BUSINESS OBJECTIVES AND STRATEGIES

Our key business objectives are to continue to become the leading wire and cable supplier in Sichuan Province and a major player in Southwestern Region of the PRC, and to further strengthen our position in the wire and cable and aluminium products industries in the PRC. To achieve our objectives, we plan to implement a series of business strategies. For details, see "Business — Business Strategies" in this prospectus.

IMPLEMENTATION PLANS

Our Directors have drawn up an implementation plan during the period up to 31 December 2020 with a view to developing ourselves along our business strategies for achieving our business objectives. The detailed implementation plan and expected timetable for the implementation of the plan with respect to items requiring us to make material financial commitments are summarised below. We intend to apply all our proceeds by 31 December 2020.

Investors should note that the following implementation plans are formulated on the bases and assumptions referred to in the paragraph headed "Bases and assumptions" below. These bases and assumptions are inherently subject to uncertainties and unpredictable factors, in particular the risk factors set forth in "Risk Factors" in this prospectus. Our actual course of business may vary from the business objective set out in this prospectus. There is no assurance that our plans will materialise in accordance with our expected time frame or that our objective will be accomplished at all.

In line with our business strategies, we currently intend to apply the net proceeds from the Share Offer, assuming an Offer Price of HK$0.325 per Share (being the mid-point of the Offer Price range of HK$0.25 to HK$0.40 per Shares) for the following purposes:

Business strategies	**Implementation activities**	**Use of proceeds** *Approximately HK$'million*
Expanding our existing production facilities and production plant	• Purchasing a high speed production line for aluminium alloy for our Guangyuan Plant	3.4
	• Purchasing 3 rigid stranding machines for our Guangyuan Plant	3.6
	• Purchasing one inspection equipment for our Guangyuan Plant	1.3
	• Construct additional manufacturing sites at Guangyuan Plant	7.1

Business strategies	Implementation activities	Use of proceeds *Approximately HK$'million*
Repaying part of our existing loan	• Repaying part of our existing loan borrowed by Guangyuan Saftower	7.0
Funding the upfront costs for the commercial production of Shuneng Plant	• Initial capital for upfront costs of Shuneng Plant	2.8
Working Capital	• General working capital	2.8
		28.0

REASONS FOR LISTING

Our Directors believe that the Listing will greatly benefit our Group based on the following reasons:

Facilitating the implementation of our business strategies by accessing the international capital market for fund raising in Hong Kong

Sichuan Saftower ceased to be quoted on the NEEQ in June 2018. The NEEQ is a market in the PRC open to qualified investors only, including PRC corporate or partnership enterprise investors with paid-up capital of more than RMB5 million, PRC natural persons with average daily financial assets within the latest 10 trading days over RMB5 million and have experience in securities, funds, futures investments for more than two years or have more than two years of relevant working experience, and qualified PRC and foreign institutional investors. In addition, the NEEQ adopts a market maker, negotiated transfer or investor competing transfer trading mechanism rather than continuous auction mechanism, which, in the view of our Directors, significantly limits investor discovery and order execution. The nature of the NEEQ and its relatively low trading could make it difficult to identify and establish the fair value of Sichuan Saftower to reflect our competitive strengths which differentiate us from our competitors. For details of Sichuan Saftower's prior quotation on the NEEQ and the NEEQ Delisting, see "History, Development and Reorganisation — Prior Listing on the NEEQ and the Delisting" in this prospectus.

In contrast, the Stock Exchange, as a leading player of the international financial markets, could offer us a direct access to the international capital markets, enhance our fund-raising capabilities and channels and broaden our Shareholders base. Accordingly, the Listing would provide us with a viable source of capital to support our business growth.

As stated in "Business — Business Strategies" in this prospectus, we intend to achieve our business objectives by expanding our scale of operation through our effort in approaching existing and potential customers for potential business opportunities. We intend to further enhance our Group's existing production facilities and install three new production lines, as well as to inject additional capital to Guangyuan Shuneng to fund the upfront costs in preparation for the commencement of commercial production of Shuneng Plant. These implementation plans require considerable additional financial resources and we intend to finance these by utilising 55.0% and 10.0%, respectively of net proceeds from the Listing.

In addition, the Listing would provide our Group with opportunities to raise fund through secondary fund-raising exercises after the Listing for our future expansion plans through the issuance of equity and/or debt securities, which we expect will assist our future business development, strengthen our competitiveness and improve our operating and financial performance to enhance shareholder's return.

The availability of debt financing

During the Track Record Period, we mainly utilised our banking facilities, internal resources and advances from our shareholders for our business operations. As at 31 December 2019, our borrowings amounted to RMB99.2 million, of which RMB95.5 million were repayable within one year and secured by (i) assets of our Group including land and buildings, rights to collect trade receivables and plant and machinery; and (ii) personal properties and assets of our Directors or key management personnel and their close family member, certain employees and certain independent third parties, which will be released and replaced by corporate guarantee or otherwise settled in full before or upon Listing. Our gearing ratio reached 123.5%, 107.7% and 71.5% as at 31 December 2017, 2018 and 2019 and is generally higher than that of the listed peers. In addition, further debt financing was unlikely to be available as at the Latest Practicable Date in view of our limited collateral available for pledging. Our Directors also consider that the interest expenses would impose additional financial burden on our Group, expose our Group to interest rate risks and further increase the gearing level of our Group. As a result, we plan to utilise part of the net proceeds from the Share Offer to repay a loan which bears higher interest rate to save interest expenses. Taking into account our existing level of debt financing and interest expenses, our Directors are of the view that the equity financing by way of Listing which will provide us with immediately available fund to finance the implementation of our Group's business plans and future operation is a more attractive option than debt financing at this juncture.

Gaining higher corporate profile, visibility and strengthening our competitiveness

Our Directors believe that achieving a listing status with transparent financial disclosures would enhance our credibility with our customers, suppliers, banks and creditors, which in turn will strengthen our bargaining position in future negotiations with them. With a listing status, our Group can be differentiated from other competitors and strengthen our business relationships with new and existing customers, obtaining more favourable terms from banks and longer credit terms from suppliers, which will improve our results of operation as well as financial condition. Also, we obtain most of our business through giving quotations or participating in tenders, and reputation and corporate profile of the candidate are often the major selection criterion of our customer. Our current and prospective customers, which consist of listed companies or state-owned or state-invested companies, may prefer to deal with suppliers that are listed public companies that are transparent, have established track records and are subject to ongoing corporate governance regulatory compliance and reporting requirements. We therefore consider that an enhanced corporate profile and increased exposure through Listing are important factors in succeeding in our industry.

Attracting and retaining talents

We believe that the Listing is considered to be one of the primary channels through which our employees would be able to share our success and achievement and be committed to the performance and continual success of our Group. We rely on experienced management personnel to support our daily operations. Human resources and talents are vital to our business. Our Directors believe that the Listing status can potentially enable our Company to devise share incentive plan and thus can help us strengthen our manpower and attract, recruit and retain our valued management personnel and skilled employees. Taking into consideration of the above, our Directors believe that the Listing is beneficial to our Company and its Shareholders as a whole.

USE OF PROCEEDS

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

Our Directors presently intend that the net proceeds from the Share Offer will be applied as follows:

Expansion plans	From the Listing Date to 31 December 2020	For the six months ending 30 June 2021	For the six months ending 31 December 2021	For the six months ending 30 June 2022	Total	Percentage of use of net proceeds
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*%*
Expanding our existing production facilities and production plant	15,400	—	—	—	15,400	55.0%
Repaying part of our existing loan	7,000	—	—	—	7,000	25.0%
Funding the upfront costs for the commercial production of Shuneng Plant	2,800	—	—	—	2,800	10.0%
General working capital	2,800	—	—	—	2,800	10.0%
Total	**28,000**	**—**	**—**	**—**	**28,000**	**100%**

The above represents our intended use of proceeds from the Listing Date and up to 30 June 2022. We intend to apply all our net proceeds from the Share Offer by 31 December 2020. Any shortfall in our capital requirement for the expansion plans set out above will be financed by our internal resources or bank financing as appropriate.

Assuming that the Offer Size Adjustment Option is not exercised, in the event that the Offer Price is set at the high-end of the indicative Offer Price range, the net proceeds from the Share Offer will increase to HK$41.5 million. Assuming that the Offer Size Adjustment Option is not exercised, in the event that the Offer Price is set at the low-end of the indicative Offer Price range, the net proceeds from the Share Offer will decrease to HK$14.5 million. The net proceeds will be used in the same proportions as disclosed above irrespective of (i) whether the Offer Price is determined at the high-end or the low-end of the indicative Offer Price range; and (ii) whether the Offer Size Adjustment Option is exercised. To the extent our net proceeds are either more or less than expected, we will continue to use the net proceeds in the same proportions as disclosed above.

If the Offer Size Adjustment Option is exercised in full, the net proceeds from the Share Offer are estimated to increase to: (i) HK$53.3 million, assuming the Offer Price is fixed at the high-end of the indicative Offer Price range, being HK$0.40 per Offer Share; (ii) HK$37.8 million, assuming the Offer Price is fixed at the mid-point of the indicative Offer Price range, being HK$0.325 per Offer Share; and (iii) HK$22.2 million, assuming the Offer Price is fixed at the low-end of the indicative Offer Price range, being HK$0.25 per Offer Share. Our Directors presently intend to apply any such additional net proceeds from the exercise of the Offer Size Adjustment Option for the above purposes (except for the amount of the net proceeds allocated for the repayment of part of our existing loan which will remain unchanged), on a pro-rata basis in the table.

To the extent that the net proceeds from the Share Offer are not immediately required for the purposes above, it is our present intention that such net proceeds will be placed on short-term interest bearing deposits with authorised financial institutions or converted into other money market instruments for treasury purposes.

Should our Directors decide to re-allocate the intended use of proceeds to other business plans and/or new project of our Group to a material extent and/or there is to be any material modifications to the use of proceeds as described above, we will issue an announcement in accordance with the GEM Listing Rules.

Set forth below are the details of our expansion plans which are intended to be funded with the net proceeds from the Share Offer:

Expanding our existing production facilities and production plant

We plan to utilise HK$15.4 million or 55.0% of the net proceeds from the Share Offer and HK$5.5 million funded by our internal resources to expand our production plant and existing production facilities, to install three new production lines at the Integrated Guangyuan Production Facilities, details of which are set out below:

Production facilities	**Number of machinery** *(Note)*	**Production line**	**Estimated useful life**	**Amount of net proceeds allocated from the Share Offer** *HK$'000*	**Amount funded by internal resources** *HK$'000*	**Total costs** *HK$'000*
Purchase of a high speed production line for aluminium alloy (高速鋁合金大拉成套生產線)	N/A	Number one	10 years	3,420	—	3,420
Purchase of rigid stranding machines (絞製設備)	3	Number one	10 years	3,570	—	3,570
Purchase of tubular wires stranding machines (管型絞線機)	6	Number two and three	10 years	—	3,000	3,000
Purchase of inspection equipment (檢測設備)	1	All three lines	10 years	1,300	—	1,300
Power distribution transformer (電壓器配電設備)	1	All three lines	10 years	—	2,500	2,500
Construction of additional manufacturing site at Guangyuan Plant	N/A	N/A	10 years	7,110	—	7,110
Total				15,400	5,500	20,900

Note: For other necessary machines, we will purchase by utilising our internal resources.

The above production facilities are required to produce the three key types of aluminium wires and cables that we plan to develop which is with reference to the existing equipment and machinery currently used at Tongchuang Plant to produce the same products. Depending on the complexity of the production process, the typical production processes of finished aluminium wires and cables involve drawing/annealing, stranding/bunching and other further processes. The high speed production line for aluminium alloy is typically used in the drawing/annealing processing stage. The rigid stranding machines and tubular wire stranding machines are used in the stranding/bunching processing stage. The aforesaid machines are needed as part of the typical production process and will be assigned to these three production lines with additional machines to be purchased by our internal resources as appropriate.

Our proposed additional production site is expected to occupy an area of approximately 7,000 sq.m. As advised by our PRC Legal Advisers, our proposed construction of the additional production site at our Guangyuan Plant is required to obtain or go through the following material governmental approvals, registration or filings: technical transformation investment filing (四川省技術改造投資項目備案) with local development and reform authority, construction land planning permit* (建設用地規劃許可證), construction project planning permit (建設工程規劃許可證) from local planning authority, environmental impact approval (環境影響評價) from local environmental protection authority, construction permit (建築工程施工許可證) from local construction authority. The whole application and aforesaid approval processes is expected to complete within four months under normal circumstances. As at the Latest Practicable Date, we have not yet obtained any relevant approvals for constructing the additional production site at the Guangyuan Plant and as advised by our PRC Legal Advisers, there are no material difficulties or legal obstacles in obtaining the above licences or approvals. We completed our technical transformation investment filing (四川省技術改造投資項目備案) with local development and reform authority on 19 December 2019 and we have already obtained the construction land planning permit (建設用地規劃許可證). We plan to submit our construction project planning permit (建設工程規劃許可證) application to local planning authority and environmental impact approval (環境影響評價) application to local environmental protection authority no later than end of August 2020. Subject to obtaining the approvals of the submitted applications, we will further submit the applications for the remaining approvals no later than September 2020 and expect to carry out construction work in around October 2020 and complete in around December 2020.

Currently, our Guangyuan Plant mainly produces semi-finished wires, whereas our Tongchuang Plant mainly produces finished aluminium wires and cables for OEM customers. For FY2017, FY2018 and FY2019, our Guangyuan Plant has three key production lines for the production of aluminium rods with annual production capacity of approximately 13,500 tonnes, with an average approximate annualised utilisation rate of approximately 59.1%, 106.2% and 110.3%, respectively. For details, see "Business — Production Facilities — Production capacity" in this prospectus.

We expect that the construction of our additional production site will be completed in the fourth quarter of 2020, and the three new additional production lines are expected to be installed in the fourth quarter in 2020 and commence operation in or about early 2021. Upon commencement of operation of the three new production lines, we expect that Guangyuan Plant will become capable of producing steel reinforced aluminium bare cables, aluminium overhead power cables and classic aluminium medium and low voltage cables with a maximum annual production capacity of 3,900 tonnes, 4,500 km and 4,500 km, respectively, upon completion of its expansion.

The table below sets forth the expected completion time, estimated average annual production capacity, estimated average annual production value, estimated average gross profit margin and estimated average annual net profit of the three new additional production lines in Guangyuan Plant:

Major products	**Expected completion time**	**Estimated average annual production capacity**	**Estimated average annual production value** *(Note 1)* *RMB'million*	**Estimated average gross profit margin** *(Note 2)*	**Estimated average annual gross profit** *RMB'million*
Steel reinforced aluminium bare cables (鋁製鋼芯鋁絞綫)	Fourth quarter of 2020	3,900 tonnes	48.6	3.4%	1.7
Aluminium overhead power cables (鋁製架空電纜)	Fourth quarter of 2020	4,500 km	18.2	8.5%	1.5
Classic aluminium medium and low voltage cables (鋁製傳統中低壓電力電纜)	Fourth quarter of 2020	4,500 km	108.3	14.8%	16.0
Total			175.1		19.2

Note:

1. Estimated average annual production value was calculated based on full production capacity and the average of average selling price of similar finished products sold by our Group during FY2018 and FY2019.

2. Estimated gross profit margin was calculated based on the average of gross profit margin of similar finished products produced and sold by our Group in FY2018 and FY2019.

Notwithstanding that copper wires and cables generally have relatively higher gross profit margin as compared to aluminium wires and cables, our Directors consider that further development of the aforementioned aluminium products is in line with the market trend that aluminium wires and cables demonstrated higher growth potential as both Sichuan and China's aluminium wires and cable markets are expected to grow at a higher CAGR in terms of sales revenue from 2019 to 2024 as compared to that of copper wire and cables. Based on the growth trend of aluminium wires and cables market which recorded a CAGR of 7.5% from 2013 to 2019 and is expected to achieve a CAGR of 4.5% from 2019 to 2024, and the environmentally friendly features and current low market price of aluminium, our Group believes that the aluminium wires and cables market is likely to have greater potential than copper wires and cables in the longrun, which recorded a CAGR of 1.3% from 2013 to 2019 and is expected to achieve a CAGR of 2.2% from 2019 to 2024.

The aforementioned aluminium products are mainly produced and applied for in the downstream power distribution network construction and upgrading in the cities and rural areas, as well as municipal infrastructure projects construction in China. According to the F&S Report, the above aluminium products have adequate market demand. According to the China Electricity Council, the investment in power distribution network construction and upgrading in China increased from approximately RMB389.4 billion in 2013 to approximately RMB485.6 billion in 2019, representing a CAGR of 3.7%. In addition, according to the "Power Distribution Network Construction & Reform Action Plan 2015–2020" (配電網建設改造行動計劃2015–2020) issued by the National Energy Administration of the PRC in 2015, no less than RMB2 trillion will be spent between 2015 and 2020 on upgrading China's power distribution network. For municipal infrastructure projects construction, the fixed asset investment of urban infrastructure construction has increased from RMB9.4 trillion to RMB18.7 trillion, representing a CAGR of 12.1% from 2013 to 2019.

Furthermore, our Guangyuan Plant is located in Guangyuan City, one of the three aluminium producing regions in Sichuan Province and currently a major player in the Sichuan aluminium product market. According to Guangyuan City government in 2018, Guangyuan aims to cultivate the local aluminium industry with a total output value exceeding RMB20 billion by 2020, which our Group foresees this as a good expansion opportunity to enlarge our scale of production of aluminium wires and cables to echo the local governments policy. In view of the expected higher growth of the aluminium cables and wires market and the initiatives of Guangyuan City government, we therefore plan to leverage on one of our competitive advantages, namely the strategic location of our Guangyuan Plant which enables us to capture more business opportunities and develop stable cooperative relationship with both the upstream and downstream players, and expand our existing production facilities for finished aluminium cables and wires to fully utilised the potential of our integrated production capabilities. Our Group is one of the local enterprises under the Guangyuan City government's long term initiative to expand aluminium outputs and further develop the local aluminium industry. Our expansion plan with respect to Guangyuan Plant, when implemented, would allow us to participate in and contribute to the local government's plan with our expanded production capacity and capture business opportunity that would arise therefrom.

We expect that our expansion plan with respect to our production facilities and production plant will enable us to capture additional demand from the market and will bring in additional revenue and profit for our Group in the future. For illustrative purposes only and subject to uncertainties, we estimate that the payback period is approximately two years after the commencement of the operation of the three new production lines. The payback period refers to the number of years required to recover the initial set up costs to be incurred in relation to the construction of our additional production site and purchase of new machines calculated based on our Group's estimated average annual net profit as below:

	RMB'million
Total investment costs (A)	**18.4 (equivalent to HK$20.9 million)**
Estimated annual gross profit of the three new production lines	19.2
Less:	
— Depreciation per year	(1.8)
— Estimated annual selling and administrative expenses *(Note)*	(5.3)
Estimated annual net profit of the three new production lines (B)	**12.1**
Payback period (A)/(B)	**2 years**

Note: Annual selling and administrative expenses were estimated based on a fixed percentage (3.0%) of the total revenue to be generated with reference to the historical ratio of selling and administrative expenses as of revenue during the Track Record Period.

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

Our Directors believe that our expansion plan will (i) increase our production capacity and our capability of taking in more customers and purchase orders; (ii) allow us to specialise the production of semi-finished as well as finished aluminium wires by our Guangyuan Plant and the production of OEM products by our Tongchuang Plant; and (iii) increase our revenue and profit as a result of the operation of the three new production lines.

Repaying part of our existing loan to improve our capital base

We had a total indebtedness of RMB99.7 million and a gearing ratio of 71.5% as at 31 December 2019. We plan to repay part of our existing loan with the 15% interest rate per annum with a view to reduce our gearing ratio as well as our interest expenses. Our Directors presently intended to apply HK$7.0 million or 25.0% of the net proceeds from the Share Offer for repaying part of our existing loan as follows:

Financial institution	Borrower	Loan term	Outstanding balance as at the Latest Practicable Date	Interest rate per annum	Usage
			RMB'000	*%*	
Guangyuan Lizhou Small Scale Lending Co., Ltd* 廣元市利州金坤小額貸款有限公司	Guangyuan Saftower	Maturity date is August 2021	7,800	15.0	Working capital, purchase of raw material

For FY2017, FY2018 and FY2019, we incurred finance costs of RMB4.3 million, RMB6.5 million and RMB7.9 million, respectively. Our gearing ratio was 123.5%, 107.7% and 71.5% as at 31 December 2017, 31 December 2018 and 31 December 2019, respectively. As illustrated above, the interest expenses of the loan above would be approximately RMB1.2 million per year. We expect that upon repayment of the above loan, we would be able to save interest expenses of approximately RMB1.2 million per year and our pro forma gearing ratio based on 31 December 2019 is expected to be reduced to approximately 65.4%.

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

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

BASES AND ASSUMPTIONS

The implementation plans set out above are based on the following general bases and assumptions:

- our Group will have sufficient financial resources to meet the planned capital expenditure and business development requirements during the period to which the business objectives relate;
- there will be no material changes in the funding required for each of the scheduled achievements as outlined under the paragraph headed "Implementation plans" above in this section and for each of our business strategies described in this prospectus from the amount as estimated by our Directors;
- there will be no material adverse changes in the existing laws and regulations, policies or industry or regulatory treatment relating to our Group, or in the political, economic, fiscal or market conditions in which our Group operates;
- we will be able to retain our senior management team and key staff in our expansion;
- we will be able to recruit additional key management personnel and staff when required;
- there will be no material change in the bases or rates of taxation and duties in the PRC;
- we will be able maintain our customers and sustain demand for our products;
- there will be no disasters, natural, political or otherwise, which would materially disrupt the business or operations of our Group or cause substantial loss, damage or destruction to its property or facilities; and
- our Group will not be adversely affected by the risk factors as set out in "Risk Factors" in this prospectus.