company is limited and that the objects for which our Company is established are unrestricted (and therefore include acting as an investment company), and that our Company shall have and be capable of exercising any and all of the powers at any time or from time to time exercisable by a natural person or body corporate whether as principal, agent, contractor or otherwise and, since our Company is an exempted company, that our Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of our Company carried on outside the Cayman Islands.

(b) By special resolution our Company may alter the Memorandum with respect to any objects, powers or other matters specified in it.

2. ARTICLES OF ASSOCIATION

The Articles were adopted on 10 June 2020. A summary of certain provisions of the Articles is set out below.

(a) Shares

(i) Classes of shares

The share capital of our Company consists of ordinary shares.

(ii) Variation of rights of existing shares or classes of shares

Subject to the Companies Law, if at any time the share capital of our Company is divided into different classes of shares, all or any of the special rights attached to any class of shares may (unless otherwise provided for by the terms of issue of the shares of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. The provisions of the Articles relating to general meetings shall *mutatis mutandis* apply to every such separate general meeting, but so that the necessary quorum (other than at an adjourned meeting) shall be not less than two persons together holding (or, in the case of a shareholder being a corporation, by its duly authorised representative) or representing by proxy not less than one-third in nominal value of the issued shares of that class. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(iii) Alteration of capital

Our Company may, by an ordinary resolution of its members: (a) increase its share capital by the creation of new shares of such amount as it thinks expedient; (b) consolidate or divide all or any of its share capital into shares of larger or smaller amount than its existing shares; (c) divide its unissued shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges or conditions; (d) subdivide its shares or any of them into shares of an amount smaller than that fixed by the Memorandum; (e) cancel any shares which, at the date of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled; (f) make provision for the allotment and issue of shares which do not carry any voting rights; and (g) change the currency of denomination of its share capital.

(iv) Transfer of shares

Subject to the Companies Law and the requirements of the Stock Exchange, all transfers of shares shall be effected by an instrument of transfer in the usual or common form or in such other form as the Board may approve and may be under hand or, if the transferor or transferee is a Clearing House or its nominee(s), under hand or by machine imprinted signature, or by such other manner of execution as the Board may approve from time to time.

Execution of the instrument of transfer shall be by or on behalf of the transferor and the transferee, provided that the Board may dispense with the execution of the instrument of transfer by the transferor or transferee or accept mechanically executed transfers. The transferor shall be deemed to remain the holder of a share until the name of the transferee is entered in the register of members of our Company in respect of that share.

The Board may, in its absolute discretion, at any time and from time to time remove any share on the principal register to any branch register or any share on any branch register to the principal register or any other branch register. Unless the Board otherwise agrees, no shares on the principal register shall be removed to any branch register nor shall shares on any branch register be removed to the principal register or any other branch register. All removals and other documents of title shall be lodged for registration and registered, in the case of shares on any branch register, at the relevant registration office and, in the case of shares on the principal register, at the place at which the principal register is located.

The Board may, in its absolute discretion, decline to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or on which our Company has a lien. It may also decline to register a transfer of any share issued under any share option scheme upon which a restriction on transfer subsists or a transfer of any share to more than four joint holders.

The Board may decline to recognise any instrument of transfer unless a certain fee, up to such maximum sum as the Stock Exchange may determine to be payable, is paid to our Company, the instrument of transfer is properly stamped (if applicable), is in respect of only one class of share and is lodged at the relevant registration office or the place at which the principal register is located accompanied by the relevant share certificate(s) and such other evidence as the Board may reasonably require is provided to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The register of members may, subject to the GEM Listing Rules, be closed at such time or for such period not exceeding in the whole 30 days in each year as the Board may determine.

Fully paid shares shall be free from any restriction on transfer (except when permitted by the Stock Exchange) and shall also be free from all liens.

(v) Power of our Company to purchase its own shares

our Company may purchase its own shares subject to certain restrictions and the Board may only exercise this power on behalf of our Company subject to any applicable requirement imposed from time to time by the Articles or any, code, rules or regulations issued from time to time by the Stock Exchange and/or the Securities and Futures Commission of Hong Kong.

Where our Company purchases for redemption a redeemable Share, purchases not made through the market or by tender shall be limited to a maximum price and, if purchases are by tender, tenders shall be available to all members alike.

(vi) Power of any subsidiary of our Company to own shares in our Company

There are no provisions in the Articles relating to the ownership of shares in our Company by a subsidiary.

(vii) Calls on shares and forfeiture of shares

The Board may, from time to time, make such calls as it thinks fit upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium) and not by the conditions of allotment of such shares made payable at fixed times. A call may be made payable either in one sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20% per annum as the Board shall fix from the day appointed for payment to the time of actual payment, but the Board may waive payment of such interest wholly or in part. The Board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced our Company may pay interest at such rate (if any) not exceeding 20% per annum as the Board may decide.

If a member fails to pay any call or instalment of a call on the day appointed for payment, the Board may, for so long as any part of the call or instalment remains unpaid, serve not less than 14 days' notice on the member requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment. The notice shall name a further day (not earlier than the expiration of 14 days from the date of the notice) on or before which the payment required by the notice is to be made, and shall also name the place where payment is to be made. The notice shall also state that, in the event of non-payment at or before the appointed time, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, nevertheless, remain liable to pay to our Company all monies which, at the date of forfeiture, were payable by him to our Company in respect of the shares together with (if the Board shall in its discretion so require) interest thereon from the date of forfeiture until payment at such rate not exceeding 20% per annum as the Board may prescribe.

(b) Directors

(i) Appointment, retirement and removal

At any time or from time to time, the Board shall have the power to appoint any person as a Director either to fill a casual vacancy on the Board or as an additional Director to the existing Board subject to any maximum number of Directors, if any, as may be determined by the members in general meeting. Any Director so appointed to fill a casual vacancy shall hold office only until the first general meeting of our Company after his appointment and be subject to re-election at such meeting. Any Director so appointed as an addition to the existing Board shall hold office only until the first annual general meeting of our Company after his appointment and be eligible for re-election at such meeting. Any Director so appointed by the Board shall not be taken into account in determining our Directors or the number of Directors who are to retire by rotation at an annual general meeting.

At each annual general meeting, one third of our Directors for the time being shall retire from office by rotation. However, if the number of Directors is not a multiple of three, then the number nearest to but not less than one third shall be the number of retiring Directors. Our Directors to retire in each year shall be those who have been in office longest since their last re-election or appointment but, as between persons who became or were last re-elected Directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by lot.

No person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected has been lodged at the head office or at the registration office of our Company. The period for lodgment of such notices shall commence no earlier than the day after despatch of the notice of the relevant meeting and end no later than seven days before the date of such meeting and the minimum length of the period during which such notices may be lodged must be at least seven days.

A Director is not required to hold any shares in our Company by way of qualification nor is there any specified upper or lower age limit for Directors either for accession to or retirement from the Board.

A Director may be removed by an ordinary resolution of our Company before the expiration of his term of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and our Company) and our Company may by ordinary resolution appoint another in his place. Any Director so appointed shall be subject to the "retirement by rotation" provisions. The number of Directors shall not be less than two.

The office of a Director shall be vacated if he:

(aa) resigns;

(bb) dies;

(cc) is declared to be of unsound mind and the Board resolves that his office be vacated;

(dd) becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;

(ee) is prohibited from being or ceases to be a director by operation of law;

(ff) without special leave, is absent from meetings of the Board for six consecutive months, and the Board resolves that his office is vacated;

(gg) has been required by the stock exchange of the Relevant Territory (as defined in the Articles) to cease to be a Director; or

(hh) is removed from office by the requisite majority of our Directors or otherwise pursuant to the Articles.

From time to time the Board may appoint one or more of its body to be managing director, joint managing director or deputy managing director or to hold any other employment or executive office with our Company for such period and upon such terms as the Board may determine, and the Board may revoke or terminate any of such appointments. The Board may also delegate any of its powers to committees consisting of such Director(s) or other person(s) as the Board thinks fit, and from time to time it may also revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers so delegated, conform to any regulations that may from time to time be imposed upon it by the Board.

(ii) Power to allot and issue shares and warrants

Subject to the provisions of the Companies Law, the Memorandum and Articles and without prejudice to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached to it such rights, or such restrictions, whether with regard to dividend, voting, return of capital or otherwise, as our Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the Board may determine). Any share may be issued on terms that, upon the happening of a specified event or upon a given date and either at the option of our Company or the holder of the share, it is liable to be redeemed.

The Board may issue warrants to subscribe for any class of shares or other securities of our Company on such terms as it may from time to time determine.

Where warrants are issued to bearer, no certificate in respect of such warrants shall be issued to replace one that has been lost unless the Board is satisfied beyond reasonable doubt that the original certificate has been destroyed and our Company has received an indemnity in such form as the Board thinks fit with regard to the issue of any such replacement certificate.

Subject to the provisions of the Companies Law, the Articles and, where applicable, the rules of any stock exchange of the Relevant Territory (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in our Company shall be at the disposal of the Board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither our Company nor the Board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others whose registered addresses are in any particular territory or territories where, in the absence of a registration statement or other special formalities, this is or may, in the opinion of the Board, be unlawful or impracticable. However, no member affected as a result of the foregoing shall be, or be deemed to be, a separate class of members for any purpose whatsoever.

(iii) Power to dispose of the assets of our Company or any of its subsidiaries

While there are no specific provisions in the Articles relating to the disposal of the assets of our Company or any of its subsidiaries, the Board may exercise all powers and do all acts and things which may be exercised or done or approved by our Company and which are not required by the Articles or the Companies Law to be exercised or done by our Company in general meeting, but if such power or act is regulated by our Company in general meeting, such regulation shall not invalidate any prior act of the Board which would have been valid if such regulation had not been made.

(iv) Borrowing powers

The Board may exercise all the powers of our Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and uncalled capital of our Company and, subject to the Companies Law, to issue debentures, debenture stock, bonds and other securities of our Company, whether outright or as collateral security for any debt, liability or obligation of our Company or of any third party.

(v) Remuneration

Our Directors shall be entitled to receive, as ordinary remuneration for their services, such sums as shall from time to time be determined by the Board or our Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided among our Directors in such proportions and in such manner as they may agree or, failing agreement, either equally or, in the case of any Director holding office for only a portion of the period in respect of which the remuneration is payable, pro rata. Our Directors shall also be entitled to be repaid all expenses reasonably incurred by them in attending any Board meetings, committee meetings or general meetings or otherwise in connection with the discharge of their duties as Directors. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in our Company may be entitled by reason of such employment or office.

Any Director who, at the request of our Company, performs services which in the opinion of the Board goes beyond the ordinary duties of a Director may be paid such special or extra remuneration as the Board may determine, in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration and such other benefits and allowances as the Board may from time to time decide. Such remuneration shall be in addition to his ordinary remuneration as a Director.

The Board may establish, either on its own or jointly in concurrence or agreement with subsidiaries of our Company or companies with which our Company is associated in business, or may make contributions out of our Company's monies to, any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or former Director who may hold or have held any executive office or any office of profit with our Company or any of its subsidiaries) and former employees of our Company and their dependents or any class or classes of such persons.

The Board may also pay, enter into agreements to pay or make grants of revocable or irrevocable, whether or not subject to any terms or conditions, pensions or other benefits to employees and former employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or former employees or their dependents are or may become entitled under any such scheme or fund as mentioned above. Such pension or benefit may, if deemed desirable by the Board, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vi) Compensation or payments for loss of office

Payments to any present Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually or statutorily entitled) must be approved by our Company in general meeting.

(vii) Loans and provision of security for loans to Directors

Our Company shall not directly or indirectly make a loan to a Director or a director of any holding company of our Company or any of their respective close associates, enter into any guarantee or provide any security in connection with a loan made by any person to a Director or a director of any holding company of our Company or any of their respective close associates, or, if any one or more of our Directors hold(s) (jointly or severally or directly or indirectly) a controlling interest in another company, make a loan to that other company or enter into any guarantee or provide any security in connection with a loan made by any person to that other company.

(viii) Disclosure of interest in contracts with our Company or any of its subsidiaries

With the exception of the office of auditor of our Company, a Director may hold any other office or place of profit with our Company in conjunction with his office of Director for such period and upon such terms as the Board may determine, and may be paid such extra remuneration for that other office or place of profit, in whatever form, in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director, officer or member of any other company in which our Company may be interested, and shall not be liable to account to our Company or the members for any remuneration or other benefits received by him as a director, officer or member of such other company. The Board may also cause the voting power conferred by the shares in any other company held or owned by our Company to be exercised in such manner in all respects as it thinks fit, including the exercise in favour of any resolution appointing our Directors or any of them to be directors or officers of such other company.

No Director or intended Director shall be disqualified by his office from contracting with our Company, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to our Company for any profit realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship established by it. A Director who is, in any way, materially interested in a contract or arrangement or proposed contract or arrangement with our Company shall declare the nature of his interest at the earliest meeting of the Board at which he may practically do so.

There is no power to freeze or otherwise impair any of the rights attaching to any share by reason that the person or persons who are interested directly or indirectly in that share have failed to disclose their interests to our Company.

A Director shall not vote or be counted in the quorum on any resolution of the Board in respect of any contract or arrangement or proposal in which he or any of his close associate(s) has/have a material interest, and if he shall do so his vote shall not be counted nor shall he be counted in the quorum for that resolution, but this prohibition shall not apply to any of the following matters:

(aa) the giving of any security or indemnity to the Director or his close associate(s) in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of our Company or any of its subsidiaries;

(bb) the giving of any security or indemnity to a third party in respect of a debt or obligation of our Company or any of its subsidiaries for which the Director or his close associate(s) has/have himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

(cc) any proposal concerning an offer of shares, debentures or other securities of or by our Company or any other company which our Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

(dd) any proposal or arrangement concerning the benefit of employees of our Company or any of its subsidiaries, including the adoption, modification or operation of either: (i) any employees' share scheme or any share incentive or share option scheme under which the Director or his close associate(s) may benefit; or (ii) any of a pension fund or retirement, death or disability benefits scheme which relates to Directors, their close associates and employees of our Company or any of its subsidiaries and does not provide in respect of any Director or his close associate(s) any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and

(ee) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares, debentures or other securities of our Company by virtue only of his/their interest in those shares, debentures or other securities.

(ix) Proceedings of the Board

The Board may meet anywhere in the world for the despatch of business and may adjourn and otherwise regulate its meetings as it thinks fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

(c) Alterations to the constitutional documents and our Company's name

To the extent that the same is permissible under Cayman Islands law and subject to the Articles, the Memorandum and Articles of our Company may only be altered or amended, and the name of our Company may only be changed, with the sanction of a special resolution of our Company.

(d) Meetings of member

(i) Special and ordinary resolutions

A special resolution of our Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or by proxy or, in the case of members which are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given.

Under the Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within 15 days of being passed.

An "ordinary resolution", by contrast, is a resolution passed by a simple majority of the votes of such members of our Company as, being entitled to do so, vote in person or, in the case of members which are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given.

A resolution in writing signed by or on behalf of all members shall be treated as an ordinary resolution duly passed at a general meeting of our Company duly convened and held, and where relevant as a special resolution so passed.

(ii) Voting rights and right to demand a poll

Subject to any special rights, restrictions or privileges as to voting for the time being attached to any class or classes of shares at any general meeting: (a) on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every share which is fully paid or credited as fully paid registered in his name in the register of members of our Company but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for this purpose as paid up on the share; and (b) on a show of hands every member who is present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote. Where more than one proxy is appointed by a member which is a Clearing House (as defined in the Articles) or its nominee(s), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he does use in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by poll save that the chairman of the meeting may, pursuant to the GEM Listing Rules, allow a resolution to be voted on by a show of hands. Where a show of hands is allowed, before or on the declaration of the result of the show of hands, a poll may be demanded by (in each case by members present in person or by proxy or by a duly authorised corporate representative):

(A) at least two members;

(B) any member or members representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or

(C) a member or members holding shares in our Company conferring a right to vote at the meeting on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Should a Clearing House or its nominee(s) be a member of our Company, such person or persons may be authorised as it thinks fit to act as its representative(s) at any meeting of our Company or at any meeting of any class of members of our Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised in accordance with this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same rights and powers on behalf of the Clearing House or its nominee(s) as if such person were an individual member including the right to vote individually on a show of hands.

Where our Company has knowledge that any member is, under the GEM Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

(iii) Annual general meetings

Our Company must hold an annual general meeting each year other than the year of our Company's adoption of the Articles. Such meeting must be held not more than 15 months after the holding of the last preceding annual general meeting, or such longer period as may be authorised by the Stock Exchange at such time and place as may be determined by the Board.

(iv) Requisition of general meetings

Extraordinary general meetings may be convened on the requisition of one or more members holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the secretary of the Company for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

(v) Notices of meetings and business to be conducted

An annual general meeting of our Company shall be called by at least 21 days' notice in writing, and any other general meeting of our Company shall be called by at least 14 days' notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time, place and agenda of the meeting and particulars of the resolution(s) to be considered at that meeting and, in the case of special business, the general nature of that business.

Except where otherwise expressly stated, any notice or document (including a share certificate) to be given or issued under the Articles shall be in writing, and may be served by our Company on any member personally, by post to such member's registered address or (in the case of a notice) by advertisement in the newspapers. Any member whose registered address is outside Hong Kong may notify our Company in writing of an address in Hong Kong which shall be deemed to be his registered address for this purpose. Subject to the Companies Law and the GEM Listing Rules, a notice or document may also be served or delivered by our Company to any member by electronic means.

Although a meeting of our Company may be called by shorter notice than as specified above, such meeting may be deemed to have been duly called if it is so agreed:

(i) in the case of an annual general meeting, by all members of our Company entitled to attend and vote thereat; and

(ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting holding not less than 95% of the total voting rights in our Company.

All business transacted at an extraordinary general meeting shall be deemed special business. All business shall also be deemed special business where it is transacted at an annual general meeting, with the exception of certain routine matters which shall be deemed ordinary business.

(vi) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, and continues to be present until the conclusion of the meeting.

The quorum for a general meeting shall be two members present in person (or in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

(vii) Proxies

Any member of our Company entitled to attend and vote at a meeting of our Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of our Company or at a class meeting. A proxy need not be a member of our Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under seal or under the hand of a duly authorised officer or attorney. Every instrument of proxy, whether for a specified meeting or otherwise, shall be in such form as the Board may from time to time approve, provided that it shall not preclude the use of the two-way form. Any form issued to a member for appointing a proxy to attend and vote at an extraordinary general meeting or at an annual general meeting at which any business is to be transacted shall be such as to enable the member, according to his intentions, to instruct the proxy to vote in favour of or against (or, in default of instructions, to exercise his discretion in respect of) each resolution dealing with any such business.

(e) Accounts and audit

The Board shall cause proper books of account to be kept of the sums of money received and expended by our Company, and of the assets and liabilities of our Company and of all other matters required by the Companies Law (which include all sales and purchases of goods by our Company) necessary to give a true and fair view of the state of our Company's affairs and to show and explain its transactions.

The books of accounts of our Company shall be kept at the head office of our Company or at such other place or places as the Board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any account, book or document of our Company except as conferred by the Companies Law or ordered by a court of competent jurisdiction or authorised by the Board or our Company in general meeting.

The Board shall from time to time cause to be prepared and laid before our Company at its annual general meeting balance sheets and profit and loss accounts (including every document required by law to be annexed thereto), together with a copy of the Directors' report and a copy of the auditors' report, not less than 21 days before the date of the annual general meeting. Copies of these documents shall be sent to every person entitled to receive notices of general meetings of our Company under the provisions of the Articles together with the notice of annual general meeting, not less than 21 days before the date of the meeting.

Subject to the rules of the stock exchange of the Relevant Territory (as defined in the Articles), our Company may send summarised financial statements to shareholders who have, in accordance with the rules of the stock exchange of the Relevant Territory, consented and elected to receive summarised financial statements instead of the full financial statements. The summarised financial statements must be accompanied by any other documents as may be required under the rules of the stock exchange of the Relevant Territory, and must be sent to those shareholders that have consented and elected to receive the summarised financial statements not less than 21 days before the general meeting.

Our Company shall appoint auditor(s) to hold office until the conclusion of the next annual general meeting on such terms and with such duties as may be agreed with the Board. The auditors' remuneration shall be fixed by our Company in general meeting or by the Board if authority is so delegated by the members.

The auditors shall audit the financial statements of our Company in accordance with generally accepted accounting principles of Hong Kong, the International Accounting Standards or such other standards as may be permitted by the Stock Exchange.

(f) Dividends and other methods of distribution

Our Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the Board.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide:

(i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect of which the dividend is paid, although no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share;

(ii) all dividends shall be apportioned and paid pro rata in accordance with the amount paid up on the shares during any portion(s) of the period in respect of which the dividend is paid; and

(iii) the Board may deduct from any dividend or other monies payable to any member all sums of money (if any) presently payable by him to our Company on account of calls, instalments or otherwise.

Where the Board or our Company in general meeting has resolved that a dividend should be paid or declared, the Board may resolve:

(aa) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the members entitled to such dividend will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or

(bb) that the members entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Board may think fit.

Upon the recommendation of the Board, our Company may by ordinary resolution in respect of any one particular dividend of our Company determine that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, bonus or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent and shall be sent at the holder's or joint holders' risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to our Company. Any one of two or more joint holders may give effectual receipts for any dividends or other monies payable or property distributable in respect of the shares held by such joint holders.

Whenever the Board or our Company in general meeting has resolved that a dividend be paid or declared, the Board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

The Board may, if it thinks fit, receive from any member willing to advance the same, and either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced may pay interest at such rate (if any) not exceeding 20% per annum, as the Board may decide, but a payment in advance of a call shall not entitle the member to receive any dividend or to exercise any other rights or privileges as a member in respect of the share or the due portion of the shares upon which payment has been advanced by such member before it is called up.

All dividends, bonuses or other distributions unclaimed for one year after having been declared may be invested or otherwise used by the Board for the benefit of our Company until claimed and our Company shall not be constituted a trustee in respect thereof. All dividends, bonuses or other distributions unclaimed for six years after having been declared may be forfeited by the Board and, upon such forfeiture, shall revert to our Company.

No dividend or other monies payable by our Company on or in respect of any share shall bear interest against our Company.

Our Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants by post if such cheques or warrants remain uncashed on two consecutive occasions or after the first occasion on which such a cheque or warrant is returned undelivered.

(g) Inspection of corporate records

For so long as any part of the share capital of our Company is listed on the Stock Exchange, any member may inspect any register of members of our Company maintained in Hong Kong (except when the register of members is closed) without charge and require the provision to him of copies or extracts of such register in all respects as if our Company were incorporated under and were subject to the Hong Kong Companies Ordinance.

(h) Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles concerning the rights of minority members in relation to fraud or oppression. However, certain remedies may be available to members of our Company under Cayman Islands law, as summarised in paragraph 3(f) of this Appendix.

(i) Procedures on liquidation

A resolution that our Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

(i) if our Company is wound up, the surplus assets remaining after payment to all creditors shall be divided among the members in proportion to the capital paid up on the shares held by them respectively; and

(ii) if our Company is wound up and the surplus assets available for distribution among the members are insufficient to repay the whole of the paid-up capital, such assets shall be distributed, subject to the rights of any shares which may be issued on special terms and conditions, so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up on the shares held by them, respectively.

If our Company is wound up (whether the liquidation is voluntary or compelled by the court), the liquidator may, with the sanction of a special resolution and any other sanction required by the Companies Law, divide among the members in specie or kind the whole or any part of the assets of our Company, whether the assets consist of property of one kind or different kinds, and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be so divided and may determine how such division shall be carried out as between the members or different classes of members and the members within each class. The liquidator may, with the like sanction, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator thinks fit, but so that no member shall be compelled to accept any shares or other property upon which there is a liability.

(j) Subscription rights reserve

Provided that it is not prohibited by and is otherwise in compliance with the Companies Law, if warrants to subscribe for shares have been issued by our Company and our Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of the shares to be issued on the exercise of such warrants, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of such shares.

3. CAYMAN ISLANDS COMPANY LAW

Our Company was incorporated in the Cayman Islands as an exempted company on 9 October 2018 subject to the Companies Law. Certain provisions of Cayman Islands company law are set out below but this section does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of the Companies Law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

(a) Company operations

An exempted company such as our Company must conduct its operations mainly outside the Cayman Islands. An exempted company is also required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share capital

Under the Companies Law, a Cayman Islands company may issue ordinary, preference or redeemable shares or any combination thereof. Where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangements in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The share premium account may be applied by our Company subject to the provisions, if any, of its memorandum and articles of association, in such manner as our Company may from time to time determine including, but without limitation, the following:

(i) paying distributions or dividends to members;

(ii) paying up unissued shares of our Company to be issued to members as fully paid bonus shares;

(iii) any manner provided in section 37 of the Companies Law;

(iv) writing-off the preliminary expenses of our Company; and

(v) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of our Company.

Notwithstanding the foregoing, no distribution or dividend may be paid to members out of the share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, our Company will be able to pay its debts as they fall due in the ordinary course of business.

Subject to confirmation by the court, a company limited by shares or a company limited by guarantee and having a share capital may, if authorised to do so by its articles of association, by special resolution reduce its share capital in any way.

(c) Financial assistance to purchase shares of a company or its holding company

There are no statutory prohibitions in the Cayman Islands on the granting of financial assistance by a company to another person for the purchase of, or subscription for, its own, its holding company's or a subsidiary's shares. Therefore, a company may provide financial assistance provided the directors of our Company, when proposing to grant such financial assistance, discharge their duties of care and act in good faith, for a proper purpose and in the interests of our Company. Such assistance should be on an arm's-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of our Company or a member and, for the avoidance of doubt, it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of our Company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares; an ordinary resolution of our Company approving the manner and terms of the purchase will be required if the articles of association do not authorise the manner and terms of such purchase. A company may not redeem or purchase its shares unless they are fully paid. Furthermore, a company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of our Company other than shares held as treasury shares. In addition, a payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless, immediately following the date on which the payment is proposed to be made, our Company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares that have been purchased or redeemed by a company or surrendered to our Company shall not be treated as cancelled but shall be classified as treasury shares if held in compliance with the requirements of Section 37A(1) of the Companies Law. Any such shares shall continue to be classified as treasury shares until such shares are either cancelled or transferred pursuant to the Companies Law.

A Cayman Islands company may be able to purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. Thus there is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases. The directors of a company may under the general power contained in its memorandum of association be able to buy, sell and deal in personal property of all kinds.

A subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

Subject to a solvency test, as prescribed in the Companies Law, and the provisions, if any, of our Company's memorandum and articles of association, a company may pay dividends and distributions out of its share premium account. In addition, based upon English case law which is likely to be persuasive in the Cayman Islands, dividends may be paid out of profits.

For so long as a company holds treasury shares, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of our Company's assets (including any distribution of assets to members on a winding up) may be made, in respect of a treasury share.

(f) Protection of minorities and shareholders' suits

It can be expected that the Cayman Islands courts will ordinarily follow English case law precedents (particularly the rule in the case of Foss v. Harbottle and the exceptions to that rule) which permit a minority member to commence a representative action against or derivative actions in the name of our Company to challenge acts which are ultra vires, illegal, fraudulent (and performed by those in control of our Company) against the minority, or represent an irregularity in the passing of a resolution which requires a qualified (or special) majority which has not been obtained.

Where a company (not being a bank) is one which has a share capital divided into shares, the court may, on the application of members holding not less than one-fifth of the shares of our Company in issue, appoint an inspector to examine the affairs of our Company and, at the direction of the court, to report on such affairs. In addition, any member of a company may petition the court, which may make a winding up order if the court is of the opinion that it is just and equitable that our Company should be wound up.

In general, claims against a company by its members must be based on the general laws of contract or tort applicable in the Cayman Islands or be based on potential violation of their individual rights as members as established by a company's memorandum and articles of association.

(g) Disposal of assets

There are no specific restrictions on the power of directors to dispose of assets of a company, however, the directors are expected to exercise certain duties of care, diligence and skill to the standard that a reasonably prudent person would exercise in comparable circumstances, in addition to fiduciary duties to act in good faith, for proper purpose and in the best interests of our Company under English common law (which the Cayman Islands courts will ordinarily follow).

(h) Accounting and auditing requirements

A company must cause proper records of accounts to be kept with respect to: (i) all sums of money received and expended by it; (ii) all sales and purchases of goods by it and (iii) its assets and liabilities.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of our Company's affairs and to explain its transactions.

If a company keeps its books of account at any place other than at its registered office or any other place within the Cayman Islands, it shall, upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2013 Revision) of the Cayman Islands, make available, in electronic form or any other medium, at its registered office copies of its books of account, or any part or parts thereof, as are specified in such order or notice.

(i) Exchange control

There are no exchange control regulations or currency restrictions in effect in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (2018 Revision) of the Cayman Islands, our Company has obtained an undertaking from the Financial Secretary that:

(i) no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciations shall apply to our Company or its operations; and

(ii) no tax be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by our Company:

(aa) on or in respect of the shares, debentures or other obligations of our Company; or

(bb) by way of the withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (2018 Revision).

The undertaking for our Company is for a period of 20 years from 20 March 2020.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to our Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies save for those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision prohibiting the making of loans by a company to any of its directors. However, our Company's articles of association may provide for the prohibition of such loans under specific circumstances.

(m) Inspection of corporate records

The members of a company have no general right to inspect or obtain copies of the register of members or corporate records of our Company. They will, however, have such rights as may be set out in our Company's articles of association.

(n) Register of members

A Cayman Islands exempted company may maintain its principal register of members and any branch registers in any country or territory, whether within or outside the Cayman Islands, as our Company may determine from time to time. There is no requirement for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of member, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2013 Revision) of the Cayman Islands.

(o) Register of Directors and officers

Pursuant to the Companies Law, our Company is required to maintain at its registered office a register of directors, alternate directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within 60 days of any change in such directors or officers, including a change of the name of such directors or officers.

(p) Winding up

A Cayman Islands company may be wound up by: (i) an order of the court; (ii) voluntarily by its members; or (iii) under the supervision of the court.

The court has authority to order winding up in a number of specified circumstances including where, in the opinion of the court, it is just and equitable that such company be so wound up.

A voluntary winding up of a company (other than a limited duration company, for which specific rules apply) occurs where our Company resolves by special resolution that it be wound up voluntarily or where our Company in general meeting resolves that it be wound up voluntarily because it is unable to pay its debt as they fall due. In the case of a voluntary winding up, our Company is obliged to cease to carry on its business from the commencement of its winding up except so far as it may be beneficial for its winding up. Upon appointment of a voluntary liquidator, all the powers of the directors cease, except so far as our Company in general meeting or the liquidator sanctions their continuance.

In the case of a members' voluntary winding up of a company, one or more liquidators are appointed for the purpose of winding up the affairs of our Company and distributing its assets.

As soon as the affairs of a company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and the property of our Company disposed of, and call a general meeting of our Company for the purposes of laying before it the account and giving an explanation of that account.

When a resolution has been passed by a company to wind up voluntarily, the liquidator or any contributory or creditor may apply to the court for an order for the continuation of the winding up under the supervision of the court, on the grounds that: (i) our Company is or is likely to become insolvent; or (ii) the supervision of the court will facilitate a more effective, economic or expeditious liquidation of our Company in the interests of the contributories and creditors. A supervision order takes effect for all purposes as if it was an order that our Company be wound up by the court except that a commenced voluntary winding up and the prior actions of the voluntary liquidator shall be valid and binding upon our Company and its official liquidator.

For the purpose of conducting the proceedings in winding up a company and assisting the court, one or more persons may be appointed to be called an official liquidator(s).The court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more than one person is appointed to such office, the court shall declare whether any act required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of our Company shall be in the custody of the court.

(q) Reconstructions

Reconstructions and amalgamations may be approved by a majority in number representing 75% in value of the members or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the courts. Whilst a dissenting member has the right to express to the court his view that the transaction for which approval is being sought would not provide the members with a fair value for their shares, the courts are unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management, and if the transaction were approved and consummated the dissenting member would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of their shares) ordinarily available, for example, to dissenting members of a United States corporation.

(r) Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may, at any time within two months after the expiration of that four-month period, by notice require the dissenting members to transfer their shares on the terms of the offer. A dissenting member may apply to the Cayman Islands courts within one month of the notice objecting to the transfer. The burden is on the dissenting member to show that the court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority members.

(s) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, save to the extent any such provision may be held by the court to be contrary to public policy, for example, where a provision purports to provide indemnification against the consequences of committing a crime.

(t) Economic Substance Requirements

Pursuant to the International Tax Cooperation (Economic Substance) Law, 2018 of the Cayman Islands ("**ES Law**") that came into force on 1 January 2019, a "relevant entity" is required to satisfy the economic substance test set out in the ES Law. A "relevant entity" includes an exempted company incorporated in the Cayman Islands as is the Company; however, it does not include an entity that is tax resident outside the Cayman Islands. Accordingly, for so long as the Company is a tax resident outside the Cayman Islands, including in Hong Kong, it is not required to satisfy the economic substance test set out in the ES Law.

4. GENERAL

Appleby, our Company's legal adviser on Cayman Islands law, has sent to our Company a letter of advice which summarises certain aspects of the Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents Available for Inspection" in Appendix VI. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR GROUP

1. Incorporation of our Company

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 9 October 2018.

Our Company was registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on 5 June 2019 and our principal place of business in Hong Kong is Unit 901, 9th Floor, Belgian Bank Building, 721-725 Nathan Road, Mongkok, Kowloon, Hong Kong. In connection with such registration, our Company has appointed Mr. Woo Yuen Ping of Flat F, 9th Floor, Block M2, Yoho Midtown, 9 Yuen Lung Street, Yuen Long, New Territories, Hong Kong as our authorised representative for the acceptance of service of process and notices on behalf of our Company in Hong Kong.

As our Company was incorporated in the Cayman Islands, it is subject to the Companies Law and our constitution which comprises the Memorandum and the Articles. A summary of the relevant aspects of the Companies Law and certain provisions of the Articles is set out in Appendix IV to this prospectus.

2. Changes in the share capital of our Company

(a) As at the date of incorporation, the authorised share capital of our Company was US$50,000 divided into 50,000 shares with a par value of US$1 each. On the same date, one subscriber share in our Company with a par value of US$1 was allotted and issued as fully paid to a nominee subscriber. On the same date, the said one share was transferred to Red Fly for a consideration of US$1.

(b) On 8 January 2019, the authorised share capital of our Company was increased by HK$380,000 by the creation of 38,000,000 new Shares of a par value of HK$0.01 each. Our Company allotted and issued 780 such new Shares as fully paid to Red Fly. At the same time, our Company repurchased the USD-denominated Shares at a consideration of US$1.00 and the USD-denominated Share was cancelled upon repurchase. Following such repurchase, our Company cancelled the 50,000 authorised but unissued shares of a par value of US$1.00 each in the capital of our Company.

(c) On 20 May 2019, our Company further allotted and issued 5,075 Shares to Red Fly, 1,663 Shares to Xseven Investment, 158 Shares to Bonyer Investment, 158 Shares to Rocky Base Investment, 316 Shares to Bigroad Investment, 278 Shares to Hisky Investment, 139 Shares to Dibell Investment, 402 Shares to Gun Wealth Investment, 473 Shares to ZH Fortune Investment, 158 Shares to Lockxy Investment, and 400 Shares to Zhao Qi, credited as fully paid. Upon completion of the above share issues, our Company became owned as to 58.55% by Red Fly, 16.63% by Xseven Investment, 1.58% by Bonyer Investment, 1.58% by Rocky Base Investment, 3.16% by Bigroad Investment, 2.78% by Hisky Investment, 1.39% by Dibell Investment, 4.02% by Gun Wealth Investment, 4.73% by ZH Fortune Investment, 1.58% by Lockxy Investment and 4% by Zhao Qi.

(d) On 10 June 2020, the authorised share capital of our Company was increased from HK$380,000 divided into 38,000,000 Shares with a par value of HK$0.01 each to HK$40,000,000 divided into 4,000,000,000 Shares with a par value of HK$0.01 each by the creation of additional 3,962,000,000 Shares with a par value of HK$0.01 each, all of which shall rank equally in all respects with the existing Shares in issue.

Immediately after completion of the Capitalisation Issue and the Share Offer (without taking into account any Share that may be allotted and issued upon the exercise of the Offer Size Adjustment Option and the options that may be granted under the Share Option Scheme), the authorised share capital of our Company will be HK$40,000,000 divided into 4,000,000,000 Shares with a par value of HK$0.01 each, of which 800,000,000 Shares with a par value of HK$0.01 each will be allotted and issued fully paid or credited as fully paid and 3,200,000,000 Shares with a par value of HK$0.01 each will remain unissued.

Other than pursuant to the general mandate to allot and issue Shares as referred to in the paragraphs headed "6. Written resolutions of our Shareholders" and "7. Repurchase of our Shares" under this appendix, the exercise of the Offer Size Adjustment Option or the options which may be granted under the Share Option Scheme, our Directors do not have any present intention to allot and issue any of the authorised but unissued share capital of our Company and, without prior approval of our Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of our Company.

Save as disclosed in this prospectus, there has been no alteration in our Company's share capital since its incorporation.

3. Reorganisation

Our Group underwent the Reorganisation in preparation for the Listing. Further details are set out in the section headed "History, Development and Reorganisation — Reorganisation" in this prospectus.

4. Changes in share capital of the subsidiaries of our Company

Our Company's subsidiaries are listed in the Accountants' Report, the text of which is set out in Appendix I to this prospectus.

Save as disclosed in the section headed "History, Development and Reorganisation — Reorganisation" in this prospectus, there has been no alteration in the share capital or registered capital of the subsidiaries of our Company within two years immediately preceding the date of this prospectus.

5. Further information about our Group's PRC establishment

We have interests in the registered capital of eight PRC subsidiaries. A summary of the corporate information of such PRC subsidiaries as at the Latest Practicable Date is set out as follows:

(a) 蜀塔企業管理(廣元)有限公司 (Saftower Management (Guangyuan) Limited*)

(i)	Date of establishment:	14 May 2019
(ii)	Nature:	Wholly foreign-owned enterprise
(iii)	Legal representative:	Mr. Dang Fei
(iv)	Registered Capital:	RMB0.1 million
(v)	Attributable interest to our Group:	100%
(vi)	Term of operation:	No fixed term

(b) 廣元蜀塔科技有限公司 (Guangyuan Saftower Technology Co., Limited*)

(i)	Date of establishment:	14 September 2018
(ii)	Nature:	Limited liability company
(iii)	Legal representative:	Mr. Dang Fei
(iv)	Registered Capital:	RMB2.4 million
(v)	Attributable interest to our Group:	100%
(vi)	Term of operation:	No fixed term

(c) 四川蜀塔實業有限公司 (Sichuan Saftower Industry Co., Limited*)

(i)	Date of establishment:	24 June 2004
(ii)	Nature:	Limited liability company
(iii)	Legal representative:	Mr. Dang Fei
(iv)	Registered Capital:	RMB60 million
(v)	Attributable interest to our Group:	100%
(vi)	Term of operation:	No fixed term

(d) 廣元蜀塔電纜有限公司 (Guangyuan Saftower Cable Co., Limited*)

(i)	Date of establishment:	16 February 2015
(ii)	Nature:	Limited liability company
(iii)	Legal representative:	Mr. Dang Fei
(iv)	Registered Capital:	RMB25.2 million
(v)	Attributable interest to our Group:	100%
(vi)	Term of operation:	No fixed term

(e) 四川量電電纜科技有限公司 (Sichuan Liangdian Cable Technology Co., Limited*)

(i)	Date of establishment:	19 March 2015
(ii)	Nature:	Limited liability company
(iii)	Legal representative:	Mr. Dang Fei
(iv)	Registered Capital:	RMB0.1 million
(v)	Attributable interest to our Group:	100%
(vi)	Term of operation:	No fixed term

(f) 拉薩蜀塔科技發展有限公司(Lhasa Shuta Technology Development Co., Limited*)

(i)	Date of establishment:	14 January 2013
(ii)	Nature:	Limited liability company
(iii)	Legal representative:	Mr. Wang
(iv)	Registered Capital:	RMB10 million
(v)	Attributable interest to our Group:	100%
(vi)	Term of operation:	14 January 2013 to 9 January 2033

(g) 廣元蜀能合金材料有限公司 (Guangyuan Shuneng Alloy Materials Co., Limited*)

(i)	Date of establishment:	24 January 2018
(ii)	Nature:	Limited liability company
(iii)	Legal representative:	Mr. Dang Fei
(iv)	Registered Capital:	RMB4.8 million
(v)	Attributable interest to our Group:	100%
(vi)	Term of operation:	No fixed term

(h) 廣元同創新材料有限公司 (Guangyuan Tongchuang New Materials Company Limited*)

(i)	Date of establishment:	14 July 2017
(ii)	Nature:	Limited liability company
(iii)	Legal representative:	Mr. Zhang Hui (張輝)
(iv)	Registered Capital:	RMB60 million
(v)	Attributable interest to our Group:	56.67%
(vi)	Term of operation:	No fixed term

6. Written resolutions of our Shareholders

Written resolutions of our Shareholders were passed on 10 June 2020 and 16 June 2020 to approve, amongst other things, the following:

(a) the Memorandum and the Articles were adopted as the memorandum of association and articles of association of our Company;

(b) the authorised share capital of our Company was increased from HK$380,000 divided into 38,000,000 Shares with a par value of HK$0.01 each to HK$40,000,000 divided into 4,000,000,000 Shares with a par value of HK$0.01 each by the creation of additional 3,962,000,000 Shares with a par value of HK$0.01 each, all of which shall rank equally in all respects with the existing Shares in issue; and

(c) conditional on (i) the Stock Exchange granting the approval of the listing of, and permission to deal in, our Shares in issue and to be allotted and issued as mentioned in this prospectus including the Shares which may be allotted and issued pursuant to the exercise of the Offer Size Adjustment Option and the options which may be granted under the Share Option Scheme; (ii) the Offer Price having been duly determined and the execution and delivery of the Underwriting Agreements on the dates as specified in this prospectus; and (iii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including the waiver of any condition(s) by the Joint Bookrunners (for themselves and on behalf of the Underwriters) and not being terminated in accordance with the terms of such agreement (or any conditions as specified in this prospectus), in each case on or before the dates and times specified in the Underwriting Agreements (unless and to the extent such conditions are validly waived before such dates and times) and in any event not later than the date falling 30 days after the date of this prospectus:

(i) the Share Offer and the grant of the Offer Size Adjustment Option was approved and our Directors were authorised to (1) allot and issue the Offer Shares and such number of Shares as may be required to be allotted and issued upon the exercise of the Offer Size Adjustment Option subject to the terms and conditions stated in this prospectus; (2) implement the Share Offer and the Listing; and (3) do all things and execute all documents in connection with or incidental to the Share Offer and the Listing with such amendments or modifications (if any) as our Directors may consider necessary or appropriate;

(ii) conditional upon the share premium account of our Company being credited as a result of the Share Offer, our Directors were authorised to capitalise the amount of HK$5,999,900 from the amount standing to the credit of the share premium account of our Company by applying such sum in paying up in full at par a total of 599,990,000 Shares for allotment and issue to our Shareholders whose names appear on the register of members of our Company at the close of business on even date, or as each of them may direct in writing, in proportion (or as near as possible without involving the issue of fractions of Shares) to their then existing respective shareholdings in our Company and the Shares to be allotted and issued pursuant to this resolution shall rank equally in all respects with the then existing Shares in issue;

(iii) the rules of the Share Option Scheme were approved and adopted and our Board or any committee thereof established by our Board was authorised, at its sole discretion, to (1) administer the Share Option Scheme; (2) modify or amend the rules of the Share Option Scheme from time to time as may be acceptable or not objected to by the Stock Exchange; (3) grant options to subscribe for Shares thereunder and to allot, issue and deal with our Shares pursuant to the exercise of subscription rights attaching to any option granted thereunder; and (4) take all such actions as it considers necessary or desirable to implement or give effect to the Share Option Scheme;

(iv) a general unconditional mandate was granted to our Directors to exercise all powers of our Company to allot, issue and deal with (including the power to make an offer or agreement, or grant securities which would or might require

Shares to be allotted and issued), otherwise than by way of rights issue, scrip dividend schemes or similar arrangements providing for allotment and issue of Shares in lieu of the whole or in part of any cash dividend in accordance with the Articles, or pursuant to, or in consequence of, the Capitalisation Issue, the Share Offer, the exercise of the Offer Size Adjustment Option or any option that may be granted under the Share Option Scheme, Shares in aggregate not exceeding the sum of (1) 20% of the total number of Shares in issue immediately after completion of the Capitalisation Issue and the Share Offer (without taking into account any Share that may be allotted and issued upon the exercise of the Offer Size Adjustment Option and the options that may be granted under the Share Option Scheme); and (2) the total number of Shares in issue which may be purchased by our Company pursuant to the authority granted to our Directors as referred to in sub-paragraph (v) below, until the conclusion of our next annual general meeting of the Company, or the date by which our next annual general meeting is required by the Articles or any applicable law to be held, or the passing of an ordinary resolution by our Shareholders in a general meeting varying, revoking or renewing the mandate granted to our Directors, whichever occurs first;

(v) a general unconditional mandate was granted to our Directors to exercise all powers of our Company to repurchase, on the Stock Exchange and/or on any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose in accordance with all applicable laws and requirements of GEM (or of such other stock exchange), Shares in aggregate not exceeding 10% of the total number of Shares in issue immediately after completion of the Capitalisation Issue and the Share Offer (without taking into account any Share that may be allotted and issued upon the exercise of the Offer Size Adjustment Option and the options that may be granted under the Share Option Scheme), until the conclusion of our next annual general meeting, or the date by which our next annual general meeting is required by the Articles or any applicable law to be held, or the passing of an ordinary resolution by our Shareholders in a general meeting varying, revoking or renewing the mandate granted to our Directors, whichever occurs first; and

(vi) a general unconditional mandate mentioned in sub-paragraph (iv) above was extended by the addition to the total number of Shares in issue which may be allotted or agreed (conditionally or unconditionally) to be allotted or issued by our Directors pursuant to such general mandate of an amount representing the total number of Shares in issue repurchased by our Company pursuant to the mandate to repurchase Shares as referred to in sub-paragraph (v) above, provided that such extended amount shall not exceed 10% of the total number of Shares in issue immediately after completion of the Capitalisation Issue and the Share Offer (without taking into account any Share that may be allotted and issued upon the exercise of the Offer Size Adjustment Option and the options that may be granted under the Share Option Scheme).

7. Repurchase of our Shares

This paragraph sets out the information required by the Stock Exchange to be included in this prospectus concerning the repurchase by our Company of our own securities.

(a) Provisions of the GEM Listing Rules

The GEM Listing Rules permit companies with a primary listing on the Stock Exchange to purchase their own securities on the Stock Exchange subject to certain restrictions, the most important of which are summarised below:

(i) Shareholders' approval

All proposed repurchases of securities (which must be fully paid in the case of shares) by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of the Shareholders, either by way of general mandate or by specific approval of a particular transaction.

Note: Pursuant to the written resolutions of our Shareholders passed on 10 June 2020, a general unconditional mandate (the "**Repurchase Mandate**") was granted to our Directors to exercise all powers of our Company to repurchase, on the Stock Exchange and/or on any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose in accordance with all applicable laws and requirements of GEM (or of such other stock exchange), Shares in aggregate not exceeding 10% of the total number of Shares in issue immediately after completion of the Capitalisation Issue and the Share Offer (without taking into account any Share that may be allotted and issued upon the exercise of the Offer Size Adjustment Option and the options that may be granted under the Share Option Scheme), until the conclusion of our next annual general meeting, or the date by which our next annual general meeting is required by the Articles or any applicable law to be held, or the passing of an ordinary resolution by our Shareholders in a general meeting varying, revoking or renewing the mandate granted to our Directors, whichever occurs first.

(ii) Source of funds

Repurchases must be funded out of funds legally available for the purpose in accordance with the Articles, the GEM Listing Rules and the applicable laws of Hong Kong and the Companies Law. A listed company must not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange. Subject to the foregoing, any repurchase by our Company may be made out of profits of our Company, out of share premium, or out of the proceeds of a fresh issue of shares made for the purpose of the repurchase or, subject to the Articles and the Companies Law, out of capital. Any amount of premium payable on the purchase over the par value of the Shares to be repurchased must be out of profits of our Company, out of our Company's share premium account before or at the time our Shares are repurchased, or, subject to the Articles and the Companies Law, out of capital.

(iii) Trading restrictions

A company is authorised to repurchase, on the Stock Exchange or on any other stock exchange recognised by the SFC and the Stock Exchange, the total number of shares which represent up to a maximum of 10% of the total number of shares of that company in issue at the date of the passing of the relevant resolution granting the repurchase mandate.

A company may not issue or announce a proposed new issue of shares for a period of 30 days immediately following a repurchase of securities, whether on the Stock Exchange or otherwise (except an issue of securities pursuant to the exercise of warrants, share options or similar instruments requiring the company to issue securities which were outstanding prior to such repurchase) without the prior approval of the Stock Exchange.

In addition, a company is prohibited from making securities repurchase on GEM if the result of the repurchases would be that the number of the listed securities in hands of the public would be below the relevant prescribed minimum percentage for that company as required and determined by the Stock Exchange.

A company shall not purchase its shares on the Stock Exchange if the purchase price is 5% or more higher than the average closing market price for the five preceding trading days on which its shares were traded on the Stock Exchange.

(iv) Status of repurchased shares

All repurchased securities (whether effected on the Stock Exchange or otherwise) will be automatically delisted and the certificates for those securities must be cancelled and destroyed.

Under the Companies Law, a company's repurchased shares may be treated as cancelled and, if so cancelled, the amount of that company's issued share capital shall be reduced by the aggregate nominal value of the repurchased shares accordingly although the authorised share capital of the company will not be reduced.

(v) Suspension of repurchase

A listed company may not make any repurchase of securities after inside information has come to its knowledge until the inside information has been made publicly available. In particular, during the period of one month immediately preceding the earlier of: (A) the date of the board meeting (as such date is first notified to the Stock Exchange in accordance with the GEM Listing Rules) for the approval of a listed company's results for any year, half-year or quarter-year period or any other interim period (whether or not required under the GEM Listing Rules); and (B) the deadline for the publication of an announcement of the listed company's results for any year, half-year or quarter-year period under the

GEM Listing Rules or any other interim period (whether or not required under the GEM Listing Rules) and ending on the date of the results announcement, the listed company may not repurchase its shares on the Stock Exchange other than in exceptional circumstances. In addition, the Stock Exchange may prohibit a repurchase of securities on the Stock Exchange if a listed company has breached the GEM Listing Rules.

(vi) Reporting requirements

Repurchases of securities on the Stock Exchange or otherwise must be submitted for publication to the Stock Exchange no later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the following business day. In addition, a company's annual report and accounts are required to include a monthly breakdown of securities repurchases made during the financial year under review, showing the number of securities repurchased each month (whether on the Stock Exchange or otherwise), the purchase price per share or the highest and lowest prices paid for all such repurchases (where relevant) and the total prices paid by the Company for such repurchases. The directors' report is also required to contain reference to the repurchases made during the year and the directors' reasons for making such repurchases. The company shall make arrangements with its broker who effects the purchase to provide the company in a timely manner the necessary information in relation to the purchase made on behalf of the company to enable the company to report to the Stock Exchange.

(vii) Connected parties

A listed company is prohibited from knowingly repurchasing securities on the Stock Exchange from a core connected person of the Company which includes a director, chief executive or Substantial Shareholder of the company or any of its subsidiaries or a close associate of any of them and a core connected person shall not knowingly sell his or her or its securities to the company.

(b) Reasons for Repurchase

Our Directors believe that it is in the best interests of our Company and our Shareholders for our Directors to have a general authority from our Shareholders to enable our Company to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value of our Company and/or earnings per Share and will only be made when our Directors believe that such repurchases will benefit our Company and our Shareholders.

(c) Funding of Repurchase

In repurchasing Shares, our Company may only apply funds legally available for such purpose in accordance with the Articles, the GEM Listing Rules and the applicable laws of Hong Kong and the Companies Law.

On the basis of our current financial position as disclosed in this prospectus and taking into account its current working capital position, our Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on our working capital and/or its gearing position as compared with the position disclosed in this prospectus. However, our Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on our working capital requirements or the gearing levels which in the opinion of our Directors are from time to time appropriate for our Company.

(d) General

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their close associates currently intends to sell any Share to our Company or our subsidiaries. Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Articles, the GEM Listing Rules and the applicable laws of Hong Kong and the Companies Law.

If, as a result of a repurchase of Shares, a Shareholder's proportionate interest in voting rights increases, such increase will be treated as an acquisition for the purposes of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert (within the meaning of the Takeovers Code), depending on the level of increase of the Shareholders' interest, could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequence which would arise under the Takeovers Code as a result of any repurchase pursuant to the Repurchase Mandate.

Our Directors will not exercise the Repurchase Mandate if the repurchase would result in the number of Shares which are in the hands of the public falling below 25% of the total number of Shares in issue (or such other percentage as may be prescribed as the minimum public shareholding under the GEM Listing Rules).

Our Company has not made any repurchases of our own securities since its incorporation.

No core connected person of our Company has notified us that he/she/it has a present intention to sell the Shares to our Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

B. FURTHER INFORMATION ABOUT THE BUSINESS OF OUR GROUP

1. Summary of material contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by our Company or any of the members of our Group within the two years immediately preceding the date of this prospectus and are or may be material:

(a) an equity transfer agreement entered into between Ms. Yu Xiaoying (于曉英) as transferor and Sichuan Saftower as transferee dated 18 October 2018 in relation to the sale and purchase of 49% of the equity interest in Lhasa Saftower at nil consideration;

(b) an equity transfer agreement entered into between Mr. Dang Fei as transferor and Guangyuan Saftower Technology as transferee dated 9 November 2018 in relation to the sale and purchase of 36.75% of the equity interest in Sichuan Saftower at a consideration of RMB22.05 million;

(c) an equity transfer agreement entered into between Mr. Dang Jun as transferor and Guangyuan Saftower Technology as transferee dated 9 November 2018 in relation to the sale and purchase of 13.5% of the equity interest in Sichuan Saftower at a consideration of RMB8.1 million;

(d) an equity transfer agreement entered into between Mr. Wang as transferor and Guangyuan Saftower Technology as transferee dated 9 November 2018 in relation to the sale and purchase of 24.56% of the equity interest in Sichuan Saftower at a consideration of RMB14.7364 million;

(e) an equity transfer agreement entered into between Chengdu Gaopeng as transferor and Guangyuan Saftower Technology as transferee dated 9 November 2018 in relation to the sale and purchase of 25% of the equity interest in Sichuan Saftower at a consideration of RMB15 million;

(f) an equity transfer agreement entered into between Mr. Ma Da (馬達) as transferor and Guangyuan Saftower Technology as transferee dated 9 November 2018 in relation to the sale and purchase of 0.19% of the equity interest in Sichuan Saftower at a consideration of RMB113,600;

(g) an equity transfer agreement entered into between Mr. Wang as transferor and Wechi Int'l as transferee and a supplemental equity transfer agreement both dated 16 January 2019 in relation to the sale and purchase of 4% of equity interest in Guangyuan Saftower Technology at a consideration of RMB2.88 million;

(h) an equity transfer agreement entered into between Mr. Li Zhanwei (李占威) as transferor and Guangyuan Saftower as transferee dated 15 April 2019 in relation to the sale and purchase of 16.67% of equity interest in Guangyuan Tongchuang at nil consideration;

(i) a share swap agreement entered into between Ms. Zhao Qi as vendor and Bida Investment as purchaser dated 20 May 2019 in relation to the sale and purchase of the entire interest in Weichi Investment in consideration of and in exchange for the allotment and issue of 400 Shares to Ms. Zhao Qi by the Company credited as fully paid;

(j) an equity transfer agreement entered into between Mr. Dang Fei as transferor and Saftower Management as transferee dated 29 May 2019 in relation to the sale and purchase of 47.29% of the equity interest in Guangyuan Saftower Technology at a consideration of RMB1.135 million;

(k) an equity transfer agreement entered into between Mr. Dang Jun as transferor and Saftower Management as transferee dated 29 May 2019 in relation to the sale and purchase of 11.25% of the equity interest in Guangyuan Saftower Technology at a consideration of RMB0.27 million;

(l) an equity transfer agreement entered into between Mr. Wang as transferor and Saftower Management as transferee dated 29 May 2019 in relation to the sale and purchase of 16.63% of the equity interest in Guangyuan Saftower Technology at a consideration of RMB0.399 million;

(m) an equity transfer agreement entered into between Chengdu Gaopeng as transferor and Saftower Management as transferee dated 29 May 2019 in relation to the sale and purchase of 20.83% of the equity interest in Guangyuan Saftower Technology at a consideration of RMB0.5 million;

(n) the Deed of Indemnity;

(o) the Deed of Non-competition;

(p) the Hard Underwriting Agreement;

(q) the Public Offer Underwriting Agreement;

(r) the Placing Underwriting Agreement;

(s) a lock-up undertaking executed by Bonyer Investment, Rocky Base Investment, Bigroad Investment, Hisky Investment, Dibell Investment, Gun Wealth Investment, ZH Fortune Investment, Lockxy Investment and Ms. Zhao Qi in favour of our Company, the Sole Sponsor and the Joint Bookrunners dated 23 June 2020; and

(t) a lock-up undertaking executed by Xseven Investment in favour of our Company, the Sole Sponsor and the Joint Bookrunners dated 23 June 2020.

2. Intellectual property rights

(a) Trademarks

(i) As at the Latest Practicable Date, we had registered the following trademarks in Hong Kong which are, in the opinion of our Directors, material to our business:

No.	Trademark	Owner	Classes	Trademark number	Expiry date
1.		Guangyuan Saftower	6, 9	304710735	23 October 2028
2.	蜀塔綫纜 蜀塔线缆	Guangyuan Saftower	6, 9	304710771	23 October 2028
3.	SAFTOWER	Guangyuan Saftower	9	304710744AB	23 October 2028

(ii) As at the Latest Practicable Date, we had registered the following trademarks in the PRC which are, in the opinion of our Directors, material to our business:

No.	Trademark	Owner	Class	Trademark number	Expiry date
1.	SAFTOWER	Sichuan Saftower	9	11306896	6 February 2024
2.		Sichuan Saftower	9	1610526	27 July 2021
3.		Sichuan Saftower	9	11306895	6 January 2024
4.	蜀塔	Sichuan Saftower	9	24946282	20 June 2028
5.	蜀塔 Shuta	Sichuan Saftower	9	24941743	6 September 2028

No.	Trademark	Owner	Class	Trademark number	Expiry date
6.	量電電綫 LIANG DIAN DIAN XIAN	Sichuan Saftower	6 9 35	32313032 32295697 32291959	6 April 2029
7.	蜀塔实业 SAFTOWER	Sichuan Saftower	9	24948911	27 February 2029
8.	蜀塔电缆 SAFTOWER	Sichuan Saftower	9	24935690	20 February 2029
9.		Sichuan Saftower	6 35	32290884 32292498	13 June 2029 13 June 2029

(b) Domain name

As at the Latest Practicable Date, our Group had registered the following domain names, and the following domain names are, in the opinion of our Directors, material to our business:

Domain name	Registered owner	Expiry date
saftower.cn	Sichuan Saftower	26 February 2023
蜀塔.cn	Sichuan Saftower	3 July 2021
蜀塔.com	Sichuan Saftower	3 July 2021
saftower.com	Sichuan Saftower	13 March 2023

(c) Patents

As at the Latest Practicable Date, we had registered the following patents, and the following patents are, in the opinion of our Directors, material to our business:

No.	Patent	Registered Owner	Type	Place of Registration	Patent Number	Expiry Date
1.	A type of fire-resistant wire and cable* (一種防火電線電纜)	Sichuan Saftower	Utility Model	PRC	ZL201820812440.0	28 May 2028
2.	A type of dismountable FAD broadband intelligent antenna* (一種可拆卸式FAD寬頻智能天線)	Sichuan Saftower	Utility Model	PRC	ZL201820803757.8	27 May 2028
3.	A type of height-adjustable FAD broadband intelligent antenna* (一種可調節高度的FAD寬頻智能天線)	Sichuan Saftower	Utility Model	PRC	ZL201820804602.6	27 May 2028
4.	A type of wire and cable regulating device* (一種電線電纜調節裝置)	Sichuan Saftower	Utility Model	PRC	ZL201820571716.0	19 April 2028
5.	A type of wire and cable tension adjustor* (一種用於調節電線電纜張力的設備)	Sichuan Saftower	Utility Model	PRC	ZL201820572332.0	19 April 2028
6.	A type of automatic core separation stripping machine for wire and cable* (一種電線電纜用線芯自動分離型剝皮機)	Sichuan Saftower	Utility Model	PRC	ZL201820544162.5	16 April 2028
7.	A type of wire and cable stripping device* (一種電線電纜剝皮裝置)	Sichuan Saftower	Utility Model	PRC	ZL201820545875.3	16 April 2028
8.	A type of automatic wire insulator coater* (一種適用於電線絕緣層的自動包覆設備)	Sichuan Saftower	Utility Model	PRC	ZL201820511185.6	10 April 2028
9.	A type of wire and cable insulator coater* (一種電線電纜絕緣層包覆裝置)	Sichuan Saftower	Utility Model	PRC	ZL201820509679.0	10 April 2028
10.	A type of wire take-up device of wire and cable drawing machine* (一種電線電纜拉絲機的收線裝置)	Sichuan Saftower	Utility Model	PRC	ZL201820493766.1	8 April 2028
11.	A type of wire take-up device for drawing machine* (一種適用於拉絲機的收線設備)	Sichuan Saftower	Utility Model	PRC	ZL201820494961.6	8 April 2028
12.	A type of flexible and wearproof cable* (一種柔性耐磨電纜)	Sichuan Saftower	Utility Model	PRC	ZL201820194585.9	4 February 2028
13.	A type of high-strength composite cable* (一種高強度複合電纜)	Sichuan Saftower	Utility Model	PRC	ZL201820194599.0	4 February 2028
14.	A type of ceramic silicone insulating and fire-resistant cable* (一種陶瓷化矽橡膠絕緣防火電纜)	Sichuan Saftower	Utility Model	PRC	ZL201820194653.1	4 February 2028
15.	A type of multi-core prefabricated branch cable* (一種多芯預製分支電纜)	Sichuan Saftower	Utility Model	PRC	ZL201820195865.1	4 February 2028
16.	A type of flexible fire-resistant cable* (一種柔性防火電纜)	Sichuan Saftower	Utility Model	PRC	ZL201820195871.7	4 February 2028
17.	A type of waterproof wire protector* (一種電線用防水保護套)	Sichuan Saftower	Utility Model	PRC	ZL201820195872.1	4 February 2028
18.	A type of stretching resistant and fire-resistant cable* (一種抗拉伸防火電纜)	Sichuan Saftower	Utility Model	PRC	ZL201820197520.X	4 February 2028
19.	A type of composite fire-resistant cable* (一種複合型防火電纜)	Sichuan Saftower	Utility Model	PRC	ZL201820197529.0	4 February 2028
20.	A type of wearproof and fireproof control cable* (一種耐磨耐火控制電纜)	Sichuan Saftower	Utility Model	PRC	ZL201820199249.3	4 February 2028
21.	A type of high temperature resistant cable for audio and visual equipment* (一種用於影視化設備的耐高溫電纜)	Sichuan Saftower	Utility Model	PRC	ZL201820199316.1	4 February 2028

No.	Patent	Registered Owner	Type	Place of Registration	Patent Number	Expiry Date
22.	A type of FVNP for construction* (一種建築用尼龍護套電線)	Sichuan Saftower	Utility Model	PRC	ZL201820199451.6	4 February 2028
23.	A type of LSZH flame retardant control cable* (一種低煙無鹵阻燃控制電纜)	Sichuan Saftower	Utility Model	PRC	ZL201820200778.0	4 February 2028
24.	A type of LSZH oil-proof control cable* (一種低煙無鹵耐油控制電纜)	Sichuan Saftower	Utility Model	PRC	ZL201820200779.5	4 February 2028
25.	A type of flame retardant and fire-resistant control cable* (一種阻燃耐火控制電纜)	Sichuan Saftower	Utility Model	PRC	ZL201820203789.4	4 February 2028
26.	A type of LSZH insulating wire with long useful life* (一種高壽命低煙無鹵絕緣電線)	Sichuan Saftower	Utility Model	PRC	ZL201820203809.8	4 February 2028
27.	A type of fire-resistant cable for tunnel* (一種隧道用防火電纜)	Sichuan Saftower	Utility Model	PRC	ZL201820203832.7	4 February 2028
28.	A type of ceramic LSZH polyolefin insulating and fire-resistant cable* (一種陶瓷化低煙無鹵聚烯烴絕緣防火電纜)	Sichuan Saftower	Utility Model	PRC	ZL201820209785.7	4 February 2028
29.	LSZH flame retardant computer cable* (低煙無鹵阻燃計算機電纜)	Sichuan Saftower	Utility Model	PRC	ZL201420815253.X	18 December 2024
30.	A type of aluminium alloy eco-friendly flame retardant and fire-resistant power cable* (一種鋁合金環保阻燃耐火電力電纜)	Sichuan Saftower	Utility Model	PRC	ZL201420815437.6	18 December 2024
31.	XLPE insulated split-phase extrusion cable* (交聯聚乙烯絕緣分相用擠塑電纜)	Sichuan Saftower	Utility Model	PRC	ZL201420815470.9	18 December 2024
32.	A type of aluminium alloy eco-friendly flame retardant and fire-resistant cable* (一種鋁合金環保阻燃耐火電纜)	Sichuan Saftower	Utility Model	PRC	ZL201420815765.6	18 December 2024
33.	Stretching-resistant wind power cable* (具有抗拉力性能的風力發電電纜)	Sichuan Saftower	Utility Model	PRC	ZL201420815790.4	18 December 2024
34.	Digital communication cable* (數字通信電纜)	Sichuan Saftower	Utility Model	PRC	ZL201220191225.6	1 May 2022
35.	Aerial cable* (架空線纜)	Sichuan Saftower	Utility Model	PRC	ZL201220185736.7	26 April 2022
36.	Copper-clad aluminium conductor wire and cable* (銅包鋁導體電線電纜)	Sichuan Saftower	Utility Model	PRC	ZL201220185740.3	26 April 2022
37.	ACSR* (鋼芯鋁絞線)	Sichuan Saftower	Utility Model	PRC	ZL201220185741.8	26 April 2022
38.	New type of power cable* (新型電力電纜)	Sichuan Saftower	Utility Model	PRC	ZL201220185742.2	26 April 2022
39.	Control cable* (控制電纜)	Sichuan Saftower	Utility Model	PRC	ZL201220185751.1	26 April 2022
40.	Cabtyre cable* (橡皮絕緣敷設電纜)	Sichuan Saftower	Utility Model	PRC	ZL201220185781.2	26 April 2022
41.	A type of cable coil winding and unwinding device* (一種電纜線卷收放裝置)	Guangyuan Saftower	Utility Model	PRC	ZL201721604762.8	26 November 2027
42.	A type of upper plate device of wire frame winches* (一種電纜叉絞機的上盤裝置)	Guangyuan Saftower	Utility Model	PRC	ZL201721605721.0	26 November 2027

No.	Patent	Registered Owner	Type	Place of Registration	Patent Number	Expiry Date
43.	A type of better structured fire-resistant and moisture-proof cable* (一種結構性更好的耐火防潮電纜)	Guangyuan Saftower	Utility Model	PRC	ZL201721606466.1	26 November 2027
44.	A type of high flame retardant connected cable* (一種高阻燃的連接式阻燃電纜)	Guangyuan Saftower	Utility Model	PRC	ZL201721606467.6	26 November 2027
45.	A type of multi-core GYDGA cable* (一種多芯骨架式電纜)	Guangyuan Tongchuang	Utility Model	PRC	ZL201820599788.6	24 April 2028
46.	A type of anti-crosstalk GYDGA cable structure* (一種抗串擾骨架式電纜結構)	Guangyuan Tongchuang	Utility Model	PRC	ZL201820601447.8	24 April 2028
47.	A type of stretchable cable drum* (一種可伸縮的電纜捲筒)	Guangyuan Tongchuang	Utility Model	PRC	ZL201820547959.0	16 April 2028
48.	A type of shock absorption movable cable drum* (一種減震移動式電纜捲筒)	Guangyuan Tongchuang	Utility Model	PRC	ZL201820548310.0	16 April 2028
49.	A type of shock absorption insulated aerial cable with aluminium alloy core* (一種減震鋁合金芯絕緣架空電纜)	Guangyuan Tongchuang	Utility Model	PRC	ZL201820550836.2	16 April 2028
50.	A type of high conductivity insulated aerial cable with aluminium alloy core* (一種高導電率鋁合金芯絕緣架空電纜)	Guangyuan Tongchuang	Utility Model	PRC	ZL201820547518.0	16 April 2028
51.	A type of composite core insulated aerial cable* (一種複合芯絕緣架空電纜)	Guangyuan Tongchuang	Utility Model	PRC	ZL201820547975.X	16 April 2028
52.	A type of liftable and lowerable cable drum* (一種可升降的電纜捲筒)	Guangyuan Tongchuang	Utility Model	PRC	ZL201820550840.9	16 April 2028
53.	A type of enhanced shielded cable* (一種加強型屏蔽電纜)	Guangyuan Tongchuang	Utility Model	PRC	ZL201920095010.6	20 January 2029
54.	A type of tensile shielded cable* (一種抗拉屏蔽電纜)	Guangyuan Tongchuang	Utility Model	PRC	ZL201920095024.8	20 January 2029
55.	A type of fire- and press-resistant steel-tape armoured cable* (一種耐火抗壓鋼帶鎧裝電纜)	Guangyuan Tongchuang	Utility Model	PRC	ZL201920107006.7	20 January 2029
56.	A new type of cable cutter table* (一種新型的電纜切割台)	Guangyuan Tongchuang	Utility Model	PRC	ZL201920095009.3	20 January 2029
57.	A type of eco-friendly and safe fire-resistant cable* (一種環保安全型防火電纜)	Guangyuan Tongchuang	Utility Model	PRC	ZL201920096115.3	20 January 2029
58.	Stripping mechanism for improving cable stripping efficiency* (提高電纜剝皮效率的剝皮機構)	Guangyuan Tongchuang	Utility Model	PRC	ZL201920285032.9	5 March 2029

As at the Latest Practicable Date, we had made the following patent applications, and each registration vetting process is pending:

No.	Patent	Registered Owner	Type	Place of Registration	Application Number
1.	A new type of fire-resistant wire* (一種新型防火電線)	Sichuan Saftower	Invention	PRC	201810532676.3
2.	A type of height-adjustable FAD broadband intelligent antenna* (一種可調節高度的FAD寬頻智能天線)	Sichuan Saftower	Invention	PRC	201810525638.5
3.	A type of wire and cable regulating device* (一種電線電纜調節裝置)	Sichuan Saftower	Invention	PRC	201810362680.X
4.	A type of wire and cable tension adjustor* (一種用於調節電線電纜張力的設備)	Sichuan Saftower	Invention	PRC	201810362681.4
5.	A type of wire and cable stripping device* (一種電線電纜剝皮裝置)	Sichuan Saftower	Invention	PRC	201810344177.1
6.	A type of automatic core separation stripping machine for wire and cable* (一種電線電纜用線芯自動分離型剝皮機)	Sichuan Saftower	Invention	PRC	201810344872.8
7.	A type of wire and cable insulator coater* (一種電線電纜絕緣層包覆裝置)	Sichuan Saftower	Invention	PRC	201810321571.3
8.	A type of automatic wire insulator coater* (一種適用於電線絕緣層的自動包覆設備)	Sichuan Saftower	Invention	PRC	201810322824.9
9.	A type of wire take-up device of wire and cable drawing machine* (一種電線電纜拉絲機的收線裝置)	Sichuan Saftower	Invention	PRC	201810312163.1
10.	A type of wire take-up device for drawing machine* (一種適用於拉絲機的收線設備)	Sichuan Saftower	Invention	PRC	201810312813.2
11.	A type of fire-resistant wire and cable* (一種防火電線電纜)	Sichuan Saftower	Invention	PRC	201810531133.X
12.	A type of dismountable FAD broadband intelligent antenna* (一種可拆卸式FAD寬頻智能天線)	Sichuan Saftower	Invention	PRC	201810524760.0
13.	A type of cable tray for rewinding and discharging wire* (一種便於收放纜線的電纜線盤)	Guangyuan Tongchuang	Utility Model	PRC	201920095021.4

C. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

1. Disclosure of interests

(a) Interests and short positions of our Directors and chief executive of our Company in the Shares, underlying Shares and debentures of our Company and our Company's associated corporations after completion of the Capitalisation Issue and the Share Offer

Immediately after the completion of the Capitalisation Issue and the Share Offer (without taking into account any Share that may be allotted and issued upon the exercise of the Offer Size Adjustment Option and the options that may be granted under the Share Option Scheme), the interests or short positions of our Directors and chief executive of our Company in our Shares, underlying Shares and debentures of our Company or any of its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) once our Shares are listed, or which will be required, pursuant to section 352 of the SFO, to be entered in the register as referred to therein, or which will be required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by our Directors, to be notified to our Company and the Stock Exchange once our Shares are listed, will be as follows:

Name of Director/ chief executive	Capacity/nature of interest	Relevant company	Number of Shares *(Note 1)*	Approximate percentage of shareholding
Mr. Dang Fei *(Notes 2 and 3)*	Interest in controlled corporation *(Note 2)* Interest held jointly with another person *(Note 3)*	Red Fly	351,280,000 (L)	43.91%
Mr. Wang *(Note 4)*	Interest in controlled corporation *(Note 4)*	Xseven Investment	99,760,000 (L)	12.47%
Ms. Luo Xi *(Note 5)*	Interest in controlled corporation *(Note 5)*	Lockxy Investment	9,520,000 (L)	1.19%

Notes:

(1) The letter "L" denotes a person's "long position" (as defined under Part XV of the SFO) in such Shares.

(2) Our Company will be owned as to 43.91% by Red Fly immediately after completion of the Capitalisation Issue and the Share Offer (without taking into account any Share that may be allotted and issued upon the exercise of the Offer Size Adjustment Option and the options that may be granted under the Share Option Scheme). Red Fly is owned as to 80.79% by Mr. Dang Fei and 19.21% by Mr. Dang Jun. By virtue of SFO, Mr. Dang Fei is deemed to be interested in the same number of Shares held by Red Fly.

(3) Mr. Dang Fei and Mr. Dang Jun are parties acting in concert pursuant to the Acting in Concert Undertaking. As such, immediately following the completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares that may be allotted and issued upon the exercise of the Offer Size Adjustment Option and the options that may be granted under the Share Option Scheme), Mr. Dang Fei and Mr. Dang Jun will together control 43.91% of the issued share capital of our Company.

(4) Our Company will be directly owned as to 12.47% by Xseven Investment immediately after completion of the Capitalisation Issue and the Share Offer (without taking into account any Share that may be allotted and issued upon the exercise of the Offer Size Adjustment Option and the options that may be granted under the Share Option Scheme). Xseven Investment is owned as to 100% by Mr. Wang. Under the SFO, Mr. Wang is deemed to be interested in the same number of Shares held by Xseven Investment.

(5) Our Company will be directly owned as to 1.19% by Lockxy Investment immediately after completion of the Capitalisation Issue and the Share Offer (without taking into account any Share that may be allotted and issued upon the exercise of the Offer Size Adjustment Option and the options that may be granted under the Share Option Scheme). Lockxy Investment is owned as to 68% by Ms. Luo Xi. Under the SFO, Ms. Luo Xi is deemed to be interested in the same number of Shares held by Lockxy Investment.

None of our Directors or chief executive of our Company will immediately after completion of the Capitalisation Issue and the Share Offer (without taking into account any Share that may be allotted and issued upon the exercise of the Offer Size Adjustment Option and the options that may be granted under the Share Option Scheme) have any discloseable interest other than those as disclosed above.

(b) Interests and/or short positions of the Substantial Shareholders under the SFO

Please see "Substantial and Significant Shareholders" in this prospectus for details of the persons (other than a Director or a chief executive of our Company)/ corporations who/which will have an interest or short position in our Shares and underlying Shares which would fall to be disclosed to our Company pursuant to Divisions 2 and 3 of Part XV of the SFO, or who/which is, directly or indirectly, to be interested in 10% or more of the issued voting shares of any other member of our Group.

Our Directors are not aware of any persons who will immediately after completion of the Capitalisation Issue and the Share Offer (without taking into account any Share that may be allotted and issued upon the exercise of the Offer Size Adjustment Option and the options that may be granted under the Share Option Scheme) have a notifiable interest (for the purposes of the SFO) in our Shares or, having such a notifiable interest, have any short positions (within the meaning of the SFO) in our Shares, other than as disclosed at (b) above.

2. Particulars of Directors' Service Agreements and Letters of Appointment

(a) Executive Directors

Each of our executive Directors has entered into a service agreement with our Company for an initial fixed term of three years commencing from the Listing Date. The term of service shall be renewed and extended automatically by three years on the expiry of such initial term and on the expiry of every successive period of three years thereafter, unless terminated by either party thereto giving at least three months' written notice of non-renewal before the expiry of the then existing term.

(b) Non-executive Director and independent non-executive Directors

Each of our non-executive Director and independent non-executive Directors has entered into a letter of appointment with our Company for an initial fixed term of one year commencing from the Listing Date. The term of service shall be renewed and extended automatically by one year on the expiry of such initial term and on the expiry of every successive period of one year thereafter, unless terminated by either party thereto giving at least one month's written notice of non-renewal before the expiry of the then existing term.

Save as disclosed in this prospectus, none of our Directors has or is proposed to have entered into any service agreement or letter of appointment with any member of our Group (excluding agreements expiring or determinable by any member of our Group within one year without the payment of compensation other than statutory compensation).

3. Remuneration of our Directors

During each of FY2017, FY2018 and FY2019, the aggregate emoluments paid and benefits in kind (excluding discretionary bonus and contributions to pension schemes) granted to our Directors by any member of our Group were RMB258,000, RMB336,000 and RMB359,000, respectively.

During each of FY2017, FY2018 and FY2019, the aggregate of contributions to pension schemes for our Directors were RMB46,000, RMB50,000 and RMB57,000, respectively.

During each of FY2017, FY2018 and FY2019, the aggregate discretionary bonuses paid to our Directors by any member of our Group were RMB10,000, RMB15,000 and nil, respectively.

Under the arrangements currently in force, the aggregate emoluments (excluding discretionary bonus(es)) payable by any member of our Group to, and benefits in kind receivable by our Directors for FY2020 are expected to be RMB1.22 million.

None of our Directors or any past director(s) of any member of our Group has been paid any sum of money during the Track Record Period (a) as an inducement to join or upon joining our Company or (b) for loss of office as a director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group.

There has been no arrangement under which a Director has waived or agreed to waive any emolument during the Track Record Period.

Under the arrangements currently proposed, conditional upon the Listing, the basic annual remuneration (excluding payment pursuant to any discretionary benefit or bonus or other fringe benefits) payable by any member of our Group to each of our Directors will be as follows:

Executive Directors	
Mr. Dang Fei	RMB550,000
Mr. Wang	RMB500,000
Ms. Luo Xi	RMB250,000
Mr. Luo Qiang	RMB250,000
Non-executive Director	
Mr. Wang Haichen	RMB200,000
Independent non-executive Directors	
Dr. Zuo Xinzhang	RMB60,000
Mr. Chan Oi Fat	HK$180,000
Ms. Hu Xiaomin	RMB90,000

Each of our executive Directors, non-executive Director and independent non-executive Directors is entitled to reimbursement of all necessary and reasonable out-of-pocket expenses properly incurred in relation to all business and affairs carried out by our Group from time to time or for providing services to us or executing their functions in relation to our business and operations.

Save as disclosed in this prospectus, no other emoluments have been paid or are payable during the Track Record Period by any member of our Group to our Directors.

4. Related Party Transactions

Details of the related party transactions are set out under Note 35 to the Accountants' Report set out in Appendix I to this prospectus.

5. Disclaimers

Save as disclosed in this prospectus:

(a) none of our Directors or the experts named in the paragraph headed "E. Other Information — 7. Qualifications of Experts" in this appendix below has been directly or indirectly interested in the promotion of, or in any asset which has been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;

(b) none of our Directors nor the experts named in the paragraph headed "E. Other Information — 7. Qualifications of Experts" in this appendix below is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group; and

(c) none of the experts named in the paragraph headed "E. Other Information — 7. Qualifications of Experts" in this appendix below has any shareholding in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group;

D. SHARE OPTION SCHEME

1. Summary of terms of the Share Option Scheme

(a) Purpose of the Share Option Scheme

The purpose of the Share Option Scheme is to enable our Group to grant options to the eligible participants as incentives or rewards for their contribution to our Group and/or to enable our Group to recruit and retain high-calibre employees and attract human resources that are valuable to our Group or any entity in which any member of our Group holds any equity interest (the "**Invested Entity**"). As at the Latest Practicable Date, there was no Invested Entity other than members of our Group, and our Group has not identified any potential Invested Entity for investment.

(b) Who may join

Our Directors shall, in accordance with the provisions of the Share Option Scheme and the GEM Listing Rules, be entitled but shall not be bound at any time within a period of 10 years commencing from the date of the adoption of the Share Option Scheme to make an offer to any of the following classes:

(i) any employee (whether full time or part time, including our Directors (including any non-executive Director and independent non-executive Director)) of our Company, any of our subsidiaries (within the meaning of the Companies Ordinance) or any Invested Entity (an "**eligible employee**");

(ii) any supplier of goods or services to any member of our Group or any Invested Entity;

(iii) any customer of any member of our Group or any Invested Entity;

(iv) any person or entity that provides research, development or other technological support to any member of our Group or any Invested Entity;

(v) any shareholder of any member of our Group or any Invested Entity or any holder of any securities issued by any member of our Group or any Invested Entity;

(vi) any adviser (professional or otherwise), consultant, individual or entity who in the opinion of our Directors has contributed or will contribute to the growth and development of our Group; and

(vii) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of our Group,

and, for the purpose of the Share Option Scheme, the offer for the grant of an option may be made to any company wholly-owned by one or more eligible participants.

For the avoidance of doubt, the grant of any option by our Company for the subscription of Shares or other securities of our Group to any person who falls within any of the above classes of eligible participants shall not, by itself, unless our Directors otherwise determine, be construed as a grant of option under the Share Option Scheme.

The eligibility of any of the eligible participants to an offer under the Share Option Scheme shall be determined by our Directors from time to time on the basis of our Directors' opinion as to such eligible participant's contribution to the development and growth of our Group.

(c) Maximum number of Shares

(i) The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme adopted by our Group shall not exceed 30% of the share capital of our Company in issue from time to time.

(ii) The total number of Shares which may be allotted and issued upon exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme and any other share option scheme of our Group) to be granted under the Share Option Scheme and any other share option scheme of our Group must not in aggregate exceed 10% of the total number of Shares (assuming the Offer Size Adjustment and the Share Option Scheme are not exercised) in issue at the time dealings in our Shares first commence on the Stock Exchange, being 80,000,000 Shares (the "**General Scheme Limit**").

(iii) Subject to (i) above and without prejudice to (iv) below, our Company may seek approval of our Shareholders in general meeting to refresh the General Scheme Limit provided that the total number of Shares which may be allotted and issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme of our Group shall not exceed 10% of the Shares in issue (assuming the Offer Size Adjustment Option and the Share Option Scheme are not exercised) as at the date of the approval of the limit and for the purpose of calculating the limit, options (including options outstanding, cancelled, lapsed or exercised in accordance with the Share Option Scheme and any other share option scheme of our Group) previously granted under the Share Option Scheme and any other share option scheme of our Group will not be counted.

(iv) Subject to (i) above and without prejudice to (iii) above, our Company may seek separate shareholders' approval in a general meeting to grant options under the Share Option Scheme beyond the General Scheme Limit, or if applicable, the extended limit referred to in (iii) above to eligible participants specifically identified by our Company before such approval is sought.

(d) Maximum entitlement of each eligible participant

Subject to (e) below, the total number of Shares issued and which may fall to be issued upon exercise of the options under the Share Option Scheme and the options granted under any other share option scheme of our Group (including both exercised or outstanding options) to each grantee in any 12-month period shall not exceed 1% of the issued share capital of our Company for the time being. Where any further grant of options under the Share Option Scheme to a grantee would result in our Shares issued and to be issued upon exercise of all options granted and proposed to be granted to such person (including exercised, cancelled and outstanding options) under the Share Option Scheme and any other share option scheme of our Group in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of our Shares in issue, such further grant must be separately approved by our Shareholders in a general meeting with such grantees and his close associates (or his associates if the participant is a connected person) abstaining from voting.

(e) Grant of options to core connected persons

(i) Without prejudice to (ii) below, the making of an offer under the Share Option Scheme to any Director, chief executive or Substantial Shareholder of our Company or any of their respective associates must be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of an option under the Share Option Scheme).

(ii) Without prejudice to (i) above, where any grant of options under the Share Option Scheme to a Substantial Shareholder or an independent non-executive Director or any of their respective associates, would result in our Shares issued and to be issued upon exercise of all options under the Share Option Scheme already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

(1) representing in aggregate over 0.1% of our Shares in issue; and

(2) having an aggregate value, based on the closing price of our Shares on the offer date of each grant, in excess of HK$5 million;

such further grant of options must be approved by our Shareholders in a general meeting. The grantee, his associates and all core connected persons of our Company must abstain from voting in favour at such general meeting.

For the purpose of seeking the approval of our Shareholders under paragraphs (c), (d) and (e) above, our Company must send a circular to our Shareholders containing the information required under the GEM Listing Rules and where the GEM Listing Rules shall so require, the vote at our Shareholders' meeting convened to obtain the requisite approval shall be taken on a poll with those persons required under the GEM Listing Rules abstaining from voting.

(f) Time of acceptance and exercise of an option

An offer under the Share Option Scheme may remain open for acceptance by the eligible participants concerned (and by no other person) for a period of up to 21 days from the date, which must be a business day, on which the offer is made.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by our Directors to the grantee thereof, and in the absence of such determination, from the date of acceptance of the offer of such option to the earlier of (i) the date on which such option lapses under the relevant provisions of the Share Option Scheme; and (ii) the date falling 10 years from the offer date of that option.

An offer shall have been accepted by an eligible participant in respect of all Shares which are offered to such eligible participant when the duplicate letter comprising acceptance of the offer duly signed by the eligible participant together with a remittance in favour of our Company of HK$1.00 by way of consideration for the grant thereof is received by our Company within such time as may be specified in the offer (which shall not be later than 21 days from the offer date). Such remittance shall in no circumstances be refundable.

Any offer may be accepted by an eligible participant in respect of less than the number of Shares which are offered provided that it is accepted in respect of a board lot for dealings in our Shares on GEM or an integral multiple thereof and such number is clearly stated in the duplicate letter comprising acceptance of the offer duly signed by such eligible participant and received by our Company together with a remittance in favour of our Company of HK$1.00 by way of consideration for the grant thereof within such time as may be specified in the offer (which shall not be later than 21 days from the offer date). Such remittance shall in no circumstances be refundable.

(g) Performance targets

Unless otherwise determined by our Directors and stated in the offer to a grantee, a grantee is not required to hold an option for any minimum period nor achieve any performance targets before the exercise of an option granted to him.

(h) Subscription price for Shares

The subscription price in respect of any option shall, subject to any adjustments made pursuant to paragraph (s) below, be at the discretion of our Directors, provided that it shall not be less than the highest of:

(i) the closing price of our Shares as stated in the Stock Exchange's daily quotations sheet for trade in one or more board lots of our Shares on the offer date;

(ii) the average closing price of our Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the offer date; and

(iii) the nominal value of a Share.

(i) Ranking of Shares

Shares to be allotted and issued upon the exercise of an option will be subject to all the provisions of the Articles for the time being in force and will rank equally in all respects with the then existing fully paid Shares in issue on the date on which the option is duly exercised or, if that date falls on a day when the register of members of our Company is closed, the first day of the re-opening of the register of members (the "**Exercise Date**") and accordingly will entitle the holders thereof to participate in all dividends or other distributions paid or made on or after the Exercise Date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the Exercise Date. A Share allotted and issued upon the exercise of an option shall not carry voting rights until the name of the grantee has been duly entered in the register of members of our Company as the holder thereof.

(j) Restrictions on the time of grant of options

For so long as the Shares are listed on the Stock Exchange, an offer may not be made after inside information has come to our Company's knowledge until we have announced the information. In particular, during the period commencing one month immediately preceding the earlier of (i) the date of the board meeting (as such date is first notified to the Stock Exchange in accordance with the GEM Listing Rules) for the approval of our Company's result for any year, half-year or quarter-year period or any other interim period (whether or not required under the GEM Listing Rules); and (ii) the deadline for our Company to publish announcements of our results for any year, half-year, quarter-year period or any other interim period (whether or not required under the GEM Listing Rules), and ending on the date of the results announcement, no offer for the grant of an option may be made.

Our Directors may not make any offer to an eligible participant who is a Director during the periods or times in which our Directors are prohibited from dealing in Shares under such circumstances as prescribed by the GEM Listing Rules or any corresponding code or securities dealing restrictions adopted by our Company.

(k) Period of the Share Option Scheme

The Share Option Scheme will remain in force for a period of 10 years commencing on the date on which the Share Option Scheme is adopted.

(l) Rights of ceasing employment

If the grantee is an eligible employee and in the event of his ceasing to be an eligible employee for any reason other than his death, ill-health or retirement in accordance with his contract of employment or the termination of his employment on one or more of the grounds specified in (n) below before exercising the option in full, the option (to the extent not already exercised) shall lapse on the date of cessation or termination and not be exercisable unless our Directors otherwise determine in which event the grantee may exercise the option (to the extent not already exercised) in whole or in part within such period as our Directors may determine following the date of such cessation or termination. The date of cessation or termination as aforesaid shall be the last day on which the grantee was actually at work with our Company or the relevant subsidiary or the Invested Entity whether salary is paid in lieu of notice or not.

(m) Rights on death, ill-health or retirement

If the grantee is an eligible employee and in the event of his ceasing to be an eligible employee by reason of his death, ill-health or retirement in accordance with his contract of employment before exercising the option in full, his personal representative(s) or, as appropriate, the grantee may exercise the option (to the extent not already exercised) in whole or in part within a period of 12 months following the date of cessation of employment which date shall be the last day on which the grantee was at work with our Company or the relevant subsidiary or the Invested Entity whether salary is paid in lieu of notice or not.

(n) Rights on dismissal

In respect of a grantee who is an eligible employee, the date on which the grantee ceases to be an eligible employee by reason of termination of his employment on the grounds that he has been guilty of persistent or serious misconduct, or has committed any act of bankruptcy or has become insolvent or has made any arrangement or composition with his creditors generally, or has been convicted of any criminal offence (other than an offence which in the opinion of our Directors does not bring the grantee or our Group into disrepute), such option (to the extent not already exercised) shall lapse automatically and shall not in any event be exercisable on or after the date of cessation to be an eligible employee.

(o) Rights on breach of contracts

In respect of a grantee other than an eligible employee, the date on which our Directors shall at their absolute discretion determine that (i)(1) such grantee has committed any breach of any contract entered into between such grantee on the one part and our Group or any Invested Entity on the other part; or (2) such grantee has committed any act of bankruptcy or has become insolvent or is subject to any winding-up, liquidation or analogous proceedings or has made any arrangement or composition with his creditors generally; or (3) such grantee could no longer make any contribution to the growth and development of our Group by reason of the cessation of its relations with our Group or by any other reason whatsoever; and (ii) the option shall lapse as a result of any event specified in sub-paragraph (i)(1) to (3).

(p) Rights on a general offer, a compromise or arrangement

If a general or partial offer, whether by way of take-over offer, share re-purchase offer, or scheme of arrangement or otherwise in like manner is made to all the holders of our Shares, or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror, our Company shall use all reasonable endeavours to procure that such offer is extended to all the grantees on the same terms, mutatis mutandis, and assuming that they will become, by the exercise in full of the options granted to them, our Shareholders. If such offer becomes or is declared unconditional or such scheme of arrangement is formally proposed to our Shareholders, the grantee shall, notwithstanding any other terms on which his option was granted, be entitled to exercise the option (to the extent not already exercised) to its full extent or to the extent specified in the grantee's notice to our Company in exercise of his option at any time thereafter and up to the close of such offer (or any revised offer) or the record date for entitlements under scheme of arrangement, as the case may be. Subject to the above, an option will lapse automatically (to the extent not exercised) on the date on which such offer (or, as the case may be, revised offer) closes.

(q) Rights on winding-up

In the event of a resolution being proposed for the voluntary winding-up of our Company during the option period, the grantee may, subject to the provisions of all applicable laws, by notice in writing to our Company at any time not less than two business days before the date on which such resolution is to be considered and/or passed, exercise his option (to the extent not already exercised) either to its full extent or to the extent specified in such notice in accordance with the provisions of the Share Option Scheme and our Company shall allot and issue to the grantee our Shares in respect of which such grantee has exercised his option not less than one business day before the date on which such resolution is to be considered and/or passed whereupon he shall accordingly be entitled, in respect of our Shares allotted and issued to him in the aforesaid manner, to participate in the distribution of the assets of our Company available in liquidation equally with the holders of our Shares in issue on the day prior to the date of such resolution. Subject thereto, all options then outstanding shall lapse and determine on the commencement of the winding-up of our Company.

(r) Grantee being a company wholly-owned by eligible participants

If the grantee is a company wholly-owned by one or more eligible participants:

(i) the provisions of paragraphs (l), (m), (n) and (o) above shall apply to the grantee and to the option granted to such grantee, mutatis mutandis, as if such option had been granted to the relevant eligible participant, and such option shall accordingly lapse or fall to be exercisable after the event(s) referred to in paragraphs (l), (m), (n) and (o) above shall occur with respect to the relevant eligible participant; and

(ii) the options granted to the grantee shall lapse and determine on the date the grantee ceases to be wholly-owned by the relevant eligible participant provided that our Directors may in their absolute discretion decide that such options or any part thereof shall not so lapse or determine subject to such conditions or limitations as they may impose.

(s) Adjustment of the subscription price

In the event of any alteration in the capital structure of our Company whilst any option remains exercisable or the Share Option Scheme remains in effect, and such event arises from a capitalisation issue, rights issue, consolidation or sub-division of our Shares or reduction of the share capital of our Company, then, in any such case our Company shall instruct the auditors or an independent financial adviser to certify in writing the adjustment, if any, that ought in their opinion fairly and reasonably to be made either generally or as regards any particular grantee, to:

(i) the number or nominal amount of Shares to which the Share Option Scheme or any option(s) relate(s) (insofar as it is/they are unexercised); and/or

(ii) the subscription price of any option; and/or

(iii) (unless the relevant grantee elects to waive such adjustment) the number of Shares comprised in an option or which remain comprised in an option,

and an adjustment as so certified by the auditors or such independent financial adviser shall be made, provided that:

(i) any such adjustment shall give the grantee the same proportion of the issued share capital of our Company (as interpreted in accordance with the supplemental guidance attached to the letter from the Stock Exchange dated 5 September 2005 to all issuers relating to share option schemes) for which such grantee would have been entitled to subscribe had he exercised all the options held by him immediately prior to such adjustment;

(ii) no such adjustment shall be made the effect of which would be to enable a Share to be issued at less than its nominal value;

(iii) the issue of Shares or other securities of our Group as consideration in a transaction shall not be regarded as a circumstance requiring any such adjustment; and

(iv) any such adjustment shall be made in compliance with the GEM Listing Rules and such rules, codes and guidance notes of the Stock Exchange from time to time.

In respect of any adjustment referred to above, other than any adjustment made on a capitalisation issue, the auditors or such independent financial adviser must confirm to our Directors in writing that the adjustments satisfy the relevant provisions of the GEM Listing Rules and the supplemental guidance attached to the letter from the Stock Exchange dated 5 September 2005 to all issuers relating to share option schemes.

(t) Cancellation of options

Subject to the provisions in the Share Option Scheme and the GEM Listing Rules, any option granted but not exercised may not be cancelled except with the prior written consent of the relevant grantee and the approval of our Directors.

Where our Company cancels any option granted to a grantee but not exercised and issues new option(s) to the same grantee, the issue of such new option(s) may only be made with available unissued options (excluding, for this purpose, the options so cancelled) within the General Scheme Limit or the limits approved by our Shareholders pursuant to paragraph (c)(iii) or (c)(iv) above.

(u) Termination of the Share Option Scheme

Our Company by an ordinary resolution in general meeting may at any time terminate the operation of the Share Option Scheme and in such event no further options will be offered but in all other respects the provision of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any options (to the extent not already exercised) granted prior thereto or otherwise as may be required in accordance with the provisions of the Share Option Scheme and options (to the extent not already exercised) granted prior to such termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

(v) Rights are personal to grantee

An option shall be personal to the grantee and shall not be transferable or assignable, and no grantee shall in any way sell, transfer, charge, mortgage, encumber or otherwise dispose of or create any interest whatsoever in favour of any third party over or in relation to any option or enter into any agreement so to do. Any breach of the foregoing by a grantee shall entitle our Company to cancel any option granted to such grantee to the extent not already exercised.

(w) Lapse of option

An option shall lapse automatically (to the extent not already exercised) immediately on the earliest of (i) the expiry of the option period in respect of such option; (ii) the expiry of the periods or dates referred to in paragraphs (l), (m), (n), (o), (p), (q) and (r) above; or (iii) the date on which our Directors exercise our Company's right to cancel the option by reason of paragraph (v) above.

(x) Others

(i) The Share Option Scheme is conditional upon:

(1) the Stock Exchange granting the listing of and permission to deal in such number of Shares representing the General Scheme Limit to be allotted and issued by our Company pursuant to the exercise of options in accordance with the terms and conditions of the Share Option Scheme; and;

(2) the passing of the necessary resolution to approve and adopt the Share Option Scheme in general meeting or by way of written resolution of our Shareholders.

(ii) The provisions of the Share Option Scheme relating to the matters governed by Rule 23.03 of the GEM Listing Rules shall not be altered to the advantage of grantees or prospective grantees except with the prior sanction of a resolution of our Company in general meeting, provided that no such alteration shall operate to affect adversely the terms of issue of any option granted or agreed to be granted prior to such alteration except with the consent or sanction of such majority of the grantees as would be required of the holders of our Shares under the Articles for the time being for a variation of the rights attached to our Shares.

(iii) Subject to paragraph (v) below, any alterations to the terms and conditions of the Share Option Scheme which are of a material nature or any change to the terms of options granted shall be approved by our Shareholders except where the alterations take effect automatically under the existing terms of the Share Option Scheme.

(iv) The terms of the Share Option Scheme and/or any options amended must comply with the applicable requirements of the GEM Listing Rules.

(v) Any change to the authority of our Directors or the administrators of the Share Option Scheme in relation to any alteration to the terms of the Share Option Scheme must be approved by our Shareholders in a general meeting.

2. Present status of the Share Option Scheme

Application has been made to the Stock Exchange for the listing of, and permission to deal in, the Shares to be allotted and issued within the General Scheme Limit pursuant to the exercise of options that may be granted under the Share Option Scheme.

As at the date of this prospectus, no option has been granted or agreed to be granted under the Share Option Scheme.

E. OTHER INFORMATION

1. Tax and other indemnities

The Controlling Shareholders (collectively, the "**Indemnifiers**") have, under the Deed of Indemnity, given joint and several indemnities to our Company (for ourselves and as trustee for and on behalf of our subsidiaries) in connection with, among others:

(a) any taxation (including estate duty) falling on any member of our Group resulting from or by reference to any income, profits, gains, transactions (including but not limited to any transactions involved in the Reorganisation), events, matters or things earned, accrued, received, entered into (or deemed to be so earned, accrued, received or entered into) or occurring on or before the date on which the Share Offer becomes unconditional, whether alone or in conjunction with any other circumstances whenever occurring and whether or not such taxation is chargeable against or attributable to any other person, firm or company, including any and all taxation resulting from the receipt by any member of our Group of any amounts paid by the Indemnifiers under the Deed of Indemnity; and/or:

(b) all reasonable costs (including all legal and other professional costs), expenses or other liabilities which any member of our Group may incur in connection with:

   (i) the investigation, assessment, settlement or contesting of any taxation claim;

   (ii) the settlement of any claim under the Deed of Indemnity;

   (iii) any legal proceedings in which any member of our Group claims under or in respect of the Deed of Indemnity and in which judgment is given for any member of our Group; or

   (iv) the enforcement of any such settlement or judgment.

(c) all costs (including all legal and other professional costs), expenses or other liabilities which any member of our Group may incur, suffer or accrue, directly or indirectly, from or on the basis of or in connection with any alleged or actual violation or breach or non-compliance by any member of our Group with any laws, regulations, rules or administrative orders or measures in the PRC, Hong Kong or other applicable jurisdictions on or before the date on which the Share Offer becomes unconditional, if any.

The Indemnifiers shall be under no liability under the Deed of Indemnity, among other things:

(a) to the extent that provision has been made for such taxation in the audited consolidated financial statements of the members of our Group for the Track Record Period;

(b) to the extent that such taxation claim arises or is incurred as a consequence of any retrospective change in the law or regulations or practice by the Inland Revenue Department of Hong Kong or any other tax or government authorities in any part of the world coming into force after the date on which the Share Offer becomes unconditional or to the extent such taxation claim arises or is increased by an increase in rates of taxation after the date on which the Share Offer becomes unconditional with retrospective effect; or

(c) to the extent that the liability for such taxation is caused by the act or omission of, or transaction voluntarily effected by, any member of our Group (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) which is carried out or effected in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets after the date on which the Share Offer becomes unconditional.

Our Directors have been advised that no material liability for estate duty under the laws of the Cayman Islands and the BVI is likely to fall on our Group, and the estate duty under the laws of Hong Kong has been abolished.

2. Litigation

To the best knowledge of our Directors, except as disclosed in the paragraph headed "Business — Compliance and Litigation — Litigation" in this prospectus, as at the Latest Practicable Date, neither our Company nor any of our subsidiaries was engaged in any litigation, arbitration or claims of material importance, and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against our Company or any member of our Group, that would have a material adverse effect on our financial condition and results of operations.

3. Application for listing of Shares

We have applied to the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be allotted and issued as mentioned in this prospectus. All necessary arrangements have been made to enable the securities to be admitted into CCASS.

4. Compliance Adviser

In accordance with the requirements of the GEM Listing Rules, our Company has appointed Alliance Capital Partners as our compliance adviser to provide advisory services to our Company to ensure compliance with the GEM Listing Rules for a period commencing on the Listing Date and ending on the date on which our Company complies with Rule 18.03 of the GEM Listing Rules in respect of our financial results for the second full financial year commencing after the Listing Date.

5. Preliminary expenses

The estimated preliminary expenses to the incorporation of our Company are HK$47,857 and have been borne by our Company.

6. Promoter

We do not have any promoter.

7. Qualifications of experts

The following are the qualifications of the experts who have given opinion or advice in this prospectus:

Name	Qualifications
Alliance Capital Partners Limited	A licensed corporation under the SFO to engage in type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities as defined under the SFO
Appleby	Legal advisers to our Company as to Cayman Islands law
Tahota Law Firm	Legal advisers to our Company as to PRC law
BDO Limited	Certified public accountants
Frost & Sullivan International Limited	Industry consultant
Royson Valuation Advisory Limited	Property valuer

8. Consents of experts

Each of the experts referred to above has given and has not withdrawn their respective consent to the issue of this prospectus with the inclusion of its report and/or letter and/or legal opinion (as the case may be), and reference to its name included in the form and context in which it respectively appears in this prospectus.

9. Fees of the Sole Sponsor

The Sole Sponsor will receive a sponsorship, financial advisory and documentation fee of a total amount of HK$4.9 million in relation to the Listing and will be reimbursed for their expenses.

10. Independence of the Sole Sponsor

Neither the Sole Sponsor nor any of its close associates has accrued any material benefit as a result of the successful outcome of the Share Offer, other than the following:

(a) by way of sponsorship, financial advisory and documentation fee to be paid to the Sole Sponsor for acting as the sponsor of the Listing;

(b) by way of the compliance advisory fee to be paid to Alliance Capital Partners as our Company's compliance adviser pursuant to the requirements under Rule 6A.19 of the GEM Listing Rules; and

(c) by way of underwriting commission and/or other underwriting fees as stipulated in the Underwriting Agreements to be paid to Alliance Capital Partners for acting as one of the Underwriters.

No director or employee of the Sole Sponsor who is involved in providing advice to our Company has or may have, as a result of the Listing, any interest in any class of securities of our Company or any of our subsidiaries. None of the directors and employees of the Sole Sponsor has any directorship in our Company or any member of our Group. The Sole Sponsor is independent from our Group under Rule 6A.07 of the GEM Listing Rules.

11. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

12. Miscellaneous

Save as disclosed herein:

(a) within the two years immediately preceding the date of this prospectus:

(i) no share or loan capital of our Company or any of our subsidiaries has been allotted and issued, agree to be allotted and issued or is proposed to be allotted and issued as fully or partly paid either for cash or for a consideration other than cash;

(ii) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries;

(b) no commission has been paid or payable for subscribing or agreeing to subscribe, or procuring or agreeing to procure subscriptions, for any Shares;

(c) no founder, management or deferred shares of our Company have been allotted and issued or agreed to be allotted and issued;

(d) no share, warrant or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;

(e) our Company has no outstanding convertible debt securities;

(f) there is no arrangement under which future dividends are waived or agreed to be waived; and

(g) there has not been any interruption in the business of our Group which may have or have had a significant effect on the financial position of our Group in the 24 months immediately preceding the date of this prospectus.

13. Bilingual prospectus

The English language and Chinese language versions of this prospectus are being published separately in reliance on the exemption under section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were:

1. copies of the **WHITE**, **YELLOW** and **GREEN** Application Forms;

2. the written consents as referred to in the paragraph headed "E. Other information — 8. Consents of experts" in Appendix V to this prospectus; and

3. copies of the material contracts as referred to in the paragraph headed "B. Further information about the business of our Group — 1. Summary of material contracts" in Appendix V to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of ONC Lawyers at 19th Floor, Three Exchange Square, 8 Connaught Place, Central, Hong Kong, during normal business hours up to and including the date which is 14 days from the date of this prospectus:

1. the Memorandum and the Articles of Association;

2. the Accountants' Report from BDO Limited, the text of which is set out in Appendix I to this prospectus;

3. the audited consolidated financial statements of our Group during the Track Record Period;

4. the report from BDO Limited on the unaudited pro forma financial information of our Group, the text of which is set out in Appendix II to this prospectus;

5. the letter of advice prepared by Appleby summarising certain aspects of Cayman Islands company law as referred to in Appendix IV to this prospectus;

6. the Companies Law;

7. the rules of the Share Option Scheme;

8. the material contracts as referred to in the paragraph headed "B. Further information about the business of our Group — 1. Summary of material contracts" in Appendix V to this prospectus;

9. the service agreements and letters of appointment as referred to in the paragraph headed "C. Further information about our Directors and Substantial Shareholders — 2. Particulars of Directors' service agreements and letters of appointment" in Appendix V to this prospectus;

10. the written consents as referred to in the paragraph headed "E. Other information — 8. Consents of experts" in Appendix V to this prospectus;

11. the legal opinions issued by the PRC Legal Advisers;

12. the F&S Report; and

13. the valuation report relating to the property interests of our Group prepared by Royson Valuation Advisory Limited, the text of which is set out in Appendix III to this prospectus.

SAFTOWER蜀塔电缆

中國蜀塔國際控股集團有限公司

China Saftower International Holding Group Limited