

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.

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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.

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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

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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

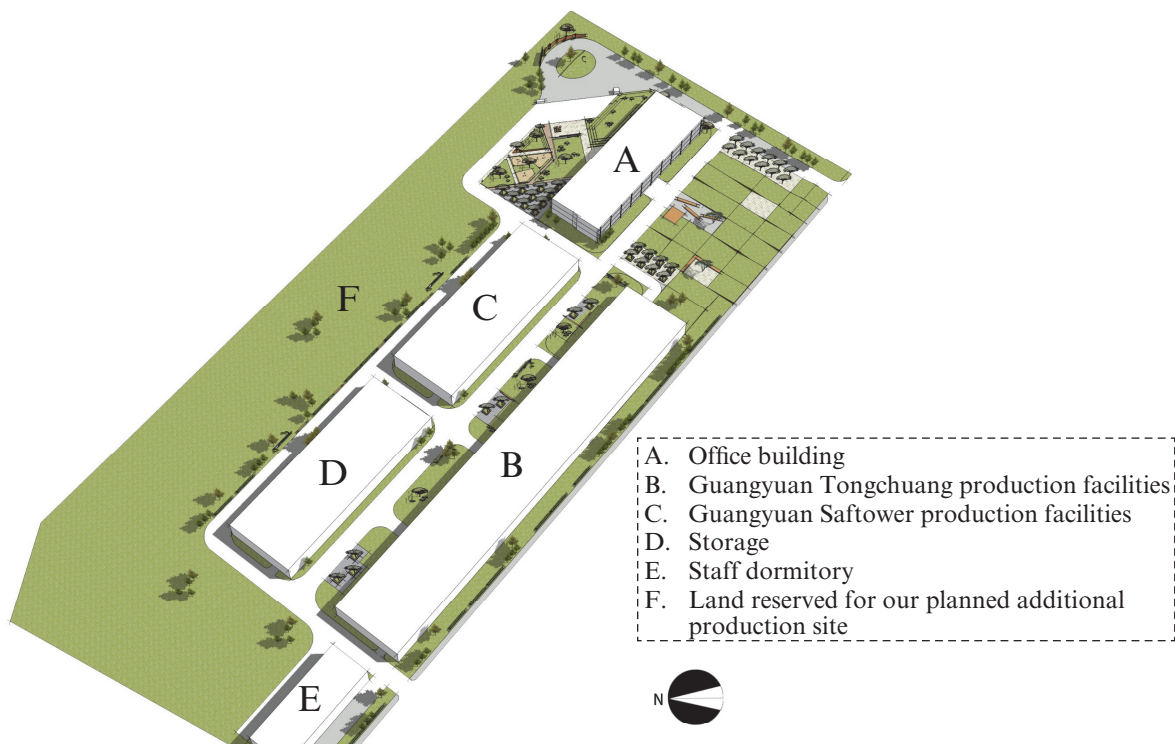
According to Frost & Sullivan, Guangyuan is one of the important aluminium industry bases in Sichuan Province and currently a major component of Sichuan's aluminium product market and according to the Guangyuan City government in 2018, Guangyuan aims to cultivate the local aluminium industry with a total 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.

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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.

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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.

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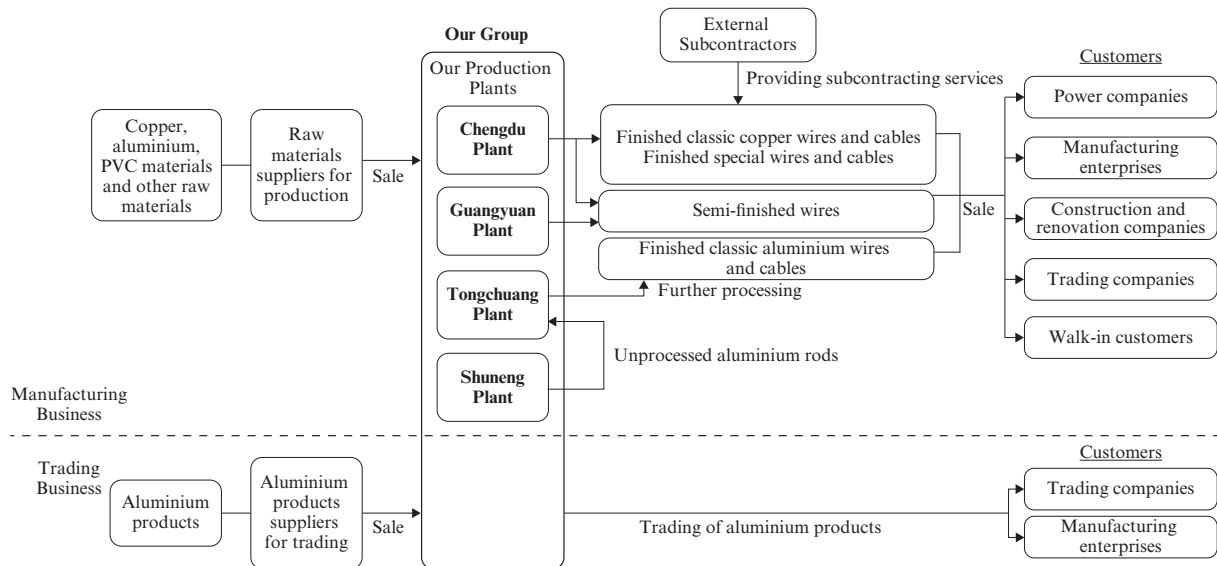
BUSINESS MODEL

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:



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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 <i>RMB'000</i>	% to total revenue	Revenue <i>RMB'000</i>	% to total revenue	Revenue <i>RMB'000</i>	% to total revenue
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

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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 <i>RMB'000</i>	% to total revenue	Gross profit <i>RMB'000</i>	Gross profit margin	Revenue <i>RMB'000</i>	% to total revenue	Gross profit <i>RMB'000</i>	Gross profit margin	Revenue <i>RMB'000</i>	% to total revenue	Gross profit <i>RMB'000</i>	Gross profit margin
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												
Aluminium products	67,788	25.8	(663)	N/A	208,467	37.8	6,541	3.1	273,523	39.9	9,035	3.3
Others — cable accessories	16,134	6.2	—	—	138,591	25.0	4,313	3.1	45,335	6.6	1,170	2.6
	—	—	—	—	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

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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			
	% to total revenue		Gross profit		% to total revenue		Gross profit		% to total revenue		Gross profit	
	under this segment	Gross profit	margin	Revenue	under this segment	Gross profit	margin	Revenue	under this segment	Gross profit	margin	Revenue
	RMB'000	RMB'000	%	RMB'000	RMB'000	RMB'000	%	RMB'000	RMB'000	RMB'000	%	RMB'000
<i>Classic</i>												
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
<i>Special</i>												
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.

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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

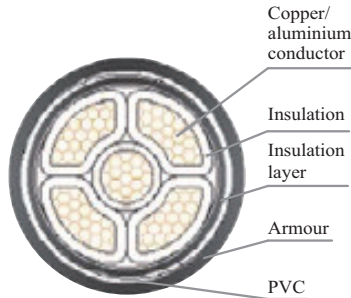
Our classic finished wires and cables are made of copper and aluminium materials. Based on their applications and functions, our classic finished wires and cables are subdivided into (i) power cables; and (ii) wires for electrical equipment.

(i) Power cables (電力電纜) (above 1kV)

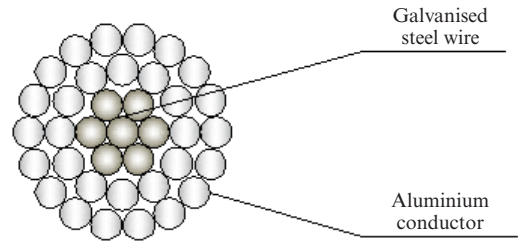
Power cables are principally used for power transmission and distribution systems (overhead and underground) in the power and other general industries. Compared to wires, cables usually have a more complex structure and larger diameters and are assemblies of one or more conductors with outer protective 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

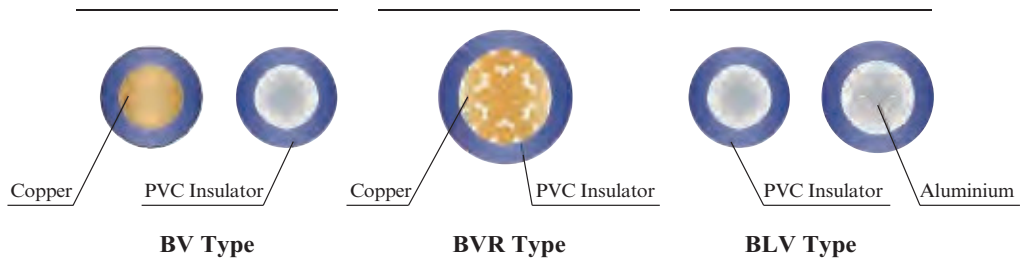


Steel reinforced aluminium bare cable



(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:



Notes:

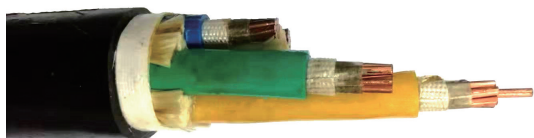
- BV Type — the single-cored wires insulated with PVC materials which are commonly used for the renovation or interior decoration of households.
- BVR Type — the multi-cored copper wires insulated with PVC materials which are commonly used as connecting wires of power distribution cabinet.
- BLV Type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

Special wires and cables

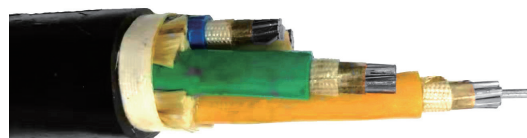
Our special wires and cables are sub-divided into (i) power cables; and (ii) wires for electrical equipment.

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.

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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		Revenue		Revenue	
	RMB'000	%	RMB'000	%	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.

BUSINESS

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			
	% to total revenue under this segment		Gross profit margin		% to total revenue under this segment		Gross profit margin		% to total revenue under this segment		Gross profit margin	
	Revenue	segment	Gross profit	margin	Revenue	segment	Gross profit	margin	Revenue	segment	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.

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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			
	% to total revenue under this segment		Gross profit margin		% to total revenue under this segment		Gross profit margin		% to total revenue under this segment		Gross profit margin	
	Revenue	segment	Gross profit	margin	Revenue	segment	Gross profit	margin	Revenue	segment	Gross profit	margin
	<i>RMB'000</i>		<i>RMB'000</i>	%	<i>RMB'000</i>		<i>RMB'000</i>	%	<i>RMB'000</i>		<i>RMB'000</i>	%
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.

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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

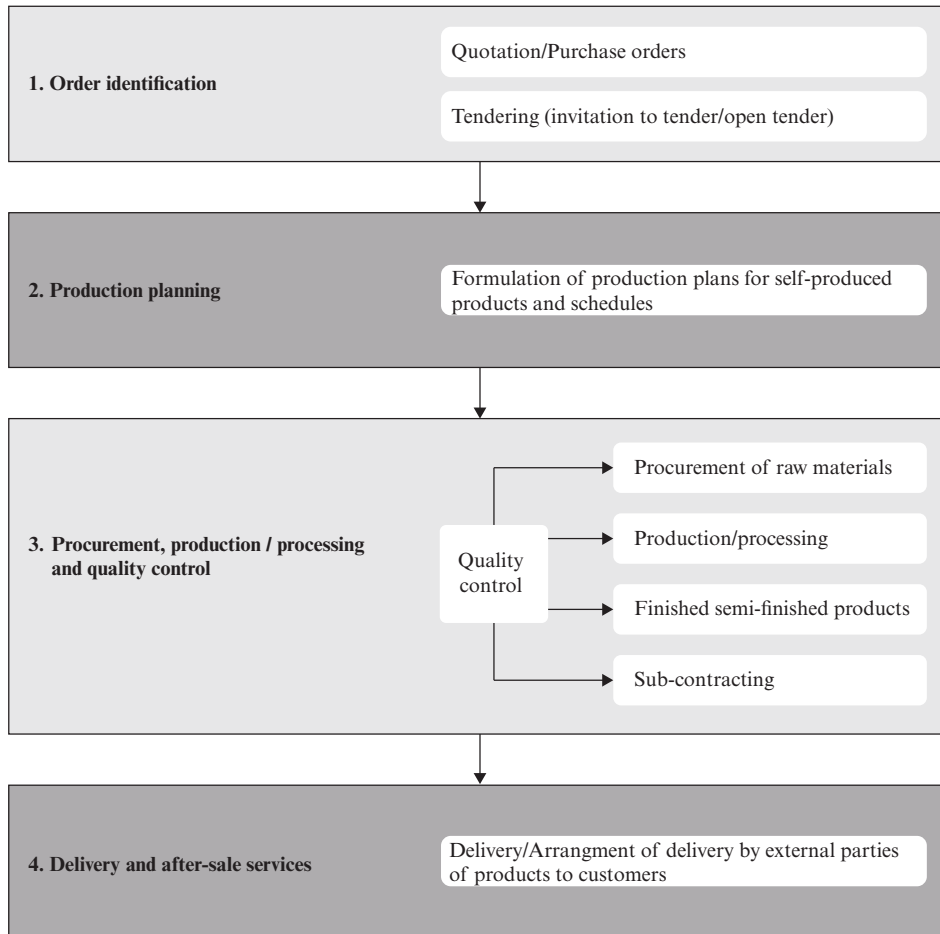
Cable accessories

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.

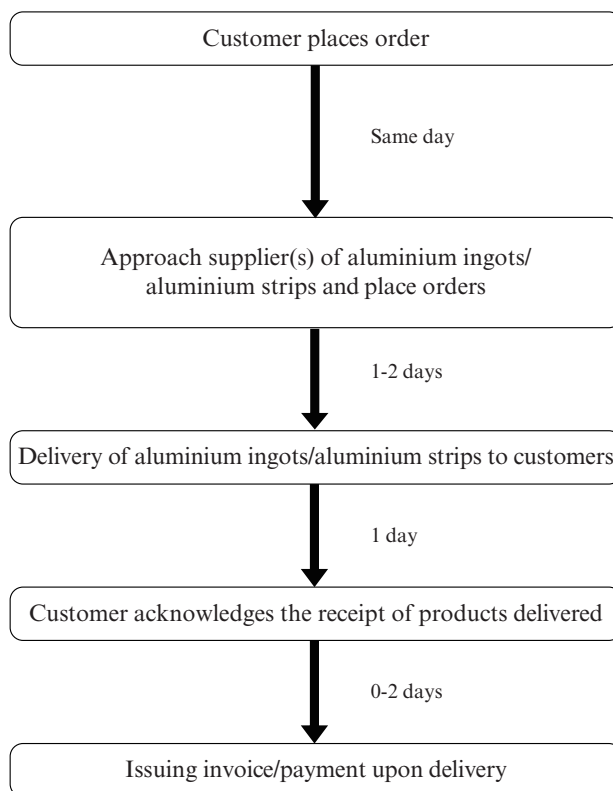
4. *Delivery*

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.

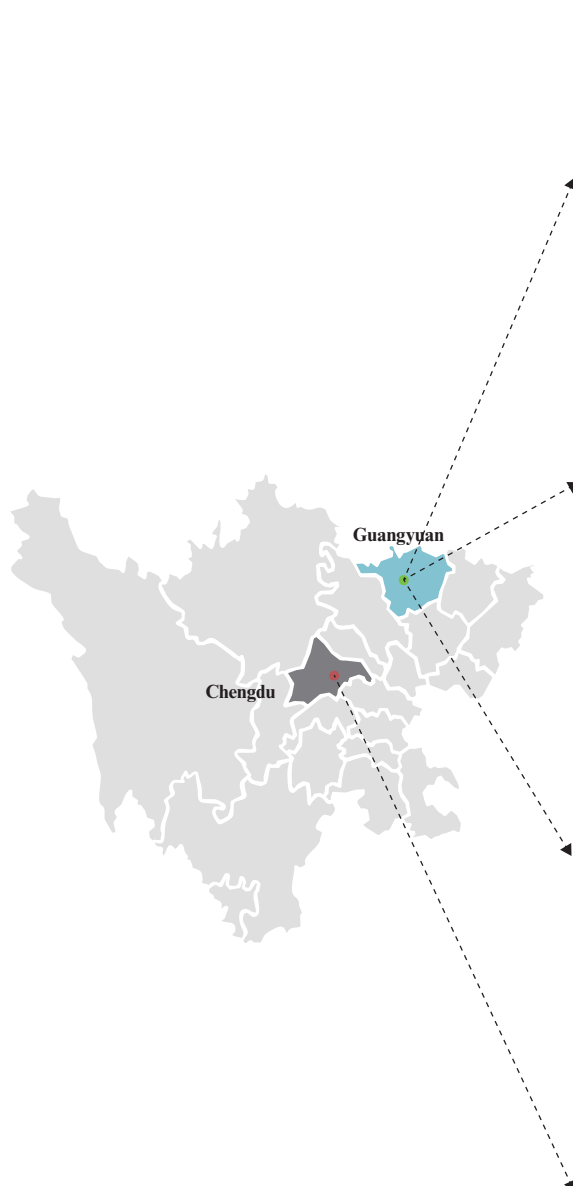
BUSINESS

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



BUSINESS

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 — <i>Copper power cables</i> (銅製電力電纜) — <i>Copper wires for electrical equipment</i> (銅製電氣裝備用電線) (ii) Special copper wires and cables — <i>Special copper power cables</i> (銅製特種電力電纜) — <i>Special copper wires for electrical equipment</i> (銅製特種電氣裝備用電線) Special aluminium wires and cables — <i>Special aluminium medium and low voltage power cables</i> (鋁製特種中低壓電力電纜) — <i>Special aluminium wires for electrical equipment</i> (鋁製特種電氣裝備用電線) (iii) Semi-finished products — <i>Bare copper wires</i> (銅絲)	Semi-finished wires — <i>Aluminium rods</i> (電工圓鋁桿)	Finished classic aluminium wires and cables — <i>Aluminium overhead power cables</i> (鋁製架空電纜) — <i>Steel reinforced aluminium bare cables</i> (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.

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- (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.

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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:

Key production lines	FY2017				FY2018				FY2019			
	Annual Production Capacity	Annual Production Volume	Approximate Utilisation Rate	Annual Production Capacity	Annual Production Volume	Approximate Utilisation Rate	Production Capacity	Production Volume	Approximate Utilisation Rate			
	(Note 2)	(Note 2)	(Notes 3 and 10)	(Note 2)	(Note 2)	(Notes 3 and 10)	(Note 2)	(Note 2)	(Notes 3 and 10)			
		(300 days)			(300 days)			(300 days)				
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)	13,500 tonnes	14,336 tonnes	106.2%	13,500 tonnes	14,896 tonnes	110.3%		
				(59.1% if annualised)								
Tongchuang Plant (Note 12)												
— Aluminium overhead power cables (架空電纜)	1	4,500 km	55 km	1.2% (Note 4)	4,500 km	4,342 km	96.5%	4,500 km	2,924 km	52.0%		
				(4.1% if annualised)								
— Steel reinforced aluminium bare cables (鋁製鋼芯鋁絞線)	3 (Note 8)	7,800 tonnes	830 tonnes	10.6% (Note 4)	7,800 tonnes	6,332 tonnes	81.2% (Note 9)	10,725 tonnes	16,335 tonnes	152.3%		
				(35.5% if annualised)								
Average				5.9%			88.8%			102.1%		
				(19.8% if annualised)								

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.

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- (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.

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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:

<u>Machines and equipment</u>	<u>No. of machines</u>	<u>Year of acquisition</u>	<u>Cost of acquisition</u> <i>RMB'000</i>	<u>Useful life</u> <i>years</i>	<u>Carrying value as at 31 December 2019</u> <i>RMB'000</i> <i>(Note)</i>	<u>Remaining useful life range</u> <i>years</i>
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.

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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:

<u>Machines and equipment</u>	<u>No. of machines</u>	<u>Year of acquisition</u>	<u>Cost of acquisition</u> <i>RMB'000</i>	<u>Useful life</u> <i>years</i>	<u>Carrying value as at 31 December 2019</u> <i>RMB'000</i> <i>(Note)</i>	<u>Remaining useful life range</u> <i>years</i>
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 (金屬鑄製設備)	4	2017	513	10	403	8
High speed metal armouring machine (高速金屬鑄裝機)	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:

<u>Machines and equipment</u>	<u>No. of machines</u>	<u>Year of acquisition</u>	<u>Cost of acquisition</u> <i>RMB'000</i>	<u>Useful life</u> <i>years</i>	<u>Carrying value as at 31 December 2019</u> <i>RMB'000</i> <i>(Note)</i>	<u>Remaining useful life range</u> <i>years</i>
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.

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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:

<u>Machines and equipment</u>	<u>No. of machines</u>	<u>Year of acquisition</u>	<u>Cost of acquisition</u> <i>RMB'000</i>	<u>Useful life</u> <i>years</i>	<u>Carrying value as at 31 December 2019</u> <i>RMB'000</i> <i>(Note)</i>	<u>Remaining useful life range</u> <i>years</i>
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

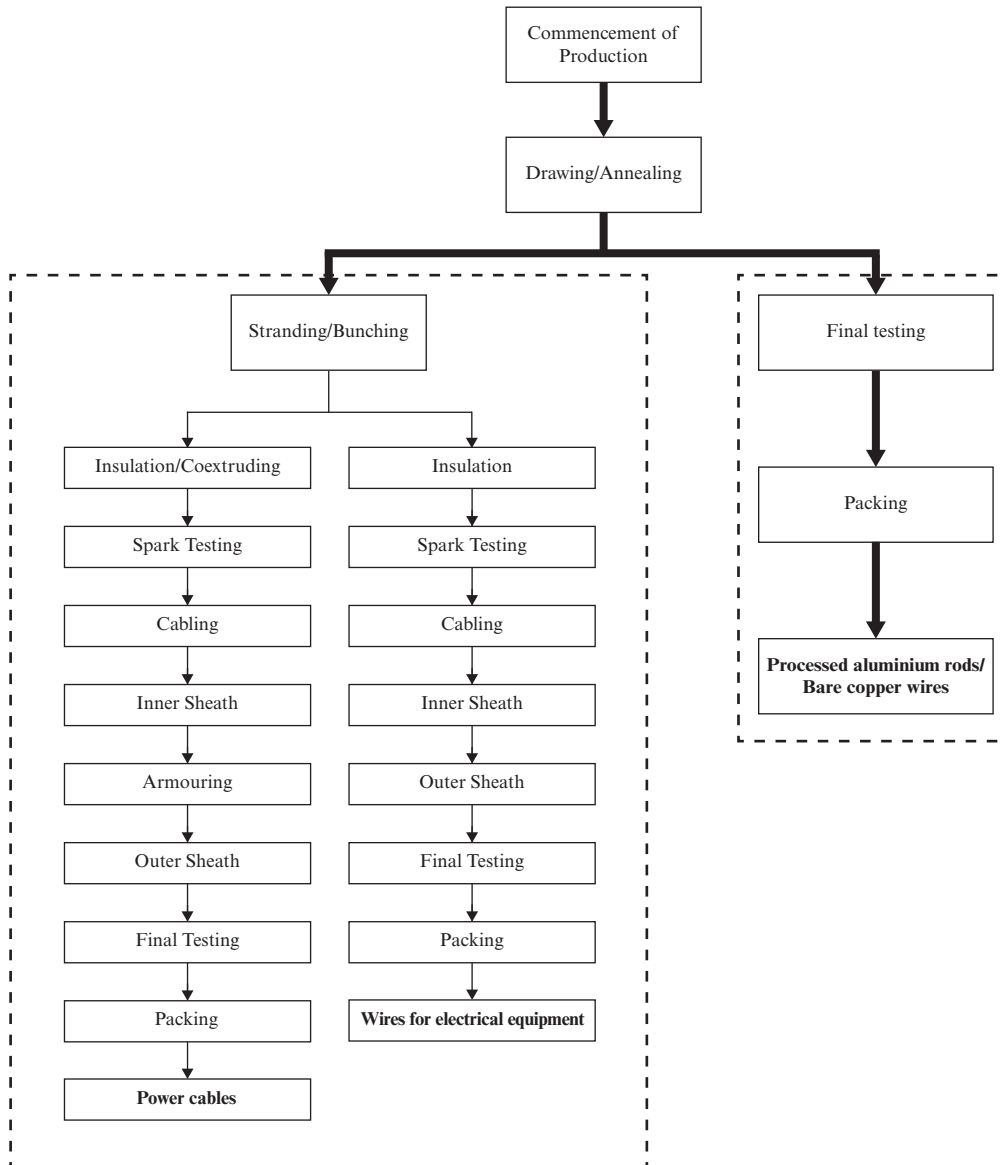
During the Track Record Period and up to the Latest Practicable Date, we did not experience any significant interruptions in our business and operations nor any prolonged suspension of manufacturing operations arising from failure or breakdowns of machinery or equipment, which may significantly affect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

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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 from 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

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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	% to total	Revenue	% to total
	RMB'000	%	RMB'000	%	RMB'000	%
Power companies	6,145	2.3	41,371	7.5	56,101	8.2
Manufacturing enterprises <i>(Note)</i>	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 <i>(Note)</i>	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.

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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 <i>RMB'000</i>	% to total revenue
1	Tianzhu <i>(Note 1)</i>	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 <i>(Note 2)</i>	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. (鄭州市榮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

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For FY2018

Ranking	Customer	Duration of business relationship (year)	Nature of business activities	Types of product(s) sold by us	Credit period	Aggregate amount <i>RMB'000</i>	% to total revenue
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 (<i>Note 3</i>)	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

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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 <i>RMB'000</i>	% to total revenue
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) (<i>Note 4</i>)	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

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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.

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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.

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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.

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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,

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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

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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.

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- **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.

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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:

	Hypothetical effect after commodity price increase		Hypothetical effect after commodity price increase		Hypothetical effect after commodity price increase	
	FY2017	FY2018	FY2018	FY2019	FY2019	FY2019
Gross profit (<i>RMB'000</i>)	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

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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	
	<i>RMB'000</i>	<i>% of cost of sales</i>	<i>RMB'000</i>	<i>% of cost of sales</i>	<i>RMB'000</i>	<i>% of cost of sales</i>
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	<u>1,660</u>	<u>0.7</u>	<u>1,812</u>	<u>0.3</u>	<u>54,246</u>	<u>8.6</u>
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)	<u>8,415</u>	<u>3.4</u>	<u>8,903</u>	<u>1.8</u>	<u>15,648</u>	<u>2.5</u>
Total	<u><u>247,899</u></u>	<u><u>100.0</u></u>	<u><u>514,300</u></u>	<u><u>100.0</u></u>	<u><u>631,656</u></u>	<u><u>100.0</u></u>

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.

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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 <i>RMB'000</i>	% of total purchase for the year
1	Zhonglv (<i>Note 1</i>)	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 (<i>Note 2</i>)	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) (<i>Note 3</i>)	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 (<i>Note 4</i>)	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

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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 <i>RMB'000</i>	% of total purchase for the year
1	Zhonglv <i>(Note 1)</i>	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 <i>(Note 2)</i>	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 <i>(Note 5)</i>	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

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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 <i>RMB'000</i>	% of total purchase for the period
1	Zhonglv (<i>Note 1</i>)	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) (<i>Note 2</i>)	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.

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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 combining 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

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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.

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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.

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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 from 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 <i>RMB'000</i>	As a percentage of our total sales	Gross profit <i>RMB'000</i>	Gross profit margin	Sales amount <i>RMB'000</i>	As a percentage of our total sales	Gross profit <i>RMB'000</i>	Gross profit margin	Sales amount <i>RMB'000</i>	As a percentage of our total sales	Gross profit <i>RMB'000</i>	Gross profit margin
Sales to Tianzhu	51,475	19.6%	(20)	N/A	—	—	—	—	—	—	—	—
	Purchase amount <i>RMB'000</i>	As a percentage of our total purchase			Purchase amount <i>RMB'000</i>	As a percentage of our total purchase			Purchase amount <i>RMB'000</i>	As a percentage of our total purchase		
Purchases from Tianzhu	—	—			31,767	6.4%			—	—		

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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			
	As a percentage of our total sales		Gross profit		As a percentage of our total sales		Gross profit		As a percentage of our total sales		Gross profit	
Sales amount			margin	Sales amount			margin	Sales amount			margin	
RMB'000		RMB'000		RMB'000		RMB'000		RMB'000		RMB'000		
Sales to Guangyuan Tongchuang (Note)	12	—	2	16.7%	244	0.05%	19	7.8%	709	0.1	211	29.8%
	As a percentage of our total purchase			As a percentage of our total purchase				As a percentage of our total purchase				
Purchase amount				Purchase amount				Purchase amount				
RMB'000				RMB'000				RMB'000				
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

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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			
	As a percentage of our total sales		Gross profit	Gross margin	As a percentage of our total sales		Gross profit	Gross margin	As a percentage of our total sales		Gross profit	Gross margin
	Sales amount		profit	margin	Sales amount		profit	margin	Sales amount		profit	margin
	<i>RMB'000</i>		<i>RMB'000</i>		<i>RMB'000</i>		<i>RMB'000</i>		<i>RMB'000</i>		<i>RMB'000</i>	
Sales to Jinjin	75	0.03%	13	17.3%	—	—	—	—	—	—	—	—
	As a percentage of our total purchase		As a percentage of our total purchase		As a percentage of our total purchase		As a percentage of our total purchase		As a percentage of our total purchase		As a percentage of our total purchase	
	Purchase amount		Purchase amount		Purchase amount		Purchase amount		Purchase amount		Purchase amount	
	<i>RMB'000</i>		<i>RMB'000</i>		<i>RMB'000</i>		<i>RMB'000</i>		<i>RMB'000</i>		<i>RMB'000</i>	
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.

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The following table sets out our sales to and purchases amount from Zhonglv for FY2017, FY2018 and FY2019:

	FY2017				FY2018				FY2019			
	As a percentage of our total sales		Gross profit	Gross profit margin	As a percentage of our total sales		Gross profit	Gross profit margin	As a percentage of our total sales		Gross profit	Gross profit margin
	Sales amount				Sales amount				Sales amount			
	RMB'000		RMB'000		RMB'000		RMB'000		RMB'000		RMB'000	
Sales to Zhonglv (<i>Note</i>)	663	0.3%	10	1.5%	1	0.0002%	—	—	—	—	—	—
	As a percentage of our total purchase				As a percentage of our total purchase				As a percentage of our total purchase			
	Purchase amount				Purchase amount				Purchase amount			
	RMB'000				RMB'000				RMB'000			
Purchases from Zhonglv (<i>Note</i>)	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.

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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 <i>RMB'000</i>	Gross profit <i>RMB'000</i>	Gross profit margin %	Revenue <i>RMB'000</i>	Gross profit <i>RMB'000</i>	Gross profit margin %	Revenue <i>RMB'000</i>	Gross profit <i>RMB'000</i>	Gross profit margin %
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
	<u>262,295</u>	<u>14,396</u>	5.5	<u>552,656</u>	<u>38,356</u>	6.9	<u>685,530</u>	<u>53,874</u>	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

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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

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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

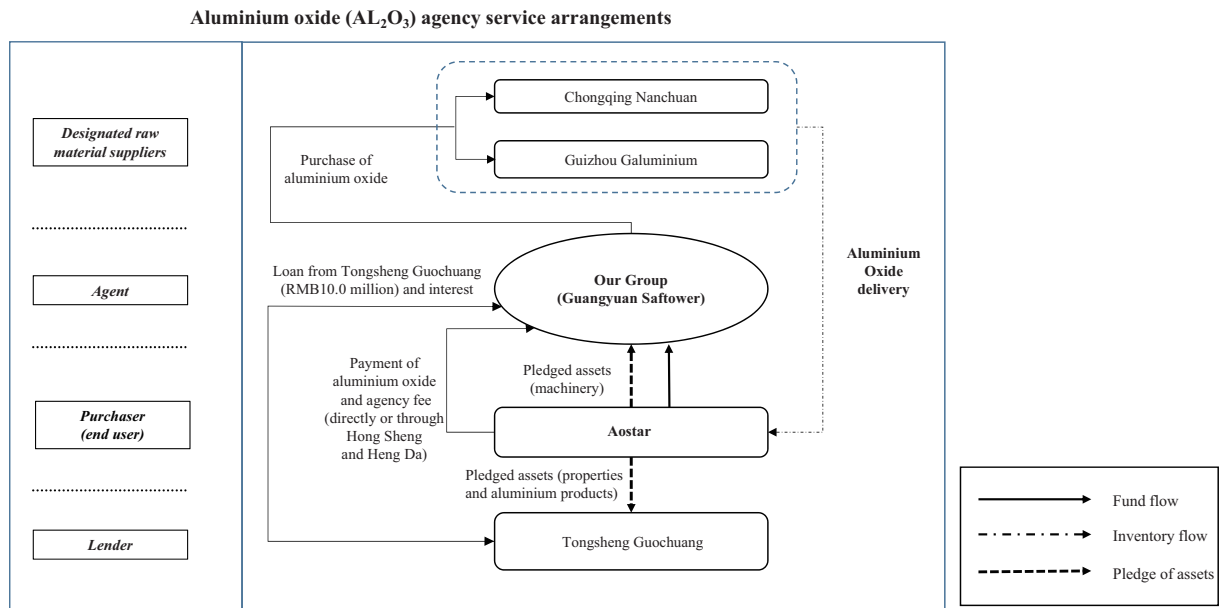
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two agreements dated 28 December 2019 and 28 March 2020 respectively and RMB0.5 million was repaid on 21 January 2020. On 13 May 2020, based on mutual agreement with Tongsheng Guochuang, we repaid the Current Tongsheng Loan in full.

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:



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.

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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 ₂ O 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 (<i>Note 1</i>)
Interest rate	15% per annum (<i>Note 2</i>)
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.

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Financial impacts to our Group

The table below summarises the transactions under the Agency Service Arrangements:

	FY2018	FY2019
	<i>RMB'million</i>	<i>RMB'million</i>
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
	<i>RMB'million</i>	<i>RMB'million</i>
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.

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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	FY2019
	<i>RMB'million</i>	<i>RMB'million</i>
Sales (net of tax)	17.6	—
Gross profit	3.4	—
Gross profit margin (%)	19.3%	—
	As at	As at
	31 December	31 December
	2018	2019
	<i>RMB'million</i>	<i>RMB'million</i>
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.

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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.

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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).

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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

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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

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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.

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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

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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.

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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:

<u>Name of Certifications</u>	<u>Ranges of products applied</u>	<u>Significance/ Recognition</u>	<u>Issuing Authorities</u>	<u>Validity</u>
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

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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).

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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:

<u>Validity period/ Issuance date</u>	<u>Awards</u>	<u>Awarded company</u>	<u>Significance/ Recognition</u>	<u>Awarding Authorities</u>
December 2013 to December 2018	Chengdu City Well-known Trademark (成都市著名商標) <i>(Note)</i>	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.

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<u>Validity period/ Issuance date</u>	<u>Awards</u>	<u>Awarded company</u>	<u>Significance/ Recognition</u>	<u>Awarding Authorities</u>
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	<ul style="list-style-type: none"> ● 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	<ul style="list-style-type: none"> ● 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)

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<u>Validity period/ Issuance date</u>	<u>Awards</u>	<u>Awarded company</u>	<u>Significance/ Recognition</u>	<u>Awarding Authorities</u>
January 2018	Party Award for “Best Public Service” (「最佳公益」黨組織獎)	Sichuan Saftower	Recognition of our public service	<ul style="list-style-type: none"> ● 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 Pidu 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	<ul style="list-style-type: none"> ● 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)

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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	<ul style="list-style-type: none"> ● 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 (國家稅務總局四川省稅務局)

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

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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.

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The following table sets out a summary of our land parcels in the PRC as at the Latest Practicable Date:

<u>No.</u>	<u>Location of land</u>	<u>Approximate gross floor area (sq.m.)</u>	<u>Current usage</u>	<u>Owner</u>	<u>Expiry Date</u>
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

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The following table sets out a summary of our buildings in the PRC as at the Latest Practicable Date:

<u>No.</u>	<u>Location of buildings</u>	<u>Approximate gross floor area of the buildings (sq.m.)</u>	<u>Current usage</u>	<u>Owner</u>
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.

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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.

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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}
<ul style="list-style-type: none"> 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 (國家稅務總局四川省稅務局) 	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

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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.

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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.

BUSINESS

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.