



SAFTOWER 蜀塔电缆

中國蜀塔國際控股集團有限公司

China Saftower International Holding Group Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 8623



2020

THIRD QUARTERLY REPORT

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*This report, for which the directors (the “**Directors**” or individually a “**Director**”) of China Saftower International Holding Group Limited (the “**Company**”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “**GEM Listing Rules**”) for the purpose of giving information with regard to the Company and its subsidiaries (collectively referred to as the “**Group**”, “**We**”, “**our**” or “**us**”). The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.*



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Dang Fei (*Chairman and chief executive officer*)

Mr. Wang Xiaozhong

Ms. Luo Xi

Mr. Luo Qiang

Non-executive Director

Mr. Wang Haichen

Independent non-executive Directors

Dr. Zuo Xinzhang

Mr. Chan Oi Fat

Ms. Hu Xiaomin

COMPANY SECRETARY

Mr. Woo Yuen Ping

COMPLIANCE OFFICER

Mr. Wang Xiaozhong

AUTHORISED REPRESENTATIVES

Mr. Woo Yuen Ping

Mr. Dang Fei

AUDIT COMMITTEE

Mr. Chan Oi Fat (*Chairperson*)

Dr. Zuo Xinzhang

Ms. Hu Xiaomin

REMUNERATION COMMITTEE

Ms. Hu Xiaomin (*Chairperson*)

Dr. Zuo Xinzhang

Mr. Chan Oi Fat

NOMINATION COMMITTEE

Mr. Dang Fei (*Chairperson*)

Dr. Zuo Xinzhang

Mr. Chan Oi Fat

Ms. Hu Xiaomin

INDEPENDENT AUDITOR

BDO Limited

(*Certified Public Accountants*)

COMPLIANCE ADVISER

Alliance Capital Partners Limited

LEGAL ADVISER

(*As to Hong Kong law*)

ONC Lawyers

REGISTERED OFFICE

4th Floor, Harbour Place

103 South Church Street

P.O. Box 10240

Grand Cayman KY1-1002

Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN THE PRC

No. 9, Huaide Road, Sichuan-Zhejiang

Cooperation Industrial Park,

Guangyuan Economic and

Technological Development Zone,

Guangyuan, Sichuan Province,

the PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 901, 9th Floor
Belgian Bank Building
721-725 Nathan Road
Mongkok, Kowloon
Hong Kong

PRINCIPAL BANKERS

Bank of Communications Company
Limited
Chengdu Pidu Branch
No. 178-188, Kehua Second Road,
Pitong Town
Pidu District, Chengdu
Sichuan Province
PRC

Bank of China Limited
Pidu Branch
No. 2 South Street
Pidu District, Chengdu
Sichuan Province
PRC

Chengdu Rural Commercial Bank
Company Limited
Pidu Hongxing Branch
No. 198 Wangcong East Road,
Pitong Town
Pidu District, Chengdu
Sichuan Province
PRC

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN CAYMAN ISLANDS

Appleby Global Services (Cayman) Limited
71 Fort Street, PO Box 500
George Town
Grand Cayman KY1-1106
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

STOCK CODE

8623

COMPANY'S WEBSITE

www.saftower.cn

THIRD QUARTERLY RESULTS

The board of Directors (the “**Board**”) of the Company is pleased to announce the unaudited condensed consolidated results of the Group for the nine months ended 30 September 2020, together with the unaudited comparative figures of the corresponding period in 2019 as follows:

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the nine months ended 30 September 2020

	Notes	Nine months ended 30 September		Three months ended 30 September	
		2020 RMB'000 (unaudited)	2019 RMB'000 (unaudited)	2020 RMB'000 (unaudited)	2019 RMB'000 (unaudited)
Revenue	4	348,356	435,757	139,806	171,527
Cost of sales		(323,672)	(405,442)	(130,007)	(156,861)
Gross profit		24,684	30,315	9,799	14,666
Other income and gains	5	3,682	12,801	2,247	2,783
Selling and distribution expenses		(4,268)	(6,346)	(1,767)	(3,002)
Administrative and other expenses		(11,121)	(10,101)	(4,205)	(3,330)
Listing expenses		(7,838)	(5,572)	(6,973)	(2,901)
Finance costs	6	(6,835)	(5,984)	(2,379)	(1,788)
Share of profit of a joint venture		–	538	–	–
(Loss)/profit before income tax expense	7	(1,696)	15,651	(3,278)	6,428
Income tax credit/(expense)	8	464	(2,707)	730	(1,270)
(Loss)/profit and total comprehensive income for the period		(1,232)	12,944	(2,548)	5,158
(Loss)/profit and total comprehensive income attributable to:					
Owners of the Company		(1,666)	10,895	(2,810)	3,887
Non-controlling interests		434	2,049	262	1,271
		(1,232)	12,944	(2,548)	5,158
(Loss)/earnings per share for the (loss)/profit attributable to owners of the Company during the period (expressed in RMB cents per share)					
– Basic and diluted	10	(0.25)	1.82	(0.36)	0.65

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 30 September 2020

	Equity attributable to owners of the Company						Non-	Total
	Share capital RMB'000	Share premium RMB'000	Capital reserves RMB'000	Retained earnings RMB'000	Statutory reserves RMB'000	Total RMB'000	controlling interests RMB'000	
As at 1 January 2020	-*	-	69,696	35,738	6,323	111,757	27,644	139,401
Loss and total comprehensive income for the period	-	-	-	(1,666)	-	(1,666)	434	(1,232)
Transfer to statutory reserves	-	-	-	(950)	950	-	-	-
Capitalisation issue (Note i)	5,386	(5,386)	-	-	-	-	-	-
Issue of shares under share offer (Note ii)	1,795	52,065	-	-	-	53,860	-	53,860
Share issue expenses	-	(16,395)	-	-	-	(16,395)	-	(16,395)
At 30 September 2020	7,181	30,284	69,696	33,122	7,273	147,556	28,078	175,634
At 1 January 2019	-*	-	72,000	12,921	2,533	87,454	(93)	87,361
Profit and total comprehensive income for the period	-	-	-	10,895	-	10,895	2,049	12,944
Acquisition of a subsidiary	-	-	-	-	-	-	27,971	27,971
Issue of ordinary shares	-*	-	-	-	-	-	-	-
Deemed distribution to the then shareholders of a subsidiary pursuant to the reorganisation (Note iii)	-	-	(2,304)	-	-	(2,304)	-	(2,304)
Dividend to non-controlling interests	-	-	-	-	-	-	(3,380)	(3,380)
Transfer to statutory reserves	-	-	-	(2,027)	2,027	-	-	-
At 30 September 2019	-*	-	69,696	21,789	4,560	96,045	26,547	122,592

* Represents the amount less than RMB1,000

Notes:

- (i) Pursuant to the written resolutions of all shareholders of the Company passed on 10 June 2020, the Directors were authorised to capitalise the amount of Hong Kong Dollars ("HK\$") 5,999,900 from the share premium account of the Company by applying such sum towards paying up in full at par a total of 599,990,000 ordinary shares for capitalisation issue.
- (ii) Upon the listing of the shares on GEM of the Stock Exchange (the "Listing"), the Company issued 200,000,000 ordinary shares of HK\$0.01 each at a price of HK\$0.3 per share pursuant to the share offer.
- (iii) As part of the reorganisation, 蜀塔企业管理(广元)有限公司 (Saftower Management (Guangyuan) Limited*) acquired 96% of the equity interests of 广元蜀塔科技有限公司 (Guangyuan Saftower Technology Company Limited*) from the then shareholders, at cash considerations of RMB2,304,000.

* English translated names are for identification purpose only

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 30 September 2020

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands on 9 October 2018. The address of the Company's registered office is 4th Floor, Harbour Place, 103 South Church Street, P.O. Box 10240, Grand Cayman KY1-1002, Cayman Islands and its principal place of business in the People's Republic of China (the "**PRC**") is No. 9, Huaide Road, Sichuan-Zhejiang Cooperation Industrial Park, Guangyuan Economic and Technological Development Zone, Guangyuan, Sichuan Province, the PRC. The Company is an investment holding company and its subsidiaries are principally engaged in the manufacturing and sales of wires and cables and sale of aluminium products in the PRC.

The shares of the Company (the "**Share(s)**") were listed on GEM of the Stock Exchange on 10 July 2020 (the "**Listing Date**").

2. BASIS OF PREPARATION OF THE FINANCIAL INFORMATION

These unaudited consolidated financial statements of the Group for the nine months ended 30 September 2020 have been prepared in accordance with the accounting principles generally accepted in Hong Kong and comply with Hong Kong Financial Reporting Standard ("**HKFRSs**"), issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and the applicable disclosure provisions of the GEM Listing Rule.

These unaudited consolidated financial statements for the nine months ended 30 September 2020 and notes do not include all of the information and disclosures required for a complete set of financial statements prepared in accordance with HKFRSs and should be read in conjunction with the accountants' report included in the prospectus of the Company dated 24 June 2020 (the "**Accountants' Report**")

The adoption of the new and revised HKFRSs has had no significant effect on these unaudited consolidated financial statements for the nine months ended 30 September 2020 and there have been no significant changes to the accounting policies applied in these unaudited consolidated financial statements for the nine months ended 30 September 2020.

2. BASIS OF PREPARATION OF THE FINANCIAL INFORMATION

(CONTINUED)

The Group has not applied new and revised standards, amendments or interpretations that have been issued but are not yet effective. The Group is currently assessing the impact of the adoption of such new and revised standards, amendments or interpretations to the Group but is yet to be in a position to state whether they would have any material financial impact on the Group's results of operations and financial position.

These unaudited consolidated financial statements for the nine months ended 30 September 2020 have been prepared under the historical cost basis.

These unaudited consolidated financial statements for the nine months ended 30 September 2020 are presented in Renminbi ("**RMB**"), unless otherwise stated.

These consolidated financial statements have not been audited or reviewed by the Company's independent auditor, but have been reviewed by the audit committee of the Board (the "**Audit Committee**").

3. SEGMENT REPORTING

Operating segments

During the nine months ended 30 September 2020 and 30 September 2019, the Group was principally engaged in manufacturing and sales of wires and cables and sales of aluminium products in the PRC. Information reported to the Group's CODM, for the purpose of resources allocation and performance assessment, focuses on the operating results of the Group as a whole. The Group's resources are integrated and as a result, no discrete operating segment financial information is available. For management purpose, the Group has only one reportable operating segment which is the manufacturing and sales of wires and cables and sales of aluminium products. Accordingly, no operating segment information is presented.

Geographic information

The Group's revenue during the nine months ended 30 September 2020 and 30 September 2019 was all derived from customers based in the PRC and all the Group's non-current assets are located in the PRC. Therefore, no geographical segment reporting is presented.

4. REVENUE

Revenue represents the amount received and receivable from manufacturing and sales of wires and cables and sales of aluminium products during the period.

	Nine months ended 30 September		Three months ended 30 September	
	2020 RMB'000 (unaudited)	2019 RMB'000 (unaudited)	2020 RMB'000 (unaudited)	2019 RMB'000 (unaudited)
Revenue from contracts with customers				
<i>Type of goods</i>				
Manufacturing and sales of wires and cables, recognised at a point in time	346,126	390,422	137,576	171,106
Sales of aluminium products, recognised at a point in time	2,230	45,335	2,230	421
	348,356	435,757	139,806	171,527

The Group applies the practical expedient of not disclosing the transaction price allocated to remaining performance obligations that is part of a contract that has original expected duration of one year or less.

5. OTHER INCOME AND GAINS

	Notes	Nine months ended 30 September		Three months ended 30 September	
		2020 RMB'000 (unaudited)	2019 RMB'000 (unaudited)	2020 RMB'000 (unaudited)	2019 RMB'000 (unaudited)
Other income					
Interest income		6	15	2	13
Government grants and subsidies	(i)	3,385	8,058	2,195	2,079
Agency fee income		—	3,134	—	611
Sales of scrap metals and consumables		130	—	—	—
Rental income	(ii)	—	530	—	—
		3,521	11,737	2,197	2,703
Gains					
Gain on a bargain purchase		—	942	—	—
Reversal of expected credit losses ("ECLs") on trade receivables		—	56	—	56
Others		161	66	50	24
		161	1,064	50	80
		3,682	12,801	2,247	2,783

Notes:

- The Group received government grants and subsidies in relation to the support of the Group's operations, purchase of plant and machinery and the reward of the employment of disabled people in the PRC. There were no unfulfilled conditions in relation to the grants and subsidies.
- During the nine months ended 30 September 2019, the Group leased its buildings to the then joint venture, Guangyuan Tongchuang.

6. FINANCE COSTS

	Nine months ended 30 September		Three months ended 30 September	
	2020 RMB'000 (unaudited)	2019 RMB'000 (unaudited)	2020 RMB'000 (unaudited)	2019 RMB'000 (unaudited)
Interest expenses on bank and other borrowings	6,825	5,969	2,376	1,783
Interest expenses on lease liabilities	10	15	3	5
	6,835	5,984	2,379	1,788

7. (LOSS)/PROFIT BEFORE INCOME TAX EXPENSE

(Loss)/profit before income tax expense is arrived at after charging/(crediting):

	Nine months ended 30 September		Three months ended 30 September	
	2020 RMB'000 (unaudited)	2019 RMB'000 (unaudited)	2020 RMB'000 (unaudited)	2019 RMB'000 (unaudited)
Costs of inventories recognised as expense	323,672	405,442	130,007	156,861
Auditor's remuneration	226	—	202	—
Depreciation of property, plant and equipment	4,950	4,560	1,578	1,783
Depreciation of right-of-use assets	486	486	162	162
Amortisation of intangible assets	11	11	4	4
Research and development costs (other than amortisation costs)	982	1,157	301	3
Release of deferred income	(276)	(276)	(92)	(92)
Allowance for/(reversal of) ECLs on trade receivables	251	(56)	117	(56)
Allowance for ECLs on other receivables	—	127	—	45
Listing expenses	7,838	5,572	6,973	2,901
Employee costs (including directors' remuneration)				
Wages, salaries, allowances and other benefits	6,780	6,327	2,118	2,267
Contributions to defined contribution retirement plan	953	1,513	499	567
	7,733	7,840	2,617	2,834

8. INCOME TAX (CREDIT)/EXPENSE

The income tax (credit)/expense in the unaudited condensed consolidated statement of profit or loss and other comprehensive income during the period represents:

	Nine months ended 30 September		Three months ended 30 September	
	2020 RMB'000 (unaudited)	2019 RMB'000 (unaudited)	2020 RMB'000 (unaudited)	2019 RMB'000 (unaudited)
Current tax				
— tax for the period	42	2,949	(464)	1,270
— over-provision in respect of prior year	—	(383)	—	—
	42	2,566	(464)	1,270
Deferred tax	(506)	141	(266)	—
Income tax (credit)/expense	(464)	2,707	(730)	1,270

No Hong Kong profits tax was provided during the nine months ended 30 September 2020 (nine months ended 30 September 2019: nil) as the Group has no estimated assessable profit in Hong Kong during the period (nine months ended 30 September 2019: nil).

Provision for the Enterprise Income Tax (“EIT”) in the PRC is calculated based on a statutory tax rate of 25% of the estimated assessable profits as determined in accordance with the income tax laws and regulations applicable to the operating subsidiaries in the PRC except certain subsidiaries are entitled to a preferential tax rate of 15% in the PRC as mentioned below.

四川蜀塔實業有限公司 (Sichuan Saftower Industry Company Limited*) (“**Sichuan Saftower**”) was approved as High and New Technology Enterprise, and accordingly, it is subject to a preferential EIT tax rate of 15% during the nine months ended 30 September 2020 and 30 September 2019.

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8. INCOME TAX (CREDIT)/EXPENSE (CONTINUED)

廣元同創新材料有限公司 (Guangyuan Tongchuang New Materials Company Limited*) (“**Guangyuan Tongchuang**”) is subject to 10% income tax concession due to the preferential tax policy of the development of the western region fulfilled for the nine months ended 30 September 2020 and 30 September 2019. According to “Circular on Issues Concerning Relevant Tax Policies in Deepening the Implementation of the Western Development Strategy” (《關於深入實施西部大開發戰略有關稅收政策問題的通知》) (Cai Shui [2011] No. 58) (財稅[2011] 58 號), from 1 January 2011 to 31 December 2020, EIT imposed upon any enterprise established in western regions and included among the encouraged industries shall be collected at the reduced rate of 15%.

9. DIVIDEND

The Directors resolved not to recommend the payment of any interim dividend for the nine months ended 30 September 2020 (nine months ended 30 September 2019: nil).

During the nine months ended 30 September 2019, final dividends of approximately RMB4,894,000 in respect of the year ended 31 December 2018 were declared by Guangyuan Tongchuang to its shareholders before the Listing.

10. (LOSS)/EARNINGS PER SHARE

The calculation of (loss)/earnings per share for the period is based on the (loss)/profit for the nine months ended 30 September 2020 of RMB1,666,000 (2019: RMB10,895,000), and the weighted average number of ordinary Shares of 660,583,942 in issue (2019: 600,000,000 Shares of the Company in issue, which represents the number of Shares of the Company immediately after the reorganisation and the capitalisation issue but excluding any Shares issued pursuant to the Share Offer as if these Shares issued under the reorganisation and the capitalisation issue had been issued on 1 January 2019.)

Diluted (loss)/earnings per share are same as the basic (loss)/earnings per share as there are no dilutive potential ordinary Shares in existence during the nine months ended 30 September 2020 and 30 September 2019.

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MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

The Group is a regional manufacturer and supplier of wires and cables, with integrated production facilities situated in Chengdu and Guangyuan of Sichuan Province, the PRC. The Group's products can be broadly classified into four categories: (i) finished wires and cables; (ii) semi-finished wires; (iii) aluminium products; and (iv) other products, which comprise cable accessories. The Group's portfolio of finished wires and cables products comprises classic and special products. Apart from finished wires and cables, the Group also produce semi-finished wires comprising aluminium rods and bare copper wires to maximise the Group's market exposure and enlarge its market share.

During the nine months ended 30 September 2020, the Group continued to engage in the manufacturing and sales of wires and cables and continued to serve a large number of customers, mainly are power companies, manufacturing enterprises, construction and renovation companies as well as trading companies which purchase products from the Group for onward sale on their own accounts.

There has been an outbreak of a highly contagious respiratory disease (COVID-19) (the **"Pandemic"**) in China in late 2019. As a result of the outbreak of the Pandemic and the corresponding public health measures taken by the PRC government, the operation of the Group was suspended from the Lunar New Year holiday to 2 March 2020. The production and business operation of the Group had recovered since the second quarter of 2020.

On 10 July 2020, the Shares of the Company, were successfully listed on GEM. For further details of the Group's business objectives, strategies and implementation plans, please refer to the section headed "Future Plans and Use of Proceeds" in the prospectus by the Company dated 24 June 2020 (the **"Prospectus"**) and the section headed "Use of Proceeds from the Listing" in this report.

FUTURE PROSPECTS

The economic outlook and operating environment of the PRC are anticipated to be more challenging in the second half of 2020 as a result of the outbreak of the Pandemic and the flooding crisis occurred in July and August 2020. The medium-to-long-term economic growth of the PRC has slowed down. The declining global industrial output and depressed trading added the uncertainties to the operating environment of the market.

The Group will continue to adopt a pragmatic and positive approach to develop the business to enhance the profitability of the Group and interests of the shareholders of the Company. Particularly, benefiting from the Western Development Strategy (《西部大開發戰略》), Sichuan Province has long been acting an important role in the economic development of Southwest China. The development of multiple industries such as power generation, infrastructure construction, communication and petrochemical has created a strong demand for wire and cable products.

Thus, the Group is positive that the financial performance in coming years will be improved.

FINANCIAL REVIEW

Revenue

The following 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 review periods:

For the nine month
ended 30 September

	Revenue		Gross profit		Gross profit margin	
	2020 RMB'000 (unaudited)	2019 RMB'000 (unaudited)	2020 RMB'000 (unaudited)	2019 RMB'000 (unaudited)	2020	2019
Classic finished wires and cables						
Copper wires and cables	29,524	56,713	3,844	8,598	13.0%	15.2%
Aluminium wires and cables	109,841	142,624	7,869	9,701	7.2%	6.8%
Special finished wires and cables						
Copper wires and cables	4,909	10,365	1,381	2,447	28.1%	23.6%
Aluminium wires and cables	32,206	15,088	7,083	3,605	22.0%	23.9%
Semi-finished wires						
Bare copper wires	76,543	38,053	1,344	437	1.8%	1.1%
Aluminium rods	92,430	126,918	3,033	4,855	3.3%	3.8%
Aluminium products	2,230	45,335	2	537	0.1%	1.2%
Others	673	661	128	135	19.0%	20.4%
	348,356	435,757	24,684	30,315	7.1%	7.0%

During the period under review, the Group generated its revenue mainly from the manufacturing and sales of wires and cables and sales of aluminium products in the PRC. The Group recorded a turnover of approximately RMB348.4 million, representing a decrease of approximately 20.1% as compared with that in the corresponding period in 2019. The decrease in revenue was mainly due to the outbreak of the Pandemic and the flooding crisis in the PRC caused by torrential rains, particularly in July and August 2020, which resulted in the temporary suspension of business operation of certain customers of the Group and the suspension of construction projects causing delayed sales orders placed by certain customers of the Group.

Cost of sales

The Group's 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. Cost of sales decreased from RMB405.4 million for the nine months ended 30 September 2019 to RMB323.7 million for the nine months ended 30 September 2020, representing a decrease of RMB81.7 million, or 20.2%, which was in line with the revenue reduction of 20.1%.

Gross profit and gross profit margin

For the nine months ended 30 September 2019 and 2020, the Group's gross profit amounted to RMB30.3 million and RMB24.7 million, respectively, with a gross profit margin of 6.96% and 7.1%, respectively. In general, the gross profit margin of special finished wires and cables is higher than other products. During the nine months ended 30 September 2020, the gross profit margin increased due to (i) the increased revenue contribution from sales of high-margin special finished wires and cables during nine months ended 30 September 2020 by approximately RMB11.7 million, or 45.8%; and (ii) the cessation of trading of low-margin aluminium products during the nine months ended 30 September 2020.

Other income and gains

Other income and gains dropped from approximately RMB12.8 million for the nine months ended 30 September 2019 to approximately RMB3.7 million for the nine months ended 30 September 2020. The decrease is mainly due to (i) the decrease in government grants and subsidies as compared to the nine months ended 30 September 2019 due to the PRC government postponing the payment of government grants and subsidies of approximately RMB5.5 million under the impact of the Pandemic; and (ii) no agency fee income was recorded during the nine months ended 30 September 2020 following the cessation of all aluminium oxide agency service arrangements in December 2019 whereas approximately RMB3.1 million was recorded in the nine months ended 30 September 2019.

Selling and distribution expenses

The Group's selling and distribution expenses consist of (i) transportation expenses, (ii) staff wages and benefits, (iii) entertainment and travel expenses, and (iv) others.

Selling and distribution expenses decreased by RMB2.1 million or 32.7% in 2020 which was in line with the drop of revenue in 2020.

Administrative and other expenses

The Group's 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.

Administrative and other expenses increased from RMB10.1 million for the nine months ended 30 September 2019 to RMB11.1 million for the nine months ended 30 September 2020, representing an increase of RMB1.0 million, or 10.1%. The increase was mainly due to the increase in legal and professional fee of approximately RMB0.6 million after the Listing during the nine months ended 30 September 2020.

Finance costs

Finance costs of the Group had increased from approximately HK\$6.0 million for the nine months ended 30 September 2019 to approximately HK\$6.8 million for the nine months ended 30 September 2020. The increase in amount was mainly contributed to the increase in average amount of borrowings during the nine months ended 30 September 2020.

Share of profit of joint venture

No share of profit of a joint venture was recorded during the nine months ended 30 September 2020 because the entity in the joint venture had become a subsidiary of the Group in April 2019 through the completion of acquisition. For details, please refer to the section headed “Guangyuan Tongchuang” in the Prospectus.

Income tax (credit) expense

The 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 the Group domicile or operate. The Group’s taxation turned from expense of approximately RMB2.7 million for the nine-month period ended 30 September 2019 to credit of approximately RMB0.5 million for the period under review. The decrease in taxation was due to the decrease in taxable income and increase of credit of deferred taxation during the nine months ended 30 September 2020.

(Loss) Profit attributable to owners for the period

For the nine months ended 30 September 2020, a loss attributable to the owners of the Company of approximately RMB1.7 million, whereas a profit attributable to the owners of the Company of approximately 10.1 million in the corresponding period in 2019, as a result of the combined effects as discussed above.

CONTINGENT LIABILITIES

As at 30 September 2020, the outstanding material civil claim made against the Group by Guizhou Galuminium Aluminium-oxide Co., Ltd. (“**Guizhou Galuminium**”) was settled. For details of the claim, please refer to the section headed “Business — Litigation — Potential claim against our Group” in the Prospectus. In July 2020, under the mediation of the People’s Court of Qingzhen City, Guizhou Province, the Group settled the case with Guizhou Galuminium for a settlement sum of approximately RMB1.5 million paid to Guizhou Galuminium. Subsequently, in early August 2020, Guangyuan Hong Sheng Aluminium Technology Company Limited fully indemnified the Group of the same amount as the settlement sum mentioned above. As a result, the Group had no loss arising from such case.

After settlement of the above claim, the Group had no material contingent liabilities as at 30 September 2020.

SIGNIFICANT INVESTMENT HELD, MATERIAL ACQUISITION OR DISPOSAL OF SUBSIDIARIES AND AFFILIATED COMPANIES AND PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS

Save for the reorganisation undertaken by the Group for the purpose of Listing as disclosed in the Prospectus, there was no significant investment held, material acquisition or disposal of subsidiaries and affiliated companies during the nine months ended 30 September 2020, and there was no plan for material investment or capital assets to be undertaken by the Group as at the date of this report.

USE OF NET PROCEEDS FROM THE LISTING

The net proceeds (the “**Net Proceeds**”) from the Listing, after deducting listing-related expenses, were approximately HK\$20.6 million (equivalent to approximately RMB18.6 million). The Net Proceeds will be applied by the Group for the purposes in accordance with the disclosure in the section headed “Future Plans and Use of Proceeds” as set out in the Prospectus. Due to the slowdown in the progress of expanding our production plant, our plan of expanding our existing production facilities and production plant is now scheduled to be completed by 30 June 2021. Details of the intended use of Net Proceeds are set out below:

	Approximately percentage of the total amount	Amount of net proceeds allocated HK\$'000	Amount utilised up to 30 September 2020 HK\$'000	Unutilised balance as at 30 September 2020 HK\$'000	Expected time frame for remaining unused net proceeds (Note)
Expanding our existing production facilities and production plant	55.0%	11,330	6,613	4,717	By 30 June 2021
Repaying part of our existing loan	25.0%	5,150	5,150	—	Not applicable
Funding the upfront costs for the commercial production of the Shuneng Plant	10.0%	2,060	2,060	—	Not applicable
Used for general working capital of our Group	10.0%	2,060	2,060	—	Not applicable
	100.0%	20,600	15,883	4,717	

Note: The expected timeline for utilising the remaining proceeds is based on the best estimation of the future market conditions made by the Group. It will be subject to change based on current and future development of market conditions.

DIVIDENDS

The Board resolved not to declare any dividend for the nine months ended 30 September 2020 (nine months ended 30 September 2019: Nil).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

The Shares were first listed on GEM on 10 July 2020. Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Shares since the Listing Date and up to 30 September 2020.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Group's corporate governance practices are based on the principles and the code provisions in the Corporate Governance Code (the **"CG Code"**) as set out in Appendix 15 to the GEM Listing Rules.

The Company has complied with the code provisions of the CG Code from the Listing Date up to the date of this report, other than the code provision A.2.1. CG Code provision A.2.1 stipulates that the roles of chairman and chief executive should be separated and should not be performed by the same individual. Mr. Dang Fei (**"Mr. Dang"**) is the chairman and the chief executive officer of the Company. In view of Mr. Dang being one of the co-founders of the Group and has been managing the Group's business and supervising overall strategic planning since its establishment, the Board believes that it is in the best interest of the Group to have Mr. Dang taking up both roles for effective management and business development. Therefore the Directors consider that the deviation from the CG Code provision A.2.1 is appropriate in such circumstance.

The Board believes that the balance of power and authority is adequately ensured by the operations of the Board which comprises experienced and high-caliber individuals, with three of them being independent non-executive Directors.

CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules (the “**Model Code**”). The Company, having made specific enquiry to all the Directors, is not aware of any non-compliance with the required standard of dealings and the Model Code since the Listing Date and up to the date of this report.

Pursuant to Rule 5.66 of the Model Code, the Directors have also requested any employee of the Company or director or employee of a subsidiary of the Company who, because of his office or employment in the Company or a subsidiary, is likely to possess inside information in relation to the securities of the Company, not to deal in securities of the Company when he would be prohibited from dealings by the Model Code as if he was a Director.

INTEREST OF COMPLIANCE ADVISER

The Company has appointed Alliance Capital Partners Limited (the “**Compliance Adviser**”) to be the compliance adviser pursuant to Rule 6A.19 of the GEM Listing Rules. As notified by the Compliance Adviser, as at the date of this report, save for the compliance adviser agreement dated 20 August 2018 entered into between the Company and the Compliance Adviser, neither the Compliance Adviser nor its directors, employees or close associates (as defined under the GEM Listing Rules) had any interests in relation to the Group which is required to be notified to the Group pursuant to Rule 6A.32 of the GEM Listing Rules.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ITS ASSOCIATED CORPORATIONS

As at 30 September 2020, the interests and short positions in the Shares, underlying Shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 the Laws of Hong Kong) (the “SFO”) held by the Directors and chief executive of the Company which have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) or which would be required to be entered in the register maintained by the Company pursuant to section 352 of the SFO, or otherwise have to be notified to the Company and the Stock Exchange pursuant to the Model Code are as follows:

Long position in the Shares

Name of Director/ chief executive	Capacity/ Nature of interest	Number of Shares interested	Approximate percentage of interest
Mr. Dang Fei	Interest in controlled corporation (<i>Note 1</i>)	351,280,000	43.91%
	Interest held jointly with another person (<i>Note 2</i>)		
Mr. Wang Xiaozhong	Interest in controlled corporation (<i>Note 3</i>)	99,760,000	12.47%
Ms. Luo Xi	Interest in controlled corporation (<i>Note 4</i>)	6,350,000	0.79%
	Beneficial owner	2,160,000	0.27%

Notes:

1. The Shares were held by Red Fly Investment Limited (“Red Fly”). Red Fly is owned as to 80.79% by Mr. Dang Fei and 19.21% by Mr. Dang Jun. By virtue of SFO, Mr. Dang Fei is deemed to be interested in the same number of Shares held by Red Fly.
2. Mr. Dang Fei and Mr. Dang Jun are parties acting in concert pursuant to an acting in concert agreement dated 4 July 2019. As such, Mr. Dang Fei and Mr. Dang Jun will together control 43.91% of the issued share capital of the Company.
3. The Shares were held by Xseven Investment Limited (“Xseven Investment”). Xseven Investment is owned as to 100% by Mr. Wang Xiaozhong. Under the SFO, Mr. Wang Xiaozhong is deemed to be interested in the same number of Shares held by Xseven Investment.
4. The Shares were held by Lockxy Investment Limited (“Lockxy Investment”). Lockxy Investment is owned as to 68% by Ms. Luo Xi. By virtue of SFO, Ms. Luo Xi is deemed to be interested in the same number of Shares held by Lockxy Investment.

Save as disclosed above and so far as known to the Directors, as at 30 September 2020, none of the Directors and chief executive of the Company had any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would be required to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he is taken or deemed to have under such provisions of the SFO) or which would be required, pursuant to Section 352 of the SFO and the Model Code, to be entered in the register referred to therein, or which would be required pursuant to Rule 5.46 of the GEM Listing Rules to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 September 2020, so far as is known to the Directors, the following persons (other than the Directors or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which fell to be disclosed to the Company and the Stock Exchange under Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name of Shareholder	Capacity/ Nature of interest	Number of Shares interested (Long position)	Approximate percentage of interest
Red Fly	Beneficial owner (<i>Note 1</i>)	351,280,000	43.91%
Mr. Dang Jun	Interest held jointly with another person (<i>Note 2</i>)	351,280,000	43.91%
Ms. Li Li	Interest of spouse (<i>Note 3</i>)	351,280,000	43.91%
Xseven Investment	Beneficial owner (<i>Note 4</i>)	99,760,000	12.47%
Ms. Gao Hong	Interest of spouse (<i>Note 5</i>)	99,760,000	12.47%

Notes:

1. The Shares were held beneficially by Red Fly. Red Fly is owned as to 80.79% by Mr. Dang Fei and 19.21% by Mr. Dang Jun.
2. Mr. Dang Fei and Mr. Dang Jun are parties acting in concert pursuant to an acting in concert agreement dated 4 July 2019. As such, Mr. Dang Fei and Mr. Dang Jun will together control 43.91% of the issued share capital of the Company.

3. Ms. Li Li is the spouse of Mr. Dang Jun. Under the SFO, Ms. Li Li is deemed to be interested in the same number of Shares held by Mr. Dang Jun.
4. The Shares were held beneficially by Xseven Investment. Xseven Investment is owned as to 100% by Mr. Wang Xiaozhong.
5. Ms. Gao Hong is the spouse of Mr. Wang Xiaozhong. Under the SFO, Ms. Gao Hong is deemed to be interested in the same number of Shares owned by Mr. Wang Xiaozhong.

Save as disclosed above, as at 30 September 2020, the Company had not been notified by any parties (not being a Director or the chief executive of the Company) who had interests or short positions in the Shares or underlying Shares, which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were required to be recorded in the register maintained by the Company pursuant to Section 336 of the SFO.

COMPETING INTERESTS

The Directors were not aware of any business or interest of the controlling shareholders of the Company or the Directors and their respective close associates (as defined in the GEM Listing Rules) is interested in any business apart from the business operated by the Group which competes or is likely to compete, directly or indirectly, with the Group's business, or had any other conflict of interest with the Group, during the nine months ended 30 September 2020.

SHARE OPTION SCHEME

The Company conditionally adopted a share option scheme (the “**Share Option Scheme**”) on 10 June 2020. The terms of the Share Option Scheme are in accordance with the provisions of Chapter 23 of the GEM Listing Rules. The principal terms of the Share Option Scheme are summarised in the paragraph headed “D. Share Option Scheme” in Appendix V to the Prospectus. Since the Listing Date and up to the date of this report, no option has been granted, exercised, cancelled or lapsed under the Share Option Scheme.

EVENTS AFTER THE REPORTING PERIOD

There are no significant events occurred subsequent to 30 September 2020 and up to the date of this report which requires disclosure.

AUDIT COMMITTEE AND REVIEW OF THIRD QUARTERLY RESULTS

The Company has established the Audit Committee on 10 June 2020 with its terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules, and paragraphs C.3.3 and C.3.7 of the CG Code. The Audit Committee consists of three members, namely, Mr. Chan Oi Fat, Dr. Zuo Xinzhang and Ms. Hu Xiaomin, all being independent non-executive Directors. Mr. Chan Oi Fat currently serves as the chairman of the audit committee.

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and the unaudited condensed consolidated financial statements of the Group for the nine months ended 30 September 2020 and was of the opinion that the preparation of such statements complied with applicable accounting standards and the requirements under the GEM Listing Rules, and adequate disclosures have been made.

By order of the Board
China Saftower International Holding Group Limited
Dang Fei
Chairman and Executive Director

Hong Kong, 13 November 2020

As at the date of this report, the executive Directors are Mr. Dang Fei, Mr. Wang Xiaozhong, Ms. Luo Xi and Mr. Luo Qiang, the non-executive Director is Mr. Wang Haichen and the independent non-executive Directors are Dr. Zuo Xinzhang, Mr. Chan Oi Fat and Ms. Hu Xiaomin.

This report will remain on the "Latest Listed Company Information" page of the GEM website at www.hkgem.com for at least 7 days from the day of its publication. This report will also be published on the Company's website at www.saftower.cn.

In the case of inconsistency, the English text of this announcement shall prevail over the Chinese text.

* The English translation of Chinese names or words in this report, where indicated, is included for information purpose only and should not be regarded as the official English translation of such Chinese names or words.