You should read the following management discussion and analysis of our Group's and Guangyuan Tongchuang's financial condition and results of operations together with our consolidated financial information as at and for FY2017, FY2018 and FY2019, Guangyuan Tongchuang's pre-acquisition financial information, and the accompanying notes included in the Accountants' Report set out in Appendix I to this prospectus. The Accountants' Report has been prepared in accordance with HKFRS. Potential investors should read the whole of the Accountants' Report set out in Appendix I to this prospectus and not rely merely on the information contained in this section. The following management discussion and analysis contain forward-looking statements that involve risks and uncertainties. For additional information regarding these risks and uncertainties, see "Risk Factors" in this prospectus.

OVERVIEW

Founded in 2004, we are a regional manufacturer and supplier of wires and cables, with integrated production facilities situated in Chengdu and Guangyuan of Sichuan Province. Products sold by us can be broadly classified into four major categories: (i) finished wires and cables; (ii) semi-finished wires; and (iii) aluminium products namely aluminium strips and ingots; and (iv) others, comprising cable accessories. The conductors of our wires and cables are mainly made of copper and aluminium. For FY2017, FY2018 and FY2019, our total revenue was RMB262.3 million, RMB552.7 million and RMB685.5 million, respectively. Our total gross profit amounted to RMB14.4 million, RMB38.4 million and RMB53.9 million for FY2017, FY2018 and FY2019, representing a gross profit margin of 5.5%, 6.9% and 7.9%, respectively.

We established our Chengdu Plant in 2004 with a primary focus on manufacturing copper wires. To enhance our capability to serve customers in adjacent provinces, we established Guangyuan Plant and formed Tongchuang Plant which commenced commercial production since April and September 2017, respectively. Tongchuang Plant is situated in Guangyuan Plant as a manufacturer of aluminium wires and cables mainly on OEM basis while Guangyuan Plant focuses on manufacturing of semi-finished aluminium wires. Aiming to further enhance our productivity and vertically integrated capability, we commenced trial operation of Shuneng Plant in April 2019. Shuneng Plant produces aluminium materials such as unprocessed aluminium rods for Tongchuang Plant for further processing.

On 15 April 2019, we acquired an additional 16.67% equity interest in Guangyuan Tongchuang from Mr. Li Zhanwei, an Independent Third Party. Mr. Li Zhanwei was a passive shareholder and a director of Guangyuan Tongchuang until 15 April 2019. Guangyuan Tongchuang was a joint venture which was 40% owned by us before the Tongchuang Equity Acquisition and has become our 56.67% non wholly-owned subsidiary since 16 April 2019. For details, see "History, Development and Reorganisation — Corporate Development — Guangyuan Tongchuang" in this prospectus. Stand-alone pre-acquisition financial information of Guangyuan Tongchuang for FY2017, FY2018 and the period ended 15 April 2019 prior to the Tongchuang Equity Acquisition is included section headed "Pre-Acquisition Financial Information of Guangyuan Tongchuang" in this prospectus and in Note 37 in Appendix I to this prospectus. Guangyuan Tongchuang was accounted for as an investment in joint venture in our consolidated financial statements for FY2017, FY2018 and up to 15 April 2019. Guangyuan Tongchuang's financial statements were consolidated into our Group from 16 April 2019 to 31 December 2019 based on the fair value of Guangyuan Tongchuang by applying the acquisition method in accordance with HKFRS. See also "Pre-acquisition Financial Information of Guangyuan Tongchuang" in this prospectus.

BASIS OF PRESENTATION

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 9 October 2018. The consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of our Group for FY2017, FY2018 and FY2019 have been prepared using the historical financial information of the entities now comprising our Group, as if the current group structure had been in existence for FY2017, FY2018 and FY2019, or since the respective dates of acquisition or incorporation, whichever is the shorter period. The consolidated statements of financial position of our Group as at 31 December 2017, 2018 and 2019 have been prepared to present the assets and liabilities of the entities now comprising our Group which were in existence at those dates, as if the current group structure had been in existence as at these dates or since their respective dates of acquisition or incorporation, whichever is the shorter period. All significant intra-group transactions and balances have been eliminated on combination.

APPLICATION OF HKFRSs

The historical financial information has been prepared in accordance with the accounting policies, which conform to HKFRSs (which collective term includes all applicable individual HKFRSs, HKASs and Interpretations) issued by the HKICPA and applicable disclosure provisions of the Rules Governing the Listing of Securities on GEM throughout the Track Record Period. All HKFRSs effective for accounting period commencing from 1 January 2018 together with the relevant transitional provisions, including HKFRS 9 "Financial Instruments" and HKFRS 15 "Revenue from Contracts with Customers" and the related amendments, have been early adopted by our Group in the preparation of the historical financial information throughout the Track Record Period. Our Group has adopted HKFRS 16 "Lease" using full retrospective approach throughout the Track Record Period.

It should be noted that accounting estimates and assumptions are used in the preparation of the historical financial information. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates.

Effect on the adoption of HKFRS 9 Financial Instruments

We have elected to consistently apply HKFRS 9 throughout the Track Record Period when preparing our historical financial information. HKFRS 9, as compared with HKAS 39, introduces new requirements for (i) the classification and measurement of financial assets and financial liabilities; and (ii) expected credit losses model for financial assets instead of incurred losses model under HKAS 39. All of our financial assets and liabilities continues to be measured at the same measurement basis under HKAS 39. Our Directors considered that the adoption of the expected credit losses model under HKFRS 9 would not result in significant difference in allowances for impairment and did not have any significant impact on our Group's consolidated financial position and performance as compared with HKAS 39.

Effect on the adoption of HKFRS 15 Revenue from Contracts with Customers

We have elected to consistently apply HKFRS 15 throughout the Track Record Period when preparing our historical financial information. Under the adoption of HKFRS 15, our Group recognises revenue when (or as) performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to customers instead of when risk and reward is transferred to customers under HKAS 18. Under HKFRS 15, our Group recognises performance obligations that we have not yet satisfied but for which we have received consideration or an amount of consideration is due to the customer as contract liabilities. Our Directors considered that, as compared to the requirements of HKAS 18, the adoption of HKFRS 15 did not have any significant impact on our consolidated financial position and performance during the Track Record Period, except for reclassification of advances from customers to contract liabilities.

Effect on the adoption of HKFRS 16 Leases

We had elected to consistently apply HKFRS 16 throughout the Track Record Period when preparing our historical financial information. HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 and the related interpretations when it becomes effective. HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any re-measurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

We elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as lease applying HKAS 17 and HKFRIC 4 *Determining whether an arrangement contains a lease* and not apply this standard to contracts that were not previously identified as containing a lease apply HKAS 17 and HKFRIC 4. Therefore, we will not reassess whether the contracts are, or contain a lease which already existed prior to 1 January 2017. The change in definition of a lease mainly relates to the concept of control. HKFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration.

We applied the definition of a lease and related guidance set out in HKFRS 16 to all lease contracts entered into or modified on or after 1 January 2017. The new definition in HKFRS 16 will not change significantly the scope of contracts that meet the definition of a lease for our Group.

When applying the modified retrospective approach under HKFRS 16 in transition, we applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease by lease basis, to the extent relevant to the respective lease contracts:

— elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application; and

— used hindsight based on facts and circumstances as at date of initial application in determining the lease term for our leases with extension and termination options.

Our Directors confirm that, comparing to HKAS 17, the adoption of HKFRS 16 did not have a significant impact on the Group's consolidated financial position (net assets) and performance during the Track Record Period

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our financial information has been prepared in accordance with the HKFRS. We have identified certain accounting policies that are critical to the preparation of our financial information. Some of our critical accounting policies involve subjective assumptions and estimates, as well as complex judgments relating to accounting items. These accounting policies are important for understanding our financial position and results of operations and are set forth in Note 4 to Appendix I to this prospectus.

The estimates and associated assumptions are based on our historical experience and various other relevant factors that we believe are reasonable under the circumstances, the results of which form the basis of making judgments about matters that are not readily apparent from other sources. When reviewing our financial results, you should consider: (i) our selection of critical accounting policies, (ii) the judgment and other uncertainties affecting the application of such policies, and (iii) the sensitivity of reported results to changes in conditions and assumptions. The determination of these items requires management judgments based on information and financial data that may change in the future periods, and as a result, actual results could differ from those estimates.

Revenue recognition

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which our Group expects to be entitled in exchange for those goods or services, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Depending on the terms of the contract and the laws that apply to the contract, control of the goods or service may be transferred over time or at a point in time. Control of the goods or service is transferred over time if our Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates or enhances an asset that the customer controls as our Group performs; or
- does not create an asset with an alternative use to our Group and our Group has an enforceable right to payment for performance completed to date.

If control of the goods or services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods or service.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amounts receivable, discounted using the discount rate that would be reflected in a separate financing transaction between our Group and the customer at contract inception. Where the contract contains a financing component which provides a significant financing benefit to our Group, revenue recognised under that contract includes the interest expense accrued on the contract liability under the effective interest method. For contracts where the period between the payment and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

(i) Sales of wires and cables

Customers obtain control of the wires and cables when the goods are delivered to and have been accepted. Revenue is thus recognised upon when the customers accepted wires and cables. There is generally only one performance obligation. Invoices are usually payable within 90 days.

(ii) Sales of aluminium products

Customers obtain control of the aluminium products when the goods are delivered to and have been accepted. Revenue is thus recognised upon when the customers accepted the aluminium products. There is generally only one performance obligation. Invoices are usually payable within five days.

(iii) Warranties

Our Group normally provides warranty services from one to two year to our customer regarding the sales of electric cable and wires products. The customer do not have an option to purchase warranty separately. Our Group accounts for warranty in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets" unless the warranty provides the customer with a service in addition to the assurance that the product complies with agreed-upon specification (i.e. service-type warranties).

(iv) Other income

Agency fee income is recognised when the goods on which the agency fee is calculated are delivered.

Rental income under operating leases is recognised on a straight-line basis over the term of the relevant lease.

Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.

Dividend income is recognised when the right to receive the dividend is established.

Contract assets and liabilities

A contract asset represents our right to consideration in exchange for services that our Group has transferred to a customer that is not yet unconditional. In contrast, a receivable represents our unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents our obligation to transfer services to a customer for which our Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to a contract are accounted for and presented on a net basis.

Contract costs

Our Group recognises an asset from the costs incurred to fulfil a contract when those costs meet all of the following criteria:

(a) the costs relate directly to a contract or to an anticipated contract that the entity can specifically identify;

(b) the costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligation in the future; and

(c) the costs are expected to be recovered.

The asset recognised is subsequently amortised to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the cost relate. The asset is subject to impairment review.

Government grants

Government grants are not recognised until there is reasonable assurance that our Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which our Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that our Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the consolidated statements of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to our Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to our Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised as an expense in profit or loss during the financial period in which they are incurred.

Property, plant and equipment are depreciated so as to write off their cost or valuation net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The useful lives are as follows:

Buildings	30 years
Leasehold improvements	5 years
Plant and machinery	10–30 years
Furniture and fixtures	3–5 years
Computer and office equipment	3–10 years
Motor vehicles	5–10 years

Construction in progress is stated at cost less impairment losses. Cost comprises direct costs of construction as well as borrowing costs capitalised during the periods of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to the appropriate class of property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided for in respect of construction in progress until it is completed and ready for its intended use.

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sales proceeds and its carrying amount, and is recognised in profit or loss on disposal.

Impairment of assets (other than financial assets)

At the end of each reporting period, our Group reviews the carrying amounts of the following assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- right-of-use assets;
- prepayments;
- intangible assets;
- investment in a joint venture; and

- investment in a subsidiary

If the recoverable amount (i.e. the greater of the fair value less costs of disposal and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another HKFRS, in which case the impairment loss is treated as a revaluation decrease under that HKFRS.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another HKFRS, in which case the reversal of the impairment loss is treated as a revaluation increase under that HKFRS.

Value in use is based on the estimated future cash flows expected to be derived from the asset or the cash-generating unit, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash generating unit. A cash-generating unit is the smallest identifiable group of assets that generate cash flows that are largely independent of the cash flows from other assets or groups of assets.

Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our operations and financial condition have been, and will continue to be affected by a number of factors, including those set out below:

Economic conditions in the PRC and Sichuan Province

We operated in two cities located in Sichuan Province, namely Chengdu and Guangyuan, and derived all our revenue in the PRC during the Track Record Period. We expect that the PRC, particularly the Sichuan market will continue to be our major place of operations. Accordingly, in the event there is any material and unfavourable change in Sichuan Province and the PRC markets, such as deterioration in the regional and national economic, social and/or political conditions, outbreak of natural disasters, terrorist attacks, political or social unrests, strike, riot, civil disturbance or disobedience, epidemics, pandemics or any unfavourable state or provincial policies applicable to this region, our customers' industry, our industry, or other events beyond our control in this region, our business, financial position, results of operations and prospects would be materially and adversely affected. For details of the impact of COVID-19, see the paragraph headed "Recent Developments and No Material Adverse Change" in this section. In addition, we have minimal business presence in overseas jurisdictions, and may have difficulties in relocating our entire business operations to other geographic markets if there is any material deterioration in the economic, political and regulatory environment in the PRC.

Product mix

We have a diverse product portfolio which can be customised to carry different features in accordance with the technical specifications of our customers. Different types of products have different gross profit margins, depending on a variety of factors including sales volume, costs of raw materials, pricing and our marketing strategy. Average selling price and gross profit margin of similar type of products varied significantly in the wires and cables market, our Directors believe (which Frost & Sullivan also concurred) that the following are key factors that affect the pricing of a typical product per same volume with same key component of the same conductor, namely copper or aluminium, (i) number of core conductor, multiple or single, multiple core conductor is more expensive than single core conductor; (ii) the size of the cross section area of the product, determined by the radius of the core conductor, the longer the radius, the more expensive; (iii) the voltage requirement for the product, the higher voltage requirement, more expensive; (iv) customer requirement on product specification and application also affect the pricing. For example, special wires and cables are usually more expensive than classic wires and cables; (v) any value-added product features possessed by our products; and (vi) customer services, such as the availability of any after-sale services, logistics services and credit terms which will usually reflect a higher pricing. Our product mix and any change to such mix due to our business strategy, market conditions, customer demand and other factors may affect our revenue and profitability over time. Therefore, our overall gross profit margin will vary depending on the product mix across different types of products. See the paragraph headed "Description of Selected Items In Statements Of Comprehensive Income — Gross profit and gross profit margin" in this section. Our results of operations have been and will continue to be affected by our product mix. We plan to continue monitoring the industry trends and allocating our resources among different product segments accordingly.

Availability and cost of raw materials

We purchase various raw materials for our production. For further details, see "Business — Procurement and Suppliers — Raw materials" in this prospectus. Our major procurement comprises primarily copper and aluminium.

For FY2017, FY2018 and FY2019, cost of raw materials is the largest component of our cost of sales. Our purchases from our five largest suppliers amounted to RMB225.2 million, RMB428.4 million and RMB547.5 million, respectively, representing 94.2%, 85.9% and 89.6%, respectively, of our total purchase for FY2017, FY2018 and FY2019. As a result, any significant fluctuations in our cost of raw materials may materially impact our cost of sales and gross profit margins, and may have a substantial impact on our results of operations.

In general, unit cost of copper is three to four times higher than the unit cost of aluminium, hence, copper products are usually sold at a higher unit price than aluminium products.

Set out below is the monthly average price (tax inclusive and exclusive) of raw materials of copper and aluminium in the PRC for FY2017, FY2018 and FY2019 according to Frost & Sullivan:

	FY2017		**FY2018**			**FY2019**		
	RMB/ tonne (tax inclusive)	*RMB/ tonne (net of tax)*	*RMB/ tonne (tax inclusive)*	*RMB/ tonne (net of tax)*	*FY2018 vs. FY2017 % change (%)*	*RMB/ tonne (tax inclusive)*	*RMB/ tonne (net of tax)*	*FY2019 vs. FY2018 % change (%)*
Raw materials:								
Copper	49,197	42,049	50,654	43,540	+3.0	47,787	41,916	–5.7
Aluminium	14,429	12,333	14,196	12,203	-1.6	13,936	12,228	–1.8

Note: Percentage change was calculated based on the tax inclusive price. Tax rate was 17%, 16% and 14% for FY2017, FY2018 and FY2019 respectively.

The following table sets forth the sensitivity analysis on the fluctuation in inventory costs for FY2017, FY2018 and FY2019, illustrating its impact on our profit before income tax expenses if our cost of raw material had been 5%, 10% and 15% increase or decrease for FY2017, FY2018 and FY2019, assuming that all other variables were held constant. Because a number of assumptions have been applied, this sensitivity analysis is for illustration only, and actual results may differ from those illustrated below.

	FY2017	**FY2018**	**FY2019**
	RMB'000	*RMB'000*	*RMB'000*
If costs of raw material had been 5% higher/lower			
(Decrease)/increase in profit before income tax expenses	–/+10,483	–/+13,973	–/+26,625
If costs of raw material had been 10% higher/lower			
(Decrease)/increase in profit before income tax expenses	–/+20,966	–/+27,946	–/+53,250
If costs of raw material had been 15% higher/lower			
(Decrease)/increase in profit before income tax expenses	–/+31,449	–/+41,919	–/+79,875

Production capacity and operating efficiency

The continuous growth of our revenue and market share depends on a large extent on our ability to expand our production capacity. For FY2017, FY2018 and FY2019 and up to the Latest Practicable Date, we produced and processed products in our three production plants, namely our Chengdu Plant, Guangyuan Plant and Tongchuang Plant. The average annualised utilisation rate for FY2017, FY2018 and FY2019 was 103.3%, 86.9% and 97.3% for Chengdu Plant, 59.1%, 106.2% and 110.3% for Guangyuan Plant, and 19.8%, 88.8% and 102.1% for Tongchuang Plant, respectively. Our Shuneng Plant was at trial production stage as at the Latest Practicable Date and is expected to commence commercial production by third quarter of 2020.

Our financial performance is highly related to our operating efficiency. As we continue to grow and expand our business, we intend to enhance and expand our production capacity to meet our customers' demands, such as acquiring new production facilities, improving our production technology and equipment, expanding our production lines, increasing the level of automation used in the production process.

Competition

We operate in a competitive environment where there are continuous competitions from both existing competitors and new market entrants. We have maintained our competitive position in the PRC, particularly Sichuan Province through our comprehensive product mix, high-quality products, our brand and efficient operations. Our strong research and development capabilities also allow us to expand into new product markets to improve our margins.

RESULTS OF OPERATION

The following is a summary of the consolidated statements of comprehensive income of our Group for FY2017, FY2018 and FY2019, which is extracted from the Accountants' Report set out in Appendix I to this prospectus. This summary should be read in conjunction with the Accountants' Report as set out in Appendix I to this prospectus.

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

DESCRIPTION OF SELECTED ITEMS IN STATEMENTS OF COMPREHENSIVE INCOME

Revenue

During the Track Record Period, we generate our revenue mainly from the manufacturing and sales of wires and cables and sales of aluminium products in the PRC.

The follow table sets forth the breakdown of our revenue derived from our major operating subsidiaries by key product types after elimination of intra-group transactions during the indicated periods:

	FY2017			FY2018		
	Sichuan Saftower	Guangyuan Saftower	Total	Sichuan Saftower	Guangyuan Saftower	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Classic finished wires and cables						
Copper wires and cables	83,927	—	83,927	99,526	—	99,526
Aluminium wires and cables *(Note 1)*	45,542	48,904	94,446	81,099	—	81,099
Special finished wires and cables						
Copper wires and cables	—	—	—	3,302	—	3,302
Aluminium wires and cables	—	—	—	7,021	—	7,021
Semi-finished wires	—					
Bare copper wires	11	—	11	26,276	—	26,276
Aluminium rods	14	67,763	67,777	—	182,191	182,191
Aluminium products	—	16,134	16,134	—	138,591	138,591
Others	—	—	—	14,650	—	14,650
	129,494	**132,801**	**262,295**	**231,874**	**320,782**	**552,656**

	FY2019					
	Sichuan Saftower	Guangyuan Saftower	Guangyuan Tongchuang *(Note 2)*	Guangyuan Shuneng *(Note 3)*	Sichuan Liangdian *(Note 4)*	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Classic finished wires and cables						
Copper wires and cables	72,069	—	—	—	4,678	76,747
Aluminium wires and cables *(Note 1)*	66,318	41,386	135,944	—	35	243,683
Special finished wires and cables						
Copper wires and cables	24,250	—	—	—	—	24,250
Aluminium wires and cables	21,330	—	—	—	—	21,330
Semi-finished wires						
Bare copper wires	51,151	—	—	—	—	51,151
Aluminium rods	—	191,650	—	30,722	—	222,372
Aluminium products	—	45,335	—	—	—	45,335
Others	—	—	662	—	—	662
	235,118	**278,371**	**136,606**	**30,722**	**4,713**	**685,530**

Notes:

1. Sichuan Saftower also sold classic finished aluminium wires and cables for FY2017, FY2018 and FY2019 through mainly subcontracting the production to suppliers including Guangyuan Tongchuang.

2. Revenue of Tongchuang Plant represented Guangyuan Tongchuang's sales after Tongchuang Equity Acquisition which was consolidated into our Group's financial statements.

3. Guangyuan Shuneng was in trial operation for FY2019 and recorded revenue from its sales of aluminium rods to (i) Guangyuan Tongchuang which amounted to RMB0.7 million before Guangyuan Tongchuang has become our non-wholly owned subsidiary; and (ii) an external customer, which is a state-owned company principally engaged in the sales of metal materials and construction materials and the revenue therefrom, amounted to RMB30.0 million, to establish its customer base.

4. Sichuan Liangdian commenced to sell classic finished wires and cables to Customer A in December 2019, which the production was subcontracted to Sichuan Saftower, Guangyuan Tongchuang and an external subcontractor.

Compared with FY2017, revenue for FY2018 increased by RMB290.4 million, or 110.7% from RMB262.3 million. This was primarily due to:

(i) the significant increase in sales of aluminium products by RMB122.5 million by Guangyuan Saftower in FY2018 after full operation of our Guangyuan Plant;

(ii) the significant increase in sales of semi-finished wires by RMB140.7 million for FY2018, including RMB26.3 million increase in sales of bare copper wires by Sichuan Saftower and RMB114.4 million increase in sales of aluminium rods by Guangyuan Saftower in FY2018 after full operation of our Guangyuan Plant;

(iii) the increase in sales of classic finished copper wires and cables of RMB15.6 million by Sichuan Saftower for FY2018;

(iv) the rollout of special wires and cables with environmentally friendly features by Sichuan Saftower since August 2018 which contributed revenue of RMB10.3 million for FY2018;

(v) the sales of cable accessories of RMB14.7 million by Sichuan Saftower in FY2018, while we did not record any sales of cable accessories in FY2017; and

(vi) offset by the decrease in sales of finished aluminium wires and cables of RMB13.4 million for FY2018, including decrease of RMB48.9 million by Guangyuan Saftower and increase of RMB35.5 million by Sichuan Saftower.

Compared with FY2018, revenue for FY2019 increased by RMB132.9 million, or 24.0%. This was primarily due to:

(i) a significant increase in the sales of classic finished aluminium wires and cables by RMB162.6 million for FY2019, mainly comprising (a) sales of RMB135.9 million by Guangyuan Tongchuang for the period from 16 April 2019 to 31 December 2019 consolidated to our Group after Tongchuang Equity Acquisition; and (b) sales of RMB41.4 million by Guangyuan Saftower, which mainly sourced the products from suppliers including Guangyuan Tongchuang;

(ii) a significant increase in the sales of special wires and cables with environmentally friendly features by RMB35.3 million by Sichuan Saftower to Changhong Group, including (a) an increase in sales of special finished copper wires and cables by RMB21.0 million; and (b) increase in sales of special finished aluminium wires and cables by RMB14.3 million;

(iii) an increase of RMB65.1 million in the sales of semi-finished wires, including (a) an increase in the sales of bare copper wires by RMB24.9 million by Sichuan Saftower; (b) an increase in the sales of aluminium rods by RMB9.5 million by Guangyuan Saftower; and (c) the sales of RMB30.7 million by Guangyuan Shuneng to establish its customer base in FY2019 (FY2018: nil); and

(iv) partially offset by the decrease in the sales of classic copper wires and cables by RMB27.5 million by Sichuan Saftower and decrease in the sales of aluminium products of RMB93.3 million by Guangyuan Saftower as Guangyuan Saftower had not traded aluminium products after August 2019.

Revenue and average selling price by product type

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

Note:

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

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

1. Finished wires and cables

Classic wires and cables

- **Copper power cables**

  For FY2017 and FY2018, sales of copper power cables increased by RMB26.1 million, or 74.6%, from RMB35.0 million to RMB61.1 million. For FY2018, we sold 1,045 km of finished copper power cables, representing an increase of 399 km, or 61.8%, from 646 km in FY2017, mainly due to the increase in the sales of finished copper power cables to Customer A by 119 km or RMB23.6 million in value for FY2018. To reinforce our relationship, we signed a five-year framework cooperation agreement on power system construction and materials supply with Litai Energy (subsidiary of customer A), to promote our products within Sichuan Province and to expand our market presence. Average selling price of copper power cables increased from RMB54,243/km for FY2017 to RMB58,479/km for FY2018, representing an increase of 7.8% as compared to the average selling price of FY2017 because the copper power cables we sold to Customer A were generally applied in mass power transmission and had higher voltage requirements and thus higher value.

  For FY2018 and FY2019, sales of copper power cables decreased by RMB14.8 million, or 24.2%, from RMB61.1 million to RMB46.3 million. For FY2019, we sold 628 km of finished copper power cables, representing a decrease of 417 km, or 39.9%, from 1,045 km in FY2018, mainly due to the decrease in sales orders received from construction and renovation companies. In the meantime, average selling price of copper power cables increased from RMB58,479/km for FY2018 to RMB73,693/km for FY2019, representing an increase of 26.0%, which was mainly because the copper power cables we sold during FY2019 generally had higher voltage requirements and thus higher value.

- **Copper wires for electrical equipment**

  For FY2017 and FY2018, sales of copper wires for electrical equipment decreased by RMB10.5 million, or 21.5% from RMB48.9 million to RMB38.4 million. Sales volume of copper wires reduced significantly from 34,374 km in FY2017 to 22,298 km in FY2018 due to the decline in the number of walk-in customers in 2018. The effect was partly offset by the increase in average selling price from RMB1,422/km for FY2017 to RMB1,723/km for FY2018, or 21.2%, mainly due to (i) the general increase in market price of copper during FY2018; and (ii) more sales orders for products with higher voltage requirement and thus higher value.

For FY2018 and FY2019, sales of copper wires for electrical equipment decreased by RMB7.9 million, or 20.6% from RMB38.4 million to RMB30.5 million. Sales volume of copper wires decreased from 22,298 km in FY2018 to 18,575 km in FY2019, which was mainly due to the decrease in sales orders received from construction and renovation companies. Average selling price of copper wires slightly decreased from RMB1,723/km for FY2018 to RMB1,640/km for FY2019, mainly due to the general decrease in market price of copper during FY2019.

- **Steel reinforced aluminium bare cables**

The major cost component of steel reinforced aluminium bare cables are aluminium and steel. Average selling price of steel reinforced aluminium bare power cable was relatively stable at RMB13,244/tonne, RMB12,347/tonne and RMB12,585/tonne for FY2017, FY2018 and for FY2019, respectively, which was generally in line with the market price change in aluminium during the same period.

For FY2017 and FY2018, revenue from sales of steel reinforced aluminium bare cables increased by RMB54.1 million, or 5.4 times, from RMB10.0 million to RMB64.1 million. This corresponds with the significant increase in sales volume by 4,437 tonnes, or 5.9 times, from 755 tonnes in FY2017 to 5,192 tonnes in FY2018. The increase was mainly due to the significant OEM sales to a new customer and Customer B, both of which are wires and cables manufacturers located in Jiangsu Province, and contributed revenue of RMB22.8 million and RMB13.0 million for FY2018 under such product segment, respectively.

For FY2018 and FY2019, revenue from the sales of steel reinforced aluminium bare cables increased significantly from RMB64.1 million for FY2018 to RMB219.1 million for FY2019. This corresponds with the significant increase in the sales of steel reinforced aluminium bare cables by 12,211 tonnes to 17,403 tonnes for FY2019, which was primarily attributable to the significant OEM sales of steel reinforced aluminium bare cables to Customer B and Customer C in FY2019 of 3,228 tonnes (FY2018: 1,021 tonnes) and 5,717 tonnes (FY2018: nil), respectively, contributing revenue of RMB40.1 million (FY2018: RMB13.0 million) and RMB71.0 million (FY2018: nil), respectively.

- **Aluminium overhead power cables**

For FY2017 and FY2018, revenue from the sales of aluminium overhead power cables increased by RMB9.8 million from RMB0.3 million to RMB10.1 million which was primarily the result of our expanded customer base in 2018. Sales volume of aluminium overhead power cables increased significantly from 42km/tonne for FY2017 to 2,557km/tonne for FY2018. This was partly offset by the decrease of average selling price from RMB6,167/km for FY2017 to RMB3,963/

km for FY2018. During FY2018, our aluminium overhead power cables were mainly sold to companies for construction use with lower voltage requirement and thus lower value. Over 50% (22km out of 42km) of the aluminium overhead power cables sold during FY2017 was for voltage of 10kV (i.e. relatively higher voltage among such product type and usually with higher unit value). During FY2018, only 12.7% (326km out of 2,557km) of same product category were sold, which resulted in a lower average price for FY2018.

For FY2018 and FY2019, revenue from the sales of aluminium overhead power cables decreased from RMB10.1 million to RMB7.6 million. While the average selling price of aluminium overhead power cables remained relatively stable at RMB3,963/km and RMB4,124/km for FY2018 and FY2019 respectively. Sales volume of aluminium overhead power cables decreased from 2,557 km for FY2018 to 1,851 km for FY2019, which was primarily due to less tender contract awarded for such products during FY2019.

- **Medium and low voltage power cables**

  Revenue derived from medium and low voltage power cables decreased from RMB4.3 million for FY2017 to RMB2.7 million for FY2018, owing to the combined effect of lower sales volume of medium and low voltage power cables and the decrease in average selling price. For FY2019, revenue from the sales of medium and low voltage power cables increased significantly to RMB14.9 million, as compared to RMB2.7 million for FY2018, which was attributable to (i) the increase in sales volume of aluminium medium and low voltage power cables by 376 km, which was mainly attributable to the sales orders received from certain new customers engaged in the construction industry; and (ii) the significant increase in average selling price from RMB19,221/km for FY2018 to RMB28,891/km for FY2019 as most of the aluminium medium and low voltage power cables we sold during FY2019 was for voltage over 120kV and hence carrying a higher voltage requirement and thus a higher price than products we sold in FY2018.

- **Aluminium wires for electrical equipment**

  For FY2017, we sold 4,830 tonne and 7,377 km aluminium wires for electrical equipment and recorded revenue of RMB66.5 million and RMB13.4 million, respectively. In FY2017, we received orders mainly from two major customers in unit of tonne, namely Tianzhu and Sichuan Non-ferrous Metal Sand Mineral Processing Co., Ltd. (四川有色金砂選礦藥劑有限公司) which contributed revenue of RMB51.5 million and RMB14.2 million, respectively. For products in unit of kilometres, average selling price decreased from RMB1,816/km for FY2017 to RMB1,526/km for FY2018 mainly due to the general decrease in market price of aluminium during FY2018 and we sold more lower voltage aluminium wires for construction use during FY2018 which was of lower unit value.

For FY2019, while the average selling price remained relatively stable at RMB1,604/km, the sales volume of aluminium wires for electrical equipment decreased from 2,732 km for FY2018 to 1,291 km for FY2019, which was primarily due to less tender contract awarded for such products during FY2019.

Special wires and cables

Since August 2018, we rolled out special wires and cables with environmentally friendly features and sold such products to a strategic customer, namely Changhong, which amounted to RMB10.3 million and RMB45.6 million for FY2018 and FY2019, respectively. Such products were developed for Changhong Group and manufactured according to their specifications and technical requirements. We applied two patent technologies in the development of the special wires and cables, namely, one type of "Aluminium Alloy eco-friendly flame retardant and fire-resistant power cable"* (一種鋁合金環保阻燃耐火電力電纜) and one type of "Aluminium Alloy Eco-friendly Flame Retardant and Fire-resistant Cable"* (一種鋁合金環保阻燃耐火電纜). To the best knowledge of our Directors, products sold to Changhong Group were mainly applied in (i) their construction and renovation of factory and replacement of electrical equipment; and (ii) their property construction projects. Average selling prices of special wires and cables were generally higher than that of classic wires and cables which was mainly due to the use of new processing techniques and the use of raw materials with higher requirements. In July 2019, we have entered into a framework agreement with Changhong Group for the supply of special wires and cables with a total contract value of RMB50.0 million for the period from 1 July 2019 to 31 December 2019.

Average selling price of our special copper power cables and special aluminium medium and low voltage power cables increased significantly from RMB41,429/km and RMB27,651/km, respectively, for FY2018 to RMB92,205/km and RMB49,490/km, respectively, for FY2019. The higher average selling price was primarily due to the products sold in FY2019 were of higher level of specification, while the products sold in FY2018 comprised a wide range of specifications which included both high and low specifications.

2. Semi-finished wires

- **Bare copper wires**

  For FY2017 and FY2018, we recorded significant increase in revenue from sales of bare copper wires from RMB11,000 to RMB26.3 million as a result of the expanded customer base in 2018. Our customers for bare copper wires were mainly wires and cables manufacturers located in Sichuan Province. Sales volume of bare copper wires were 0.25 tonne for FY2017 and 598 tonne for FY2018. Average selling price of bare copper wires were relatively stable at RMB44,000/tonne and RMB43,940/tonne for FY2017 and FY2018.

For FY2018 and FY2019, our sales of bare copper wires increased from RMB26.3 million to RMB51.2 million. While the average selling price remained relatively stable at RMB43,930/tonne and RMB42,912/tonne for FY2018 and FY2019 respectively, sales volume increased from 598 tonnes for FY2018 to 1,192 tonnes for FY2019. Such increase was primarily due to the increase in sales to certain wires and cables manufacturers in Sichuan Province who purchased semi-finished wires for their further processing.

- **Aluminium rods**

For FY2017 and FY2018, revenue increased significantly by RMB114.4 million, or 168.8%, from RMB67.8 million to RMB182.2 million as a result of expanded customer base. Of the RMB114.4 million increase in revenue, RMB95.8 million or 83.7% increase was contributed from approximately 40 new customers which are mainly construction and renovation companies. In particular, during FY2018, we received significant orders from sales of aluminium rods of RMB41.3 million (FY2017: nil) from a major customer, Zirao (廣元紫饒貿易有限公司), a private company we acquainted through introduction by market participants and established business relationships during FY2018, which involved in sales of aluminium products, electric cables and construction materials. Average selling price of aluminium rods were stable at RMB12,742/tonne and RMB12,709/tonne for FY2017 and FY2018, respectively.

Compared to RMB182.2 million for FY2018, revenue increased by RMB40.2 million to RMB222.4 million for FY2019. While the average selling price remained relatively stable at RMB12,709/tonne and RMB13,004/tonne for FY2018 and FY2019, respectively, sales volume increased by 2,764 tonnes from 14,336 tonnes for FY2018 to 17,100 tonnes for FY2019. This was largely attributable to the trial production and trading of aluminium rods by Guangyuan Shuneng (i.e. Shuneng Plant) since April 2019 which contributed sales of aluminium rods of 2,204 tonnes or RMB30.7 million to our Group for FY2019, including (i) sales of 55 tonnes or RMB0.7 million to Guangyuan Tongchuang before Tongchuang Equity Acquisition; and (ii) sales of aluminium rods of 2,149 tonnes or RMB30.0 million to a state-owned company which is principally engaged in sales of metal materials and construction materials.

3. *Aluminium products*

Following our establishment of Guangyuan Plant, we started to leverage our proximity to upstream resources in Guangyuan City and actively market the sales of our aluminium products since FY2017. For FY2017 and FY2018, revenue derived from aluminium products increased from RMB16.1 million to RMB138.6 million, representing an increase of RMB122.5 million or 7.6 times. Such increase was primarily attributable to (i) the significant purchase orders from two new major customers we acquainted through introduction by market participants and established business relationships during FY2018, who were also our repeat customers in FY2019, namely Xiangyu Chongqing Co. Ltd (象嶼重慶有限責任公司) and Chongqing Guochu Non-ferrous Metal Co., Ltd. (重

慶國儲有色金屬有限公司), both of which are state-owned company and contributed revenue of RMB37.0 million and RMB27.6 million, respectively; (ii) the revenue derived from sales to Sichuan Nengtou Materials Industry Group Co., Ltd (四川能投物資產業集團有限公司) of RMB13.9 million (FY2017: nil); and (iii) the increased sales to Zhengzhou Xingyang Longji Aluminium Industry Co., Ltd. (鄭州市滎陽龍基鋁業有限公司) from RMB10.0 million for FY2017 to RMB24.8million for FY2018. Sales of aluminium products derived from the aforementioned two new major customers were recurring in 2019, contributing revenue of RMB14.9 million and RMB1.1 million in FY2019.

We ceased trading of aluminium strips in January 2019 and aluminium ingots in August 2019 because (i) we decided to allocate more resources onto our manufacturing segment for better utilisation of our working capital; and (ii) some trading income may not be recurring. As a result, our revenue from trading of aluminium products decreased from RMB138.6 million for FY2018 to RMB45.3 million for FY2019, and we expanded our manufacturing and sale of finished aluminium wires and cables by leveraging the production capacities of our Guangyuan Plant and Tongchuang Plant after the Tongchuang Equity Acquisition and hence reduced the scale of our trading business to retain sufficient financial resources for purchase of aluminium materials for production.

For FY2017, FY2018 and FY2019, the average selling prices of aluminium products including aluminium strips and aluminium ingots were relatively stable for each period as illustrated above and generally in line with the market price change of aluminium during the same period.

4. Others

For FY2018, we sold cable accessories which amounted to RMB14.7 million, and such cable accessories were sold mainly to Aostar which amounted to RMB14.2 million, to facilitate their use and installment of cables and for replacement of their cable equipment on power station. Since Aostar engaged in the production of electrolytic aluminium and had its own power distribution station, it required mechanical parts for the construction and upgrade of power distribution station such as cable accessories. As our Group's Shuneng Plant leased the properties from Aostar located within the site area of Aostar's factory, our Directors were aware of its needs for cable accessories. For FY2019, we sourced cable accessories for Customer A and recorded sales of RMB0.7 million to facilitate their use and installment of cables into their infrastructure and construction projects.

Revenue by geographical market

Our customers are all situated in the PRC, and a majority of them are situated in Sichuan Province. The following table sets out a breakdown of our revenue by geographical market for the indicated periods:

	FY2017		FY2018		FY2019	
	Revenue *RMB'000*	**% of Revenue**	**Revenue** *RMB'000*	**% of Revenue**	**Revenue** *RMB'000*	**% of Revenue**
Sichuan Province	208,375	79.4	343,701	62.2	477,569	69.7
Chongqing Municipality	25,220	9.6	92,885	16.8	40,180	5.8
Henan Province	9,997	3.8	41,930	7.6	—	—
Jiangsu Province	9,558	3.6	50,325	9.1	72,622	10.6
Shanghai Municipality	3,306	1.3	7,338	1.3	2,035	0.3
Zhejiang Province	208	0.1	4,586	0.8	73,138	10.7
Others *(Note)*	5,631	2.2	11,891	2.2	19,986	2.9
Total	**262,295**	**100.0**	**552,656**	**100.0**	**685,530**	**100.0**

Note: Others mainly include Shanghai Municipality, Jiangxi Province and Hunan Province.

Our revenue from customers in Sichuan Province represented 79.4%, 62.2% and 69.7% of our total revenue for FY2017, FY2018 and FY2019, respectively. In addition, we expanded our market presence during the Track Record Period and extended our OEM business. We did not record any sales in Henan Province for FY2019 as we reduced the sales of aluminium products.

Cost of sales

Our cost of sales mainly consists of (i) raw materials costs, (ii) aluminium products costs, and (iii) finished products from sub-contractors and depreciation and overhead. Our cost of sales amounted to RMB247.9 million, RMB514.3 million and RMB631.7 million for FY2017, FY2018 and FY2019, respectively, representing 94.5%, 93.1% and 92.1% of our revenue for the corresponding periods. Raw materials are the largest component of our cost of sales, accounting for 84.6%, 54.3% and 84.3% of our total cost of sales for FY2017, FY2018 and FY2019, respectively. In FY2018, we engaged in more trading of aluminium products and upon full commercial production of Tongchuang Plant, we increased the subcontracting of finished aluminium wires and cables manufacturing activities to the latter. As such, percentage of raw materials cost to our total cost reduced in FY2018. Subsequently, we ceased trading of aluminium products and after the consolidation of financial results of Guangyuan Tongchuang in FY2019, the percentage of our raw materials cost to our total cost of sales increased in FY2019.

The following table sets forth a breakdown of our cost of sales for the indicated periods:

	FY2017		FY2018		FY2019	
	RMB'000	*% of cost of sales*	*RMB'000*	*% of cost of sales*	*RMB'000*	*% of cost of sales*
Raw materials						
Copper	57,186	23.1	91,230	17.7	110,512	17.5
Aluminium	144,818	58.4	181,370	35.3	357,722	56.6
PVC	5,998	2.4	5,049	1.0	10,020	1.6
Other material	1,660	0.7	1,812	0.3	54,246	8.6
Sub-total	209,662	84.6	279,461	54.3	532,500	84.3
Aluminium products	16,134	6.5	133,079	25.9	44,166	7.0
Finished products from sub-contractors	13,688	5.5	92,857	18.0	39,342	6.2
Staff cost	2,487	1.0	2,552	0.5	4,259	0.7
Depreciation	2,469	1.0	3,077	0.6	3,252	0.5
Sales tax and extra charge	1,122	0.5	1,857	0.4	2,158	0.3
Utility	1,077	0.4	1,099	0.2	1,958	0.3
Others *(Note)*	1,260	0.5	318	0.1	4,021	0.7
Total	247,899	100.0	514,300	100.0	631,656	100.0

Note: Others mainly include repair and maintenance and other miscellaneous fees.

Cost of sales increased from RMB247.9 million for FY2017 to RMB514.3 million for FY2018, representing an increase of RMB266.4 million, or 107.4%, which was in line with the revenue growth of 110.7%.

Cost of sales increased from RMB514.3 million for FY2018 to RMB631.7 million for FY2019, representing an increase of RMB117.4 million, or 22.8%, which was in line with the revenue growth of 24.0%.

Gross profit and gross profit margin

Gross profit by product types

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

	FY2017		FY2018		FY2019	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
1 Finished wires and cables						
Classic wires and cables						
Classic copper wires and cables						
— Copper power cables (銅製電力電纜)	7,197	20.5	12,897	21.1	9,594	20.7
— Copper wires for electrical equipment (銅製電氣裝備用電線)	6,274	12.8	3,653	9.5	3,026	9.9
Subtotal (classic copper wires and cables)	13,471	16.1	16,550	16.6	12,620	16.4
Classic aluminium wires and cables						
— Steel reinforced aluminium bare cables (鋁製鋼芯鋁絞線)	42	0.4	67	0.1	14,760	6.7
— Aluminium overhead power cables (鋁製架空電纜)	44	17.0	313	3.1	1,051	13.8
— Aluminium medium and low voltage power cables (鋁製中低壓電力電纜)	327	7.7	297	11.0	2,759	18.5
— Aluminium wires for electrical equipment (鋁製電氣裝備用電線)	1,175	1.5	119	2.9	175	8.5
Subtotal (classic aluminium wires and cables)	1,588	1.7	796	1.0	18,745	7.7
Subtotal (classic wires and cables)	15,059	8.4	17,346	9.6	31,365	9.8
Special wires and cables						
Special copper wires and cables						
— Special copper power cables (銅製特種電力電纜)	—	—	1,424	61.4	6,269	25.9
— Special copper wires for electrical equipment (銅製特種電氣裝備用電線)	—	—	246	25.1	—	—
Subtotal (special copper wires and cables)	—	—	1,670	50.6	6,269	25.9
Special aluminium wires and cables						
— Special aluminium medium and low voltage power cables (鋁製特種中低壓電力電纜)	—	—	5,559	84.5	5,899	27.7
— Special aluminium wires for electrical equipment (鋁製特種電氣裝備用電線)	—	—	80	18.2	—	—
Subtotal (special aluminium wires and cables)	—	—	5,639	80.3	5,899	27.7
Subtotal (special wires and cables)	—	—	7,309	70.8	12,168	26.7
Subtotal (finished wires and cables)	**15,059**	**8.4**	**24,655**	**12.9**	**43,533**	**11.9**
2 Semi-finished wires						
Bare copper wires (銅絲)	—	—	272	1.0	413	0.8
Aluminium rods (電工圓鋁桿)	(663) *(Note 1)*	N/A *(Note 1)*	6,269	3.4	8,622	3.9
Subtotal (semi-finished wires)	**(663)**	**N/A**	**6,541**	**3.1**	**9,035**	**3.3**
3 Aluminium products						
Aluminium strips (鋁卷)	— *(Note 2)*	— *(Note 2)*	3,936	3.4	121	2.7
Aluminium ingots (鋁錠)	—	—	377	1.7	1,049	2.6
Subtotal (aluminium products)	**—**	**—**	**4,313**	**3.1**	**1,170**	**2.6**
4 Others						
Cable accessories (電纜配套設備)	—	—	2,847	19.4	136	20.5
Total/overall	**14,396**	**5.5**	**38,356**	**6.9**	**53,874**	**7.9**

Notes:

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

(2) We sold aluminium strips to our customers at cost for FY2017 to establish our presence and develop customer base in this market segment, and hence did not record profit.

For FY2017, FY2018 and FY2019, our gross profit amounted to RMB14.4 million, RMB38.4 million and RMB53.9 million, respectively, with a gross profit margin of 5.5%, 6.9% and 7.9%, respectively, for the corresponding period. In general, gross profit margin of finished wires and cables were higher than that of semi-finished wires and aluminium products for the need of processing, specification and value-added services.

(i) Gross profit by product types

1. Finished wires and cables

For FY2017 and FY2018, gross profit of finished wires and cables increased from RMB15.1 million to RMB24.7 million and the corresponding gross profit margin increased from 8.4% to 12.9% primarily due to the profit generated from the special wires and cables we rolled out in 2018.

For FY2018 and FY2019, gross profit of finished wires and cables increased from RMB24.7 million to RMB43.5 million and the corresponding gross profit margin slightly decreased from 12.9% to 11.9% primarily due to the decrease in sales of higher margin wires and cables.

Classic wires and cables

Gross profit of classic wires and cables amounted to RMB15.1 million, RMB17.3 million and RMB31.4 million, respectively, for FY2017, FY2018 and FY2019 and the corresponding gross profit margin was 8.4%, 9.6% and 9.8%, respectively. For FY2017 and FY2018, the majority of the gross profit under this product segment came from classic copper wires and cables, which amounted to RMB13.5 million and RMB16.6 million, respectively, for FY2017 and FY2018 with gross profit margin of 16.1% and 16.6%, respectively. For FY2019, the majority of the gross profit under this product segment came from classic aluminium wires and cables, which amounted to RMB18.7 million with gross profit margin of 7.7%, as compared to 1.7% and 1.0% for FY2017 and FY2018, respectively. Such higher gross profit margin from the sales of classic aluminium wires and cables for FY2019 was mainly contributed by the consolidation of Tongchuang Plant after the Tongchung Equity Acquisition, thereby saving our subcontracting cost.

For classic copper power cables, we maintained a stable gross profit margin of 20.5%, 21.1% and 20.7%, respectively, for FY2017, FY2018 and FY2019, which is within the gross profit range in the industry according to the F&S Report. See "Industry Overview — Major Factors Affecting the Gross Profit Margin of Wires and Cables Manufacturing and Gross Profit Margin Range of Specified Wires and Cables Products in the Industry" in this prospectus for the industrial range of gross profit margin.

For the years ended 31 December 2014, 2015 and 2016, we recorded a gross profit margin of 11.9%, 10.1% and 15.3%, respectively, for our classic copper wires and cables under the PRC GAAP. For FY2017, FY2018 and FY2019, we recorded a higher gross profit margin of 16.1%, 16.6% and 16.4%, respectively, for the same product type under HKFRS. Save for the impact of different accounting standard it may have, the increased trend of gross profit margin of this product was generally due to the increased sales to certain state-owned enterprises, who generally required more customer services and our Group allowed longer credit period, hence contributed to higher gross profit margin.

Special wires and cables

Special wires and cables were new products we rolled out in FY2018 and we generated gross profit of RMB7.3 million and RMB12.2 million for FY2018 and FY2019, with corresponding gross profit margin of 70.8% and 26.7%, respectively. The difference in gross profit margin was primarily because:

(i) our Group's sales to Changhong Group in FY2018 was our first order placed by Changhong Group and it was our first time to apply the relevant patent technologies in production, such that there was much room for our Group to set a selling price with higher gross margin for the sale;

(ii) there was an increase in sales volume contributed by Changhong Group in FY2019, and hence our Group offered a greater bulk discount for FY2019 compared to FY2018; and

(iii) our Group was in an attempt to maintain ongoing business relationship with the Changhong Group and decided to offer a competitive price for the products sold to Changhong Group for FY2019.

According to the F&S Report, it is common for special wires and cables manufacturers to generate a wide range of gross profit margins due to different product types, application environment and requirements for product performance. In addition, the gross profit margins of special wires and cables can be driven up in some circumstances, which include urgent demand from customers, shorter lead time, customised product requirements, etc. Therefore, it is not uncommon for the gross profit margin of special wires and cables in one particular year/transaction to be much higher than the next year or outperformed its industry peers in a particular year/transaction.

2. *Semi-finished wires*

We recorded gross loss of RMB0.7 million in sale of semi-finished wires during FY2017 and generated gross profit of RMB6.5 million and RMB9.0 million, respectively, for FY2018 and FY2019, with gross profit margin of 3.1% and 3.3% after we established our market presence and expanded our customer base with the full year operation of Guangyuan Plant in 2018. Most gross profit of this product segment was contributed by the sale of aluminium rods.

3. *Aluminium products*

During FY2017, we sold aluminium products at cost to establish our presence and expand customer base in aluminium product industry. Therefore, we did not generate profit from this segment in FY2017. For FY2018 and FY2019, we generated gross profit of RMB4.3 million and RMB1.2 million, respectively, with gross profit margin of 3.1% and 2.6%. For FY2018 and FY2019, the majority of the gross profit of this product segment was contributed by the sale of aluminium strips which was applied in the industry of construction, renovation and fitting out works. For FY2019, the majority of our gross profit under this product segment was contributed by the sale of aluminium ingots, as we ceased trading of aluminium strips in January 2019 and hence recorded relatively insignificant sales and gross profit of aluminium strips. We also had not traded aluminium ingots after August 2019 as we focused our resources on manufacturing business.

We recorded higher profit margin for aluminium strips than aluminium ingots because the production of aluminium strips is generally more complex than aluminium ingots, thus we were able to trade aluminium strips at a higher margin than aluminium ingots.

4. *Others*

We generated gross profit of RMB2.8 million and RMB0.1 million from sale of cable accessories during FY2018 and FY2019 respectively, with corresponding gross profit margin of 19.4% and 20.5% respectively. We sourced the cable accessories from external suppliers and sold mainly to Aostar in FY2018 and Customer A in FY2019.

Other income and gains

Other income mainly consists of (i) government grants and subsidies, (ii) agency fee income, (iii) sale of scrap metals and consumable, (iv) rental income from Guangyuan Tongchuang for lease of property, (v) gain on disposal of property, plant and equipment and (vi) bargain purchase. Other income and gains amounted to RMB8.9 million, RMB9.2 million and RMB20.8 million for FY2017, FY2018 and FY2019, respectively.

The following table sets forth a breakdown of the key components of our other income and gains for the indicated periods:

	Notes	FY2017 RMB'000	FY2018 RMB'000	FY2019 RMB'000
Other Income				
Interest income		5	7	16
Government grants and subsidies	(1)	5,427	3,949	15,008
Agency fee income	(2)	—	3,321	3,134
Sale of scrap metals and consumable	(3)	1,192	141	—
Rental income from Guangyuan Tongchuang for lease of property	(4)	601	1,807	530
		7,225	9,225	18,688
Gains				
Gain on disposal of property, plant and equipment		1,525	—	—
Bargain purchase	(5)	—	—	942
Reversal of expected credit loss on trade receivables		—	—	1,136
Reversal of expected credit loss on other receivables		12	20	—
Others		173	4	72
		1,710	24	2,150
		8,935	9,249	20,838

Notes:

(1) Our government grants and subsidies comprised mainly government grants (preferential tax treatment and taxes refund) for promoting employment to the disabled people by Sichuan Saftower. Such taxes refund amounted to RMB4.3 million, RMB3.0 million and RMB4.1 million for FY2017, FY2018 and FY2019, respectively. For FY2019, we also received (i) non-recurring government grants of RMB6.0 million for our Listing application on the Stock Exchange; (ii) non-recurring government grants of RMB2.1 million on research and development projects; and (iii) a non-recurring subsidy of RMB2.0 million under a provincial governmental industrial development fund.

(2) We engaged in the agency service to facilitate upstream industry players' purchase of raw materials since March 2018. We ceased such agency service in December 2019. For details, see "Business — Agency Service Arrangements" in this prospectus.

(3) For FY2017, we sold scrap metals and consumables to Guangyuan Tongchuang and recorded gain of RMB1.1 million. Guangyuan Tongchuang became our non-wholly owned subsidiary after 15 April 2019.

(4) For FY2017, FY2018 and FY2019, our Group leased our buildings to Guangyuan Tongchuang. According to the valuation conducted by an independent valuer, the rentals were fair and reasonable and consistent with the prevailing market rents for similar premises in similar location, which were to be let on normal commercial term. Guangyuan Tongchuang became our non-wholly owned subsidiary after 15 April 2019 and such intra-group transaction was eliminated thereafter.

(5) Bargain purchase represented the fair value gain on the acquisition of 16.67% equity interest in Guangyuan Tongchuang on 15 April 2019. For details, see Note 36 to Appendix I to this prospectus.

Selling and distribution expenses

Our selling and distribution expenses consist of (i) transportation expenses, (ii) staff wages and benefits, (iii) entertainment and travel expenses, and (iv) others. Our selling and distribution expenses amounted to RMB2.7 million, RMB5.0 million and RMB9.1 million for FY2017, FY2018 and FY2019, respectively, representing 1.0%, 0.9% and 1.3% of our revenue for the corresponding periods. The following table sets forth a breakdown of our selling and distribution expenses for the indicated periods:

	FY2017	FY2018	FY2019
	RMB'000	*RMB'000*	*RMB'000*
Transportation expenses	420	3,457	6,166
Staff wages and benefits	1,694	1,152	1,811
Entertainment and travel expenses	248	173	233
Others *(Note)*	340	217	858
Total	2,702	4,999	9,068

Note: Others mainly include advertising, design fees, insurance and bidding service charges.

Our selling and distribution expenses increased by RMB2.3 million, or 85.0%, from FY2017 to FY2018, which was primarily due to the increase in transportation expenses by RMB3.0 million, because of (i) increased turnover for FY2018; (ii) more customers located outside Sichuan Province; and (iii) change of company policy to bear logistic expenses for our customers, partially offset by the decrease in salary and wages of RMB0.5 million because of the reduction of headcounts in our sales and marketing department.

For FY2018 and FY2019, our selling and distribution expenses increased by RMB4.1 million or 81.4%, which was primarily due to the increase in transportation expenses by RMB2.7 million due to our expanded sales and consolidation of Guangyuan Tongchuang's financial results in FY2019.

Administrative and other expenses

Our administrative and other expenses mainly consist of (i) staff wages and benefits, (ii) depreciation of property, plant and equipment, (iii) legal and professional fees, (iv) guarantee fees, (v) entertainment and travelling expenses and others. Our administrative expenses amounted to RMB13.3 million, RMB12.2 million and RMB15.5 million for FY2017, FY2018 and FY2019, respectively, representing 5.1%, 2.2% and 2.3% of our revenue for the corresponding periods. The following table sets forth a breakdown of our administrative and other expenses for the indicated periods:

	FY2017	**FY2018**	**FY2019**
	RMB'000	*RMB'000*	*RMB'000*
Staff wages and benefits	5,487	3,978	6,572
Depreciation for property, plant and equipment	2,489	2,460	2,968
Legal and professional fees *(Note 1)*	938	1,692	1,750
Guarantee fees *(Note 2)*	812	1,033	851
Entertainment and travelling expenses	695	475	566
Loss on other receivables	—	353	—
Amortisation	13	15	15
Depreciation of right of use assets	251	283	187
Provision for doubtful debt	288	632	64
Others *(Note 3)*	2,313	1,314	2,518
	13,286	12,235	15,491

Notes:

(1) Legal and professional fees refer to expenses of professional services incurred such as financial advisory services, legal services on litigations and claims.

(2) Guarantee fees refer to the fee incurred on our guarantor who provided guarantees to our Group.

(3) Others mainly include office expenses, audit fees, trademark and patent fees, repairs and maintenance fees and insurance.

Our administrative and other expenses decreased from RMB13.3 million for FY2017 to RMB12.2 million for FY2018 primarily due to the decrease in staff wages and benefits of RMB1.5 million resulting from the reduction of headcount after internal restructuring as 46 employees out of 77 employees of Guangyuan Tongchuang as at 31 December 2017 were transferred from our Group to facilitate its operation.

For FY2018 and FY2019, our administrative and other expenses increased from RMB12.2 million for FY2018 to RMB15.5 million for FY2019 due to (i) increase in staff wages and benefits by RMB2.6 million as we consolidated the account of Guangyuan Tongchuang during FY2019; and (ii) increase in depreciation for property, plant and equipment of RMB0.5 million.

Finance costs

Finance costs during the Track Record Period consisted of interest expenses on bank and other borrowings and interest expenses on lease obligations. Finance costs of our Group amounted to RMB4.3 million, RMB6.5 million and RMB7.9 million for FY2017, FY2018 and FY2019, respectively, representing 1.6%, 1.2% and 1.1% of our revenue for the corresponding periods. The increase in finance costs during the Track Record Period was primarily due to the increase in our bank borrowings and other borrowings to facilitate our operations.

	FY2017	**FY2018**	**FY2019**
	RMB'000	*RMB'000*	*RMB'000*
Interest expenses on bank and other borrowings	4,117	6,282	7,799
Interest expenses on lease obligations	140	233	78
	4,257	6,515	7,877

Share of profit of joint venture

Guangyuan Tongchuang was our 40% joint venture in FY2017, FY2018 and up to 15 April 2019. For FY2017, FY2018 and FY2019, the share of profit of a joint venture amounted to RMB88,000, RMB1.5 million and RMB0.5 million, respectively. The increase in the share of profit for FY2018 was primarily due to Guangyuan Tongchuang's improved financial performance since its commercial production in September 2017. For business of Guangyuan Tongchuang, see "Guangyuan Tongchuang" of this prospectus.

On 15 April 2019, we acquired a further 16.67% equity interest in Guangyuan Tongchuang from Mr. Li Zhanwei, an Independent Third Party. Mr. Li Zhanwei was a passive shareholder and a director of Guangyuan Tongchuang until 15 April 2019. See "History, development and Reorganisation — Corporate Development — Guangyuan Tongchuang" in this prospectus. Guangyuan Tongchuang's financial statements were consolidated into our Group from 16 April 2019 to 31 December 2019 based on the fair value of Guangyuan Tongchuang by applying the acquisition accounting method in accordance with HKFRS. Stand-alone pre-acquisition financial information of Guangyuan Tongchuang for FY2017, FY2018 and the period prior to our acquisition of a controlling interest, is included in Note 37 to Appendix I to this prospectus. Guangyuan Tongchuang was accounted for as an investment in joint venture in our consolidated financial statements for FY2017, FY2018 and up to 15 April 2019. See also "Pre-acquisition Financial Information of Guangyuan Tongchuang" in this prospectus.

Income tax expense

Our Group is subject to income tax on an individual legal entity basis on profits arising in or derived from the tax jurisdictions in which companies comprising our Group domicile or operate.

(i) Cayman Islands income tax

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Cayman Companies Law and accordingly, is not subject to income tax in Cayman Islands.

(ii) Hong Kong income tax

No Hong Kong profit tax was provided as our Group has no estimated assessable profit derived from and earned in Hong Kong during the Track Record Period.

(iii) PRC corporate income tax

Our Group is subject to income taxes in the PRC. Provision for the EIT in the PRC is calculated based on a statutory tax rate of 25% of the estimated assessable profits as determined in accordance with the relevant income tax law in the PRC save for the subsidiaries mentioned below.

Sichuan Saftower was approved as a High and New Technology Enterprise, and accordingly, it was subject to a preferential corporate income tax of 15% for FY2018 and FY2019.

Guangyuan Tongchuang, our subsidiary since 16 April 2019, is subject to 10% income tax concession due to preferential tax policy of the development of the western region fulfilled in FY2019. According to the "Circular on Issues Concerning Relevant Tax Policies in Deepening the Implementation of the Western Development Strategy" (《關於深入實施西部大開發戰略有關稅收政策問題的通知》) (Cai Shui [2011] No. 58) (財稅[2011]58號), from 1 January 2011 to 31 December 2020, the EIT imposed upon any enterprise established in western regions and included among the encouraged industries shall be collected at the reduced rate of 15%.

For FY2017 and FY2018, our effective tax rates were 31.4% and 19.3%, respectively. The decrease in effective tax rate was mainly due to the preferential income tax rate applicable to Sichuan Saftower. The increase in income tax expense, from RMB1.0 million to RMB4.2 million for FY2017 and FY2018 was in line with the growth on profit before income tax expense.

For FY2018 and FY2019, our effective tax rates were 19.3% and 12.2%, respectively. The decrease in effective tax rate was mainly due to the consolidation of the financial results of Guangyuan Tongchuang which was entitled to a preferential tax rate of 15%, representing a 10% income tax concession, due to its fulfilment of preferential tax policy requirements for the development of the western region.

During the Track Record Period and up to the Latest Practicable Date, we had fulfilled our income tax obligations in all material aspect and have not had any unresolved income tax issues or disputes with the relevant tax authorities.

Profit for the year

We recorded profit of RMB2.2 million for FY2017 due to the combined effect of the aforementioned representing a net profit margin of 0.8%. Throughout the full year operation of Guangyuan Plant and enhanced utilisation rate in 2018, and the increased orders from major customers, we recorded profit for the year of RMB17.4 million for FY2018, representing a net profit margin of 3.1%. Benefited from (i) the consolidation of Guangyuan Tongchuang's financial results since 16 April 2019; (ii) our expanded scale of operation; (iii) the enhanced utilisation rate in 2019; and (iv) the increased orders from major customers, we recorded profit for the year of RMB29.8 million for FY2019, representing a net profit margin of 4.3%.

LIQUIDITY AND CAPITAL RESOURCES

Source of liquidity and working capital

We have financed our operations primarily through a combination of cash generated from our operations, borrowings and advance from shareholder. Our Group's principal uses of cash have been, and are expected to continue to be, payment for procurement of raw materials and inventories, purchase of property, plant and equipment and repayment of borrowings and interest. As at 31 December 2017, 2018 and 2019, our Group had cash and cash equivalents of RMB4.9 million, RMB1.6 million and RMB2.7 million, respectively.

Upon completion of the Share Offer, we currently expect that there will not be any material change in the sources and uses of cash of our Group in the future, except that we would have additional funds from proceeds of the Share Offer for implementing our future plans as detailed under "Future plans and use of proceeds" in this prospectus.

Cash flow

The following table sets forth a summary of cash flows of our Group for the indicated periods:

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

Net cash flows generated from/(used in) operating activities

For FY2017, FY2018 and FY2019, we derived cash inflow from operating activities principally from the receipts from the sale of wires and cable and aluminium products. Our cash outflow used in operating activities was principally for purchase of raw materials and inventories, staff wages and benefits, transportation expenses and other operating expenses.

For FY2017, our Group had net cash generated from operating activities of RMB12.4 million. Our cash flow generated from operations primarily consisted of profit before income tax expenses of RMB3.2 million, adjusted by reconciliation of non-cash items, mainly comprising depreciation and finance costs of RMB8.3 million and positive changes in working capital, which mainly included (i) an increase in trade and bill payables of RMB14.1 million; and (ii) increase in contract liabilities of RMB3.9 million, partially offset by (i) the decrease in accruals and other payables of RMB13.8 million; and (ii) increase in inventories of RMB2.8 million.

For FY2018, our Group had net cash used in operating activities of RMB21.7 million. Our net cash outflow was attributable to cash flow used in operations of RMB21.6 million and income tax paid of RMB0.1 million. Our cash flow used in operations primarily consisted of profit before income tax expense of RMB21.6 million, adjusted by reconciliation of non-cash items, mainly comprising depreciation and finance costs of RMB11.3 million and negative changes in working capital mainly including (i) an increase in prepayments, deposits and other receivables of RMB48.3 million mainly attributable to the increase in advance payment to suppliers to secure raw material supplies such as Zhonglv for upcoming production; and (ii) an increase in trade and bill receivables of RMB39.6 million resulting from our growth in revenue and the longer credit period of 365 days we granted to Aostar for RMB20.4 million trade receivables partially offset by (i) an increase in trade and bill payables of RMB22.2 million due to our increased purchases as expand scale; and (ii) a decrease in inventories of RMB6.7 million.

For FY2019, our Group had net cash generated from operating activities of RMB19.3 million. Our cash flow generated from operations primarily consisted of profit before tax expenses of RMB33.9 million, adjusted by reconciliation of non-cash items, mainly comprising depreciation and finance costs of RMB11.4 million and negative changes in working capital, which mainly included (i) an increase in trade and bills receivables of RMB49.5 million resulting from our growth in revenue; and (ii) a decrease in accruals and other payables of RMB6.1 million, partially offset by (i) a decrease in prepayments, deposits and other receivables of RMB32.3 million primarily because of the decrease in prepayments to suppliers; and (ii) a decrease in inventories of RMB4.7 million.

Net cash used in investing activities

For FY2017, FY2018 and FY2019, our cash outflow on investing activities was principally for purchase of property, plant and equipment and investment in joint venture. Our cash inflow from investing activities is principally from dividend received from a joint venture and interest received.

For FY2017, our net cash used in investing activities of RMB27.3 million was primarily due to purchase of property, plant and equipment of RMB27.3 million for construction of our Guangyuan Plant and the investment in our joint venture, Guangyuan Tongchuang, of RMB3.1 million, partially offset by receipts of government grants of RMB3.7 million.

For FY2018, our net cash used in investing activities of RMB9.6 million was primarily due to purchase of property, plant and equipment of RMB10.1 million and partially offset by dividend received of RMB0.6 million from Guangyuan Tongchuang.

For FY2019, our net cash used in investment activities of RMB10.2 million was primarily due to the purchase of property, plant and equipment of RMB10.4 million.

Net cash generated from/(used in) financing activities

For FY2017, FY2018 and FY2019, our cash inflow from financing activities was primarily from proceeds from borrowings. Our cash outflow on financial activities was primarily for repayment of borrowings, interest paid on borrowings and repayment of lease obligations.

For FY2017, our net cash from financing activities of RMB15.7 million was primarily from proceeds from borrowings of RMB60.0 million and increase in amount due to a shareholder of RMB3.0 million, partially offset by the repayment of borrowings of RMB42.0 million and interest paid of RMB4.3 million.

For FY2018, our net cash from financing activities was RMB28.0 million primarily from (i) proceeds from borrowings of RMB91.9 million; and (ii) capital injection to Guangyuan Saftower Technology of RMB12.0 million, partially offset by (i) repayment of borrowings of RMB56.3 million; (ii) decrease in amount due to a shareholder of RMB11.4 million; and (iii) interest paid of RMB6.3 million.

For FY2019, our net cash used in financing activities was RMB7.9 million primarily from (i) repayment of borrowings of RMB95.6 million; (ii) interest paid of RMB7.8 million; and (iii) dividend paid to Tongsheng Guochuang of RMB3.4 million, partially offset by proceeds from borrowings RMB103.1 million.

WORKING CAPITAL SUFFICIENCY

Our Directors have confirmed that after taking into account the existing financial resources available to us, the expected internally generated funds and the estimated net proceeds from the Share Offer, we have sufficient working capital for our requirements for at least the next 12 months from the date of this prospectus.

CURRENT ASSETS AND LIABILITIES

We recorded net current liabilities of RMB69.4 million, RMB39.9 million as at 31 December 2017 and 2018, respectively, and net current assets of RMB17.3 million and RMB18.3 million as at 31 December 2019 and 30 April 2020, respectively. The following table sets forth the breakdown of our current assets and current liabilities as at the dates indicated:

	As at 31 December			As at 30 April
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)
Current assets				
Inventories	15,186	8,497	20,771	24,255
Trade and bill receivables	27,873	66,941	148,035	118,376
Prepayments, deposits and other receivables	12,788	60,767	33,301	52,404
Amount due from a shareholder	23	373	5	—
Cash and cash equivalents	4,907	1,614	2,726	7,959
	60,777	138,192	204,838	202,994
Current liabilities				
Contract liabilities	6,301	6,713	6,804	7,187
Trade and bill payables	34,224	56,377	67,849	51,487
Accruals and other payables	18,159	18,417	14,477	19,683
Amount due to a shareholder	12,309	899	—	1,256
Borrowings	56,000	91,630	95,478	102,173
Deferred income	368	368	368	368
Lease liabilities	2,844	1,238	356	367
Income tax payable	2	2,441	2,172	2,168
	130,207	178,083	187,504	184,689
Net current (liabilities)/ assets	(69,430)	(39,891)	17,334	18,305

Net current (liabilities)/assets

Our Group's net current liabilities decreased from RMB69.4 million as at 31 December 2017 to RMB39.9 million as at 31 December 2018. Such improvement was mainly attributable to the combined effect of (i) the profit generated for FY2018 amounting to RMB17.4 million; (ii) capital injection from Mr. Dang Fei of RMB12.0 million; (iii) an increase in trade and bill receivables by RMB39.1 million resulted from our increased turnover for FY2018; and (iv) an increase in prepayment, deposits and other receivables of RMB48.0 million, partially offset by the increase in borrowings of RMB35.6 million and increase in trade and bills payables by RMB22.2 million.

As at 31 December 2019, we recorded a net current assets position of RMB17.3 million, which was primarily contributed by (i) the profit generated during FY2019 amounting to RMB29.8 million; (ii) the consolidation of the financial results of Guangyuan Tongchuang during FY2019 and its net current assets into our Group; (iii) the increase in cash and cash equivalents by RMB1.1 million and trade and bill receivables by RMB81.1 million due to our expanded scale of operation and partially offset by (i) the decrease in prepayments, deposits and other receivables of RMB27.5 million due to the decrease in advanced payment to supplier as we utilised such advance payment for purchase; and (ii) the increase in borrowings of RMB3.8 million.

Our net current assets further increased by RMB1.0 million to RMB18.3 million as at 30 April 2020, which was mainly attributable to (i) the increase in prepayments, deposits and other receivables by RMB19.1 million; (ii) the decrease in trade and bill payables by RMB16.4 million; and (iii) the increase in cash and cash equivalents by RMB5.2 million. Such increase was largely offset by (i) the decrease in trade and bill receivables by RMB29.7 million; and (ii) the increase in borrowings by RMB6.7 million. The decrease in trade and bill receivables and payables was primarily due to the disruption to our production and business operation in the first quarter of 2020 as a result of outbreak of COVID-19. For details of the impact of COVID-19, see the paragraph headed "Recent Development and No Material Adverse Change" in this section.

Reasons for our net current liabilities position as at 31 December 2017 and 2018

Our Group had net current liabilities of RMB69.4 million and RMB39.9 million as at 31 December 2017 and 2018, respectively, of which RMB56.0 million and RMB91.6 million were secured interest-bearing borrowings, which were mainly used for purchases of raw materials from suppliers. Details of the secured profile of our borrowings, including our bank borrowings, are set out under the paragraph headed "Indebtedness" in this section. During the Track Record Period, none of our borrowings had been recalled by our banks before their respective maturity dates. Due to the business nature of manufacturing of wires and cables, we rely on our capital and external financings to support the purchase of inventories and have significant investment in capital expenditures to expand our production scale. In particular, we incurred capital expenditure of RMB35.9 million for FY2017 mainly for the construction of Guangyuan Plant which utilised our internal resources significantly. In addition, we sold wires and cables to Aostar on a credit term of 365 days during FY2018 and recorded amount due from Aostar of RMB20.4 million and

RMB13.4 million as at 31 December 2018 and 2019, respectively. On 4 March 2020, in view of the development of coronavirus epidemic, Aostar entered into a supplemental settlement agreement with Sichuan Saftower. It is agreed in the supplemental settlement agreement on the following repayment schedule: (i) settlement of RMB2.0 million at the end of every calendar month from June 2020 to November 2020; and (ii) settlement of the remaining balance of RMB1.4 million on 31 December 2020.

Directors' view

Our Directors consider that our Group has financial resources to meet its liquidity needs based on the following:

(i) Our net current liabilities position has demonstrated an improving trend through the Track Record Period and recorded a net current assets position of RMB17.3 million and RMB18.3 million as at 31 December 2019 and 30 April 2020 respectively;

(ii) For FY2017, FY2018 and FY2019, we have generated operating cash inflows before working capital changes amounting to RMB11.5 million, RMB32.9 million and RMB45.3 million, respectively; and

(iii) We expect to have sufficient working capital to meet the requirements of our operation in the 12 months period from the date of this prospectus.

CURRENT ASSETS AND LIABILITIES

Inventories

Our inventory amounted to RMB15.2 million, RMB8.5 million and RMB20.8 million, respectively, as at 31 December 2017, 2018 and 2019. Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the "weighted average" basis.

The following table sets forth the summary of the balance of our inventories as at the dates indicated:

	As at 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Raw materials	1,709	1,033	5,424
Work-in-progress	2,599	1,997	8,154
Finished goods	10,878	5,467	7,193
	15,186	8,497	20,771

Our overall inventory balance decreased from RMB15.2 million as at 31 December 2017 to RMB8.5 million as at 31 December 2018, which was primarily because we concentrated our inventory shipment in late 2018 while in late 2017, our Guangyuan Plant was still in its early stage of development and our inventories not yet rolled out as at the year-end date.

As at 31 December 2019, our inventory balance increased to RMB20.8 million mainly due to the consolidation of the financial results of Guangyuan Tongchuang which increased the scale of our assets.

Set out below is the inventory turnover days for the indicated periods:

	FY2017	**FY2018**	**FY2019**
Inventory turnover days *(Note)*	23	9	9

Note: We calculate inventory turnover days by dividing average inventories by cost of sales and multiplied by 365 days for each of FY2017, FY2018 and FY2019. Average inventories is calculated by dividing the sum of inventories at the beginning of the period and inventories at the end of the period by two.

Our production cycle is generally within one month. Our inventory turnover days decreased from 23 days in FY2017 to nine days in FY2018 and nine days in FY2019, which was primarily due to (i) the increased production capacities and full year operation of Guangyuan Plant for FY2018 which sped up the turnover of our inventories, and (ii) the increase in sales volume of semi-finished wires and aluminium products for FY2018 and FY2019 with shorter turnover days due to shorter manufacturing process.

Our Directors are of the view that our inventory turnover days during the Track Record Period which were significantly lower than our industry peers was mainly due to (i) our engagement in trading of aluminium products which carried a shorter inventory turnover as compared to manufacturing wire and cable products; and (ii) our relatively tight working capital which restricted us from stocking up extra inventories.

As at the Latest Practicable Date, RMB14.5 million or 69.7% of our inventories as at 31 December 2019 had been sold or utilised.

Trade and bills receivables

The following table sets forth our trade and bills receivables as at the dates indicated:

	As at 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables	27,873	66,741	145,035
Bill receivables	—	200	3,000
	27,873	66,941	148,035

Our trade and bills receivables primarily consist of receivables from our customers for sales of our products. The credit terms granted to customers range from nil to 90 days, except Aostar, which we granted a credit term of 365 days. We review the credit terms for each corporate customer with reference to, among other things, the background and credibility of the customers. Normally, we do not obtain collateral from our customers save for Aostar for their purchases of wires and cables during FY2018.

Our trade and bills receivables increased from RMB27.9 million as at 31 December 2017 to RMB66.9 million as at 31 December 2018, which was generally in line with our increase in revenue. Our trade and bills receivables further increased to RMB148.0 million as at 31 December 2019, which was primarily attributable to (i) the consolidation of trade and bills receivables of Guangyuan Tongchuang of RMB24.3 million into our Group as at 31 December 2019; (ii) carrying balance of the amount due from a state-owned company of RMB16.3 million as at 31 December 2019 arising from the sales by Guangyuan Shuneng in December 2019; (iii) carrying balance of the amount due from Aostar of RMB13.4 million for their purchases in FY2018; and (iv) the increase in revenue by 24.0% for FY2019.

Trade receivables

The following table sets forth the breakdown of our trade receivables as at the dates indicated:

	As at 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables	30,597	70,031	147,189
Allowance for expected credit loss on trade receivables	(2,724)	(3,290)	(2,154)
Trade receivables, net	27,873	66,741	145,035

The following table sets forth the turnover days of our trade receivables for the indicated periods:

	FY2017	**FY2018**	**FY2019**
Trade receivables turnover days *(Note)*	34	32	57

Note: We calculate trade receivable turnover days by dividing average trade receivables, net by revenue and multiplied by 365 days for each of FY2017, FY2018 and FY2019. Average trade receivables is calculated by dividing the sum of trade receivables at the beginning of the period and trade receivables at the end of the period by two.

Our trade receivables turnover days remained relatively stable for FY2017 and FY2018 and within the credit terms we generally granted to our customers. For FY2019, our trade receivables turnover days increased to 57 days which was primarily due to the increase in sales to Customer A, which we generally granted a longer credit period.

The following table sets forth the ageing analysis of our trade receivables based on the invoice date, before provision for impairment, as at the dates indicated:

	As at 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
0–60 days	12,402	43,745	100,686
61–180 days	5,433	9,537	21,003
181–365 days	4,483	9,016	5,666
Over 365 days	8,279	7,733	19,834
	30,597	70,031	147,189

The amount of trade receivables with ageing over 365 days increased from RMB7.7 million as at 31 December 2018 to RMB19.8 million as at 31 December 2019 which was due to the amount of RMB13.4 million due from Aostar which is expected to be fully settled on or before 30 October 2020 in accordance to the Second Supplemental Settlement Agreement. For details of the Second Supplemental Settlement Agreement, see "Business — Agency Service Arrangements — Our relationship with Aostar" in this prospectus.

Movements in provision for impairment of trade receivables were as follows:

	As at 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
At beginning of year	2,512	2,724	3,290
Allowance made during the year	289	566	—
Reversal of expected credit loss previously recognised	—	—	(1,136)
Bad debts written off	(77)	—	—
At end of the year	2,724	3,290	2,154

As at 31 December 2018 and 2019, a right to collect a trade receivables of a customer of RMB2.5 million and RMB2.8 million respectively was pledged as securities for certain borrowings with independent financial institution.

As at 31 December 2019, we had reversal of expected credit loss of RMB1.1 million which was primarily because we assessed and measured loss allowances for trade and bills receivables based on the balance ageing by past due date instead of invoice date, and we recorded a decrease in trade receivables past due over 365 days despite an increase in trade receivables aged over 365 days by invoice date as at 31 December 2019, as compared to that of 31 December 2018. Such difference in trade receivables aged over 365 days by invoice date and by past due date was mainly due to the aforementioned amount due from Aostar which we granted a credit period of 365 days and therefore fell within the age group of "over 365 days" by invoice date but falling within the age group of "past due 1 to 60 days" as at 31 December 2019.

As at the Latest Practicable Date, we had collected RMB67.4 million, or 45.8%, of the trade receivables outstanding as at 31 December 2019. The relatively low subsequent settlement of our trade receivables was primarily due to the extended Lunar New Year holiday and the postponed resumption of production activities of our customers as a result of the outbreak of COVID-19, which in turn disrupted the settlement schedule of our customers. Nevertheless, our Directors believe it would not constitute a long-term recoverability issue as our customers have gradually resumed their business operations since April 2020.

Prepayments, deposits and other receivables

Our prepayments, deposits and other receivables consisted of prepayments, advances to suppliers, deposits and other receivables. The following table sets forth a breakdown of our prepayments, deposits and other receivables as at the dates indicated:

	As at 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Current:			
Prepayments			
— Due from third parties	239	1,624	4,148
— Due from a related party	133	—	—
Prepayments to suppliers	2,742	38,872	8,296
Deposits	301	242	946
Other receivables *(Note)*	9,425	20,061	20,007
Less: Allowance for expected credit loss on other receivables	(52)	(32)	(96)
	12,788	60,767	33,301

Note: Other receivables mainly consist of amount due from Aostar of RMB14.7 million and RMB10.0 million as at 31 December 2018 and 2019, respectively, relating to the payment of aluminium oxide by us on behalf of Aostar under the Agency Service Arrangements, under which Guangyuan Saftower entered into a supplemental agreement with Aostar and Guizhou Galuminium; and Guangyuan Saftower agreed to execute the purchase of aluminium oxide from Guizhou Galuminium on behalf of Aostar. Therefore, such amount represented the outstanding balance due from Aostar in relation to the gross purchase amount of aluminium oxide and the related agency fee. We have taken measures to further ensure the payment by Aostar for these other receivables. For details, see "Business — Agency Service Arrangements" in this prospectus. As at the Latest Practicable Date, we had collected RMB18.6 million, or 93.1%, of the other receivables outstanding as at 31 December 2019.

Our prepayments, deposits and other receivables increased from RMB12.8 million as at 31 December 2017 to RMB60.8 million as at 31 December 2018. The increase was primarily due to (i) an increase in prepayments to suppliers of RMB36.1 million because of our significant increase in the demands on our supplies so as to meet the large purchase orders from our customers. In particular, in late 2018 we paid advance payment of RMB30.8 million to Zhonglv for purchase of aluminium materials in preparation of upcoming productions; and (ii) an increase in other receivables of RMB10.6 million because we started aluminium oxide agency business with Aostar for FY2018 and the purchase amount was not yet settled as at the year end date.

Our prepayments, deposits and other receivables decreased to RMB33.3 million as at 31 December 2019. The decrease was primarily due to the decrease in advance payment to suppliers by RMB30.6 million as we utilised such advance payment for purchase for aluminium materials during FY2019.

Contract liabilities

	As at 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Contract liabilities arising from sales of goods:			
— Due to third parties	6,301	6,713	6,804

Our contract liabilities represent advance consideration received from customers as at the reporting date.

Trade and bill payables

The following table sets forth our trade and bills payables as at the dates indicated:

	As at 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Trade payables			
— Due to third parties	9,672	23,711	67,849
— Due to Guangyuan Tongchuang *(Note)*	24,352	32,666	—
	34,024	56,377	67,849
Bills payables	200	—	—
	34,224	56,377	67,849

Note: Trade payables due to Guangyuan Tongchuang represented the purchase of products which is trade in nature. Guangyuan Tongchuang became our non-wholly owned subsidiary after 15 April 2019 and such intra-group balance was eliminated in our consolidated financial statements.

Our trade and bills payables primarily consist of amount incurred for the purchase of raw materials and aluminium products from our suppliers. The credit period on purchase from suppliers is generally ranging from nil to 120 days. During the Track Record Period, we generally made payments to suppliers within the credit periods granted to us.

Our trade and bills payables increased from RMB34.2 million as at 31 December 2017 to RMB56.4 million as at 31 December 2018, and further increased to RMB67.8 million as at 31 December 2019 which was in line with our expansion and increasing cost of sales for FY2019.

The following table sets forth the turnover days of our trade payables for the indicated periods:

	FY2017	**FY2018**	**FY2019**
Trade payables turnover days *(Note)*	40	33	36

Note: We calculate trade payables turnover days by dividing average trade payables by cost of sales and multiplied by 365 days for each of FY2017, FY2018, and FY2019. Average trade payables is calculated by dividing the sum of trade payables at the beginning of the period and trade payables at the end of the period by two.

Our trade payables turnover days remained relatively stable at 40 days, 33 days and 36 days in FY2017, FY2018 and FY2019 which were within the range of credit period on purchase from supplier.

The following table sets forth the ageing analysis of our trade payables, based on the invoice date, as at the dates indicated:

	As at 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Less than 60 days	26,841	47,443	44,544
61 days to 180 days	5,900	8,023	7,218
181 days to 365 days	1,177	748	2,198
Over 365 days	106	163	13,889
	34,024	56,377	67,849

As at the Latest Practicable Date, RMB48.5 million or 71.5%, of the trade payables that were outstanding as at 31 December 2019 were settled.

Accruals and other payables

Accruals and other payables consisted of (i) accrued operating expenses, (ii) accrued listing expenses, (iii) accrued employee benefit expenses, (iv) payables for purchase of property, plant and equipment, (v) other taxes payables, (vi) interest payables, (vii) deposits received and (viii) others. The following table sets forth a breakdown of our accruals and other payables as at the indicated dates:

	As at 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Accrued operating expenses			
— Due to third parties	61	1,878	3,010
— Due to Guangyuan Tongchuang	175	549	—
Accrued listing expenses	—	1,585	2,838
Accrued employee benefit expenses	739	770	1,440
Payables for the purchase of property, plant and equipment	6,672	2,364	3,795
Other taxes payables	90	215	562
Interest payables	80	93	109
Deposits received	9,083	9,733	174
Receipts in advance from a related party	1,201	1,212	—
Other payables	58	18	2,549
	18,159	18,417	14,477

Our accruals and other payables remained relatively stable at RMB18.2 million, RMB18.4 million, respectively, as at 31 December 2017 and 2018. Our accruals and payables decreased to RMB14.5 million as at 31 December 2019 primarily due to the settlement of deposit received by our customers.

NON-CURRENT ASSETS AND LIABILITIES

Property, plant and equipment

Our property, plant and equipment mainly consist of buildings, motor vehicles, plant and machinery. As at 31 December 2017, 2018 and 2019, the carrying value of our property, plant and equipment was RMB93.1 million, RMB89.2 million and RMB119.0 million, respectively. The increase in balance of property, plant and equipment as at 31 December 2019 was primarily due to the consolidation of Guangyuan Tongchuang's assets after the Tongchuang Equity Acquisition.

ACCUMULATED LOSS AS AT 1 JANUARY 2017 AND 31 DECEMBER 2017

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

During FY2017, in particular during the second half of 2017 after the commencement of the commercial operation of Guangyuan Plant with a occupied site area of 65,027.87 sq.m as compared to that of 18,061.9 sq.m of Chengdu Plant which expanded our production scale, we established business relationship with certain new major customers (i.e. four of the five largest customers for FY2017 newly conducted transactions with us since 2017 and contributed 47.7% of revenue for FY2017) and increased our sales as compared to that of the previous years. Driven by the orders from these new major customers, we enhanced our profitability and recorded a net profit of RMB2.2 million for FY2017.

The following table sets forth the production lines newly added during FY2017:

	Production lines	Commencement of commercial production	Production capacity	Annualised utilisation rate
Guangyuan Plant				
— Aluminium rods	3	April 2017	13,500 tonnes	59.1%
Tongchuang Plant				
— Aluminium overhead power cables	1	September 2017	4,500 km	4.1%
— Steel reinforced aluminium bare cables	2	September 2017	7,800 tonnes	35.5%

The revenue of FY2017 was mainly driven by the expansion of production scale after the commercial production of Guangyuan Plant and Tongchuang Plant since April and September 2017, respectively. Three production lines for manufacturing aluminium rods of Guangyuan Plant was newly added in 2017 and our Group recorded sales of aluminium rods amounted to RMB67.8 million for FY2017 (FY2016: nil).

Between April 2017 and July 2017 when Guangyuan Tongchuang was established, the production lines and machinery for classic aluminium wires and cables of Guangyuan Tongchuang belonged to Guangyuan Saftower. Since April 2017, Guangyuan Saftower produced and sold classic aluminium wires and cables of RMB48.9 million for FY2017 (FY2016: nil). After the asset injection to Guangyuan Tongchuang, our Group delegated the subcontracting of manufacturing of classic aluminium wires and cables and partly offset by reduced customer orders for classic aluminium wires and cables of Sichuan Saftower, our Group turned out achieved increase in revenue from sales of classic aluminium wires and cables by RMB40.9 million for FY2017.

Throughout the full year operation of Guangyuan Plant and with the enhanced utilisation rate in 2018 and enlarged customer base (i.e. two of the five largest customers for FY2018 began to have transactions with us since 2018 and contributed 11.7% of revenue for FY2018), we recorded a net profit of RMB17.4 million for FY2018. As benefited from the Tongchuang Equity Acquisition in April 2019 and our strategy to expand customer base, we recorded net profit before Listing expenses of RMB38.7 million for FY2019. As at 31 December 2018 and 31 December 2019, our Group recorded retained earnings of RMB12.9 million and RMB35.7 million, respectively.

INDEBTEDNESS

The following table sets forth a summary of our indebtedness as at the dates indicated.

	As at 31 December			As at 30 April
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)
Indebtedness				
Amount due to a shareholder	12,309	899	—	1,256
Borrowings	56,000	91,630	99,162	105,285
Lease liabilities	3,282	1,552	540	545
Total	71,591	94,081	99,702	107,086

Amounts due to a shareholder

As at 31 December 2017, 2018 and 2019, amount due to Mr. Dang Fei, our Controlling Shareholder, was RMB12.3 million, RMB0.9 million and nil, respectively. The decrease in the amount due to Mr. Dang Fei as at 31 December 2018 was related to the repayment to Mr. Dang Fei which he later injected RMB12.0 million into our Group as capital reserve in late 2018. As at 30 April 2020, the amount due to Mr. Dang Fei increased to RMB1.3 million. Such amount will be fully settled before or upon Listing.

Borrowings

	As at 31 December			As at 30 April
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)
Current:				
Secured and guaranteed interest-bearing bank borrowings repayable within one year	41,000	60,230	55,640	63,640
Secured and guaranteed interest-bearing other borrowings repayable within one year	15,000	31,400	37,600	33,250
Sales and leaseback liabilities	—	—	2,238	5,283
	56,000	91,630	95,478	102,173
Non-current:				
Sales and leaseback liabilities	—	—	3,684	3,112
	56,000	91,630	99,162	105,285

Set out below is the amount of our bank borrowings and other borrowings secured by type of assets as at 31 December 2017, 2018 and 2019:

	As at 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Bank borrowings secured by:			
Buildings, land use rights and plant and machinery owned by our Group *(Note 1)*	21,000	25,290	35,700
Properties of Mr. Wang	—	5,000	—
Properties of parents of Mr. Dang Fei and Mr. Dang Jun	5,000	9,500	7,000
Properties of certain staff of our Group who are Independent Third Parties	—	4,940	4,940
Properties of Independent Third Parties and properties of Mr. Dang Fei and Mr. Wang, jointly	5,000	—	—
Properties of Independent Third Parties and properties of Mr. Luo and his parents and Mr. Wong, jointly	—	—	5,000
Properties of Aostar and properties of parents of Mr. Dang Fei and Mr. Dang Jun, jointly	—	5,000	—
	31,000	49,730	52,640
Unsecured bank borrowings	10,000	10,500	3,000
Total bank borrowings	41,000	60,230	55,640
Other borrowings secured by:			
Buildings, land use rights and plant and machinery owned by our Group *(Note 2)*	8,000	8,000	13,722
Inventories of Mr. Deng Daosong, a minority Shareholder	7,000	7,000	7,000
Trade receivables of Litai Energy *(Note 3)*	—	6,400	12,800
Properties of Aostar *(Note 4)*	—	10,000	—
Unsecured other borrowings	—	—	10,000
Total other borrowings	15,000	31,400	43,522
	56,000	91,630	99,162

Notes:

(1) As at 31 December 2017, 2018 and 2019, the aggregate net carrying amount of buildings was RMB33.2 million, RMB32.7 million and RMB31.5 million, respectively, and the aggregate net carrying amount of land use rights was RMB7.2 million, RMB7.0 million and RMB6.8 million respectively. The aggregate net carrying amount of plant and machinery was RMB3.1 million as at 31 December 2019.

(2) As at 31 December 2017, 2018 and 2019, the aggregate net carrying amount of buildings was RMB18.5 million, RMB17.8 million and RMB17.2 million, respectively, and the aggregate net carrying amount of land use rights was RMB1.0 million, RMB1.0 million and RMB1.0 million, respectively. The aggregate net carrying amount of plant and machinery was RMB5.2 million as at 31 December 2019.

(3) The trade receivables of Litai Energy amounted to RMB2.5 million and RMB2.8 million as at 31 December 2018 and 31 December 2019.

(4) This represented the loan from Tongsheng Guochuang. Properties of Aostar pledged was released in September 2019.

All personal guarantee and pledge by our Shareholders, Directors and their close family or connected person will be released and replaced by corporate guarantee or otherwise settled in full before or upon Listing.

In the event that we engaged guarantee companies to guarantee our borrowings, an estimated fee of approximately 1.8% to 2.8% of the amount guaranteed per annum could be charged by the guarantee companies. We incurred guarantee fee charges of RMB0.8 million, RMB1.0 million, and RMB0.9 million for FY2017, FY2018 and FY2019, respectively.

Total current and non-current bank borrowings and other borrowings were scheduled to repay as follows:

	As at 31 December			As at 30 April
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)
On demand or within one year	56,000	91,630	93,240	96,890

The sales and leaseback liabilities were scheduled to repay as follows:

	As at 31 December			As at 30 April
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)
On demand or within one year	—	—	2,238	5,283
More than one year	—	—	3,684	3,112
	—	—	5,922	8,395

Borrowing from Tongsheng Guochuang

As at 31 December 2018, 31 December 2019 and 29 February 2020, we had a borrowing of RMB10.0 million, RMB10.0 million and RMB9.5 million, respectively, from Tongsheng Guochuang, the other shareholder of Guangyuan Tongchuang, initially for financing the purchase of aluminium oxide under the Agency Service Arrangements since November 2018. The loan was secured by properties of Aostar and was then released in September 2019. The interest rate was 15% per annum since November 2018 and reduced to 8% since July 2019 with reference to the then latest market rate. Our Directors are of the view that such transaction was conducted on normal commercial terms and was no less favourable to our Group than those available to Independent Third Parties and was fair and reasonable and in the interest of our Shareholders as a whole and on an arm's length basis. Such loan has been fully repaid on 13 May 2020.

According to the General Lending Provisions* (貸款通則) (the "**General Provisions**"), promulgated by the PBOC in 1996, only financial institutions may legally engage in the business of extending loans, and loans between non-financial institutions are prohibited. The PBOC may impose on the non-compliant lender a penalty equivalent to one to five times of the income generated (being interests charged) from such lending transaction. However, according to the Provisions of the Supreme People's Court on Several Issues concerning the Application of Law in the Trial of Private Lending Cases* (最高人民法院關於審理民間借貸案件適用法律若干問題的規定) (the "**Provisions**"), promulgated on 23 June 2015 and effective on 1 September 2015, loans between non-financial institutions are legal if they are extended for purposes of financing production or business operations. The PRC courts will also support a lender's claim for interest in respect of such loan as long as the annual interest rate charged does not exceed 24%. Pursuant to the Notice of the Supreme People's Court on Conscientiously Studying, Implementing and Applying the Provisions of the Supreme People's Court on Several Issues concerning the Application of Law in the Trial of Private Lending Cases* (最高人民法院關於認真學習貫徹適用《最高人民法院關於審理民間借貸案件適用法律若干問題的規定》的通知) published on 25 August 2015, the Provisions apply to loans that were entered into prior to the implementation of the Provisions and which are regarded as invalid under the former judicial interpretations but valid under the Provisions. Pursuant to the Provisions, private lending contracts concluded between legal persons or other organisations are effective and valid under PRC law except where the contracts for the lending (i) are void under the PRC Contract Law; or (ii) fall within the scope of void lending contracts as particularly provided in the Provisions; and if the interest rate provided in a private lending contract is not more than 24% per annum, the PRC courts will rule that the lender is legally entitled to such interest income.

During the Track Record Period and up to the Latest Practicable Date, we did not receive any penalties, investigation or notice from relevant competent PRC government authorities in relation to the borrowing from Tongsheng Guochuang. On this basis, our PRC Legal Advisers are of the view that (i) such borrowing from Tongsheng Guochuang were legally binding on the relevant parties; and (ii) the risk of us being penalised by the PBOC for the aforesaid borrowing is remote.

Lease liabilities

Analysis based on scheduled repayment terms set out in the lease contracts, into:

	Minimum lease payments As at 31 December			Present value of minimum lease payments As at 31 December		
	2017	**2018**	**2019**	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Minimum lease payments due						
— Within one year	2,046	1,322	368	1,795	1,238	356
— In the second year	1,239	143	143	1,173	130	137
— In the third to fifth years, inclusive	333	190	48	314	184	47
	3,618	1,655	559	3,282	1,552	540
Less: Future finance charges	(336)	(103)	(19)	—	—	—
Present value of lease liabilities	3,282	1,552	540	3,282	1,552	540
Less: Amounts due for settlement within one year (shown under current portion)				(1,795)	(1,238)	(356)
Amounts due for settlement after one year but contain a repayment on demand clause (shown under current portion)				(1,049)	—	—
Non-current portion				438	314	184

Our Group leases plant and machinery for production and these lease liabilities are measured at net present value of minimum lease payments during the leases terms that are not yet paid.

The following table details the interest rate profile of our Group's borrowings and lease liabilities as at the dates indicated:

	As at 31 December					
	2017		2018		2019	
	Effective interest rate	Carrying amount	Effective interest rate	Carrying amount	Effective interest rate	Carrying amount
	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*
Fixed rate borrowings:						
Borrowings	7.50%–16.00%	15,000	7.50%–15.00%	25,000	3.97%–15.00%	35,122
Lease liabilities	4.99%–10.71%	3,282	4.99%–10.71%	1,552	4.99%	540
Floating rate borrowing:						
Borrowings	5.19%–9.00%	41,000	4.35%–9.00%	66,630	4.35%–9.00%	64,040

CONTINGENT LIABILITIES AND GUARANTEES

As at 30 April 2020, being the latest practicable date for the purpose of the indebtedness statement, save for the disclosed in this prospectus we did not have any material contingent liabilities or guarantees. For the potential claim against our Group as at the Latest Practicable Date, see "Business — Compliance and Litigation — Litigation" in this prospectus.

Save for the above or as otherwise disclosed herein, and apart from intra-group liabilities as at Latest Practicable Date, our Group did not have any outstanding indebtedness or any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptable credits, debentures, mortgages, charges, finance leases or hire purchases commitments, guarantees, material covenants, or other material contingent liabilities.

CAPITAL EXPENDITURE

For FY2017, FY2018 and FY2019, our Group incurred capital expenditures of RMB35.9 million, RMB1.4 million and RMB16.7 million, respectively. Our Group's capital expenditures have principally consisted of plant and machinery, buildings and construction in progress. Significant capital expenditure incurred in FY2017 was mainly attributable to the construction and establishment of production facilities at Guangyuan Plant.

Our Group's projected capital expenditures are subject to revision based upon any future changes in our business plan, market conditions, and economic and regulatory environment. For further details, see "Future Plans and Use of Proceeds" in this prospectus.

We expect to fund our contractual commitments and capital expenditures principally through the net proceeds we receive from the Share Offer, cash generated from our operating activities and proceeds from borrowings. We believe that these sources of funding will be sufficient to finance our contractual commitments and capital expenditure needs for the next 12 months from the date of this prospectus.

COMMITMENTS

Capital commitments

The following table sets forth our capital commitments as at the dates indicated:

	As at 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Commitments for property, plant and equipment:			
Contracted but not provided	5,845	7,751	360

Operating lease commitments

Our Group as lessor

At 31 December 2017 and 2018 and 2019, our Group, as the lessor, has future minimum lease rental receivables under non-cancellable operating leases of our Group are as follows:

	As at 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Within one year	2,000	2,000	—
In second to five years	8,000	8,000	—
After fifth years	9,333	7,333	—
	19,333	17,333	—

During the Track Record Period, our Group leases its plants and buildings to our then joint venture, Guangyuan Tongchuang. Guangyuan Tongchuang became our non-wholly owned subsidiary after 15 April 2019 and such intra-group transaction was eliminated in the consolidated financial statement.

PROPERTY INTERESTS AND PROPERTY VALUATION

Royson Valuation Advisory Limited, an independent property valuer, had valued our Group's property interests as at 30 April 2020 at RMB85.2 million. The full text of its letter and valuation certificate with regard to such property interests are set out in Appendix III to this prospectus.

A reconciliation of the carrying amount of our property interests as at 31 December 2019 stated in the Accountants' Report set out in Appendix I to the fair value as at 30 April 2020 as stated in the property valuation report set out in Appendix III is set out below:

	Aggregate carrying amount *RMB'000*
Carrying amount as at 31 December 2019	
Land and buildings in property, plant and equipment and right-of-use assets	81,660
Less: Depreciation from 1 January 2020 to 30 April 2020	
Land and buildings in property, plant and equipment and right-of-use assets	(970)
	80,690
Add: Fair value change	
Valuation surplus	4,510
Market value as at 30 April 2020	85,200

RELATED-PARTY TRANSACTIONS

With respect to the related party transactions set forth in the Accountants' Report in Appendix I to this prospectus, our Directors confirm that these transactions were conducted on normal commercial terms or such terms that were no less favourable to our Group than those available to Independent Third Parties, were fair and reasonable and in the interest of our Shareholders as a whole, and on an arm's length basis and did not distort our results of operations during the Track Record Period.

KEY FINANCIAL RATIOS

The following table shows certain key financial ratios as at the dates or for the years indicated:

	FY2017	FY2018	FY2019
Return on equity (%)[(1)]	3.8	19.9	21.3
Return on total assets (%)[(2)]	1.1	6.5	8.9
Interest coverage (times)[(3)]	1.7	4.3	5.3

	As at 31 December		As at 31 December
	2017	2018	2019
Current ratio (times)[(4)]	0.5	0.8	1.1
Quick ratio (times)[(5)]	0.4	0.7	1.0
Gearing ratio (%)[(6)]	123.5	107.7	71.5
Debt to equity ratio (%)[(7)]	115.0	105.8	69.6

(1) Return on equity is calculated by dividing profit and total comprehensive income for the year by total equity of our Group as at the end of the year and multiplying the resulting value by 100%.

(2) Return on total assets is calculated by dividing profit and total comprehensive income for the year by total assets of our Group as at the end of the year and multiplying the resulting value by 100%.

(3) Interest coverage ratio is calculated by dividing profit before interest and tax by finance costs for the respective year and multiplying by 100%.

(4) Current ratio is calculated by dividing total current assets by total current liabilities as at the end of the respective year.

(5) Quick ratio is calculated by dividing total current assets (excluding inventories) by total current liabilities as at the end of the respective year.

(6) Gearing ratio is calculated by dividing total debts by total equity as at the end of the respective year. Total debts include borrowings, lease liabilities and amount due to a shareholder.

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

Return on equity

For FY2017, FY2018 and FY2019, we recorded return on equity of 3.8%, 19.9% and 21.3%, respectively. The increase was primarily attributable to the increase in profit and total comprehensive income.

Return on total assets

For FY2017, FY2018 and FY2019, we recorded return on total assets of 1.1%, 6.5% and 8.9%, respectively. The increase was primarily attributable to the increase in profit and total comprehensive income.

Interest coverage

Our interest coverage ratio increased from 1.7 time for FY2017 to 4.3 times for FY2018, and further increased to 5.3 times for FY2019, primarily due to our improved profitability driven by our higher revenue after full-year operation of Guangyuan Plant and the consolidation of financial results of Guangyuan Tongchuang.

Current ratio

Our current ratio increased from 0.5 time as at 31 December 2017 to 0.8 times as at 31 December 2018 and further increased to 1.1 as at 31 December 2019, which was mainly attributable to the increase in trade and bills receivables and consolidation of Guangyuan Tongchuang's financial results in FY2019.

Quick ratio

Similar to that of current ratio, our quick ratio increased from 0.4 as at 31 December 2017 to 0.7 as at 31 December 2018 mainly due to the reason as discussed above and also attributable to the decrease in our inventory as at 31 December 2018. Our quick ratio further improved to 1.0 as at 31 December 2019 primarily attributable to the increase in trade and bills receivables for FY2019 and consolidation of Guangyuan Tongchuang's financial results in FY2019.

Gearing ratio

Our gearing ratio decreased from 123.5% as at 31 December 2017 to 107.7% as at 31 December 2018, mainly attributable to increase in equity mainly attributable to the profit generated in FY2018, and partially offset by the increase in borrowings by RMB35.6 million. As at 31 December 2019, our gearing ratio further reduced to 71.5% resulting from our enhanced profitability and the consolidation of Guangyuan Tongchuang's financial results which increased our equity base.

Debt to equity ratio

Our debt to equity ratio decreased from 115.0% as at 31 December 2017 to 105.8% as at 31 December 2018 and decreased to 69.6% as at 31 December 2019 for the same reasons explained above.

OFF BALANCE SHEET ARRANGEMENTS

Except for the contractual commitments set forth above, during the Track Record Period and up to the Latest Practicable Date, we did not have any material off-balance sheet arrangements.

MARKET AND OTHER FINANCIAL RISKS

We are exposed to credit risks, market risks (including foreign currency risks and interest rates risks) and liquidity risks arising in the ordinary course of business. Our overall risk management strategy seek to minimise adverse effects from the volatility of financial markets on our financial performance. Risk management is carried out by our senior management and approved by our Board.

Details of the risk to which we are exposed to are set out in Note 40 to Appendix I to this prospectus.

ACQUISITION OF GUANGYUAN TONGCHUANG

On 15 April 2019, our Group acquired 16.67% of the equity interest of Guangyuan Tongchuang, the then joint venture of our Group, after which Guangyuan Tongchuang has become our non-wholly owned subsidiary. For details, please refer to "Guangyuan Tongchuang" in this prospectus.

The acquisition was completed on 15 April 2019. In accordance with HKFRSs, our Group continued to share the results of Guangyuan Tongchuang using equity method of accounting during the period from 1 January 2017 to 15 April 2019. Upon completion of the above transaction, our Company indirectly hold 56.67% equity interest of Guangyuan Tongchuang and recognised a bargain purchase of RMB0.9 million. For details, see Note 36 to Appendix I to this prospectus.

For stand-alone pre-acquisition financial information of Guangyuan Tongchuang and management discussion and analysis, see Note 37 to Appendix I to this prospectus and "Pre-acquisition Financial Information of Guangyuan Tongchuang" in this prospectus.

UNAUDITED PRO FORMA ADJUSTED COMBINED NET TANGIBLE ASSETS

Please see the section headed "Unaudited Pro Forma Financial Information" in Appendix II to this prospectus for our unaudited pro forma adjusted combined net tangible assets.

LISTING EXPENSES

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

DIVIDENDS

During FY2019, a final dividend of approximately RMB4.9 million was declared by Guangyuan Tongchuang for its financial results for FY2018 to its shareholders, namely Guangyuan Saftower and Tongsheng Guochuang. As at 31 December 2019, the balance of the dividend payable was fully settled.

We do not have any pre-determined dividend ratio. The form, frequency and amount of future dividends on the Shares will be at the discretion of our Board and will depend on factors such as our results of operations, cash flows, financial conditions, future prospects and regulatory restrictions on the payment of dividends by us or our operating subsidiaries. There can be no assurance that any dividends will be paid. Investors should consider the risk factors affecting our Group as set forth in the section headed "Risk Factors" in this prospectus and the cautionary notice regarding forward-looking statements contained in the section headed "Forward- Looking Statements" in this prospectus.

DISTRIBUTABLE RESERVES

Our Company was incorporated on 9 October 2018. As at 31 December 2019, our Company had no reserves available for distribution to our Shareholders.

DISCLOSURE REQUIRED UNDER THE GEM LISTING RULES

Our Directors confirmed that, as at the Latest Practicable Date, they were not aware of any circumstances which would give rise to a disclosure requirement under Rules 17.15 to 17.21 of the GEM Listing Rules.

RECENT DEVELOPMENTS AND NO MATERIAL ADVERSE CHANGE

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

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

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

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

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

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

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

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

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

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

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

COVID-19 outbreak. For the two months ended 30 April 2020, we recorded a revenue decrease of 19.7% compared to that of the same period of 2019 according to our unaudited management account. Our Directors believe that the significant recovery of our monthly revenue is a solid proof that our Group has resumed normal operation after the COVID-19 outbreak.

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

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

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

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

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