

## **TONGCHUANG EQUITY ACQUISITION**

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

### **Background of Guangyuan Tongchuang**

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

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

### **Management of Guangyuan Tongchuang**

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

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

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**Employees of Guangyuan Tongchuang**

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

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

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

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

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

*Note:*

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

### **Business of Guangyuan Tongchuang**

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

### **Transactions between Guangyuan Tongchuang and our Group**

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

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

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

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

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

#### **Customers of Guangyuan Tongchuang**

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

#### **Suppliers of Guangyuan Tongchuang**

Due to the principal business of Guangyuan Tongchuang, which is the manufacturing and sale of aluminium wires and cables, major suppliers of Guangyuan Tongchuang are engaged in the supply of aluminium materials. For FY2017, FY2018 and up to 15 April 2019, purchase from Zhonglv, which is also one of our Group’s major suppliers, accounted

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for 16.2%, 63.5% and 77.1% of the total purchase of Guangyuan Tongchuang. For the impact of combining Guangyuan Tongchuang's suppliers into our Group assuming that the Tongchuang Equity Acquisition was completed at the beginning of FY2017, see "Business — Suppliers" in this prospectus. Payment terms of major suppliers of Guangyuan Tongchuang are similar to those of major suppliers granted to our Group.

**Overlapping customers and suppliers — Guangyuan Tongchuang and our Group**

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

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

*Overlapping customers*

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

*Overlapping suppliers*

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

**Reasons and benefits for entering into Tongchuang Equity Acquisition**

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

- (i) as Guangyuan Tongchuang engages in similar business with that of our Group, there may be occasions of potential conflicts or competition. Therefore, by acquiring additional equity interest in Guangyuan Tongchuang which resulted in it being a non-wholly owned subsidiary of our Group, we will have a higher degree of control over the allocation of resources and business opportunities between us and Guangyuan Tongchuang;
- (ii) as Guangyuan Tongchuang has become our non-wholly owned subsidiary, we would retain better control over the production facilities and enhance the management efficiency by increasing our directly managed production capacity, and we can allocate our production resources flexibly between different production plants in response to changing customers' production requirements and market conditions; and
- (iii) by consolidating the financial statements of Guangyuan Tongchuang with those of our Group, potential investors are to be furnished with complete financial information of our Group and Guangyuan Tongchuang with whom we have an intimate business and legal relationships, and hence be able to fully assess our Group's overall performance during the Track Record Period.

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

- (i) the business nature of Guangyuan Tongchuang is similar to ours and the Tongchuang Equity Acquisition will not result in change of principal business of our Group;
- (ii) as disclosed in "Business — Overlapping Customers and Suppliers" in this prospectus, we have had close business tie with Guangyuan Tongchuang and Guangyuan Tongchuang has been regarded as our production arm since its commencement of operation; and
- (iii) we already have a significant degree of control and influence over Guangyuan Tongchuang in terms of production as over 70% of total employees of Guangyuan Tongchuang were originally transferred from our Group in FY2017 and we have deployed 6 supervisory employees to assist the management of Guangyuan Tongchuang as at 15 April 2019, and as disclosed above, we were entitled to appoint two directors and have the same number of board seats with Tongsheng Guochuang prior to the Tongchuang Equity Acquisition. During the Track Record Period, Ms. Luo Xi and Ms. Hu Yi, being the directors of Guangyuan Tongchuang, are also the Director and senior management of our Group, respectively. In addition, Mr. Liu Yongkang, being general manager of Guangyuan Tongchuang, is also the senior management of our Group. The Tongchuang Equity Acquisition will not result in a change of business nature and management control of Guangyuan Tongchuang.