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China Saftower International Holding Group Limited

中國蜀塔國際控股集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8623)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

*This announcement, for which the directors (the “**Directors**”) of China Saftower International 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. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this announcement 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 announcement misleading.*

The board of Directors (the “**Board**”) of China Saftower International Holding Group Limited is pleased to announce the consolidated annual results of the Company and its subsidiaries (collectively, the “**Group**”) for the year ended 31 December 2020 with the comparative figures for the year ended 31 December 2019 as follows:

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**

FOR THE YEAR ENDED 31 DECEMBER 2020

	<i>Notes</i>	2020 <i>RMB’000</i>	2019 <i>RMB’000</i>
Revenue	4	518,159	685,530
Cost of sales		<u>(481,703)</u>	<u>(631,656)</u>
Gross profit		36,456	53,874
Other income and gains	5	8,285	20,838
Selling and distribution expenses		(6,006)	(9,068)
Administrative and other expenses		(18,900)	(15,491)
Listing expenses		(7,795)	(8,920)
Finance costs	6	(9,374)	(7,877)
Share of profit of a joint venture		<u>—</u>	<u>538</u>
Profit before income tax credit/(expense)	7	2,666	33,894
Income tax credit/(expense)	8	<u>124</u>	<u>(4,141)</u>
Profit for the year		<u>2,790</u>	<u>29,753</u>
<i>Other comprehensive income:</i>			
<i>Item that may be reclassified subsequently to profit or loss</i>			
Exchange differences on translating foreign operations		<u>(535)</u>	<u>—</u>
Total comprehensive income for the year		<u>2,255</u>	<u>29,753</u>

	<i>Notes</i>	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Profit for the year attributable to:			
Owners of the Company		1,895	26,607
Non-controlling interests		895	3,146
		<u>2,790</u>	<u>29,753</u>
Total comprehensive income for the year attributable to:			
Owners of the Company		1,360	26,607
Non-controlling interests		895	3,146
		<u>2,255</u>	<u>29,753</u>
Earnings per share attributable to owners of the Company:			
Basic and diluted (<i>RMB cents</i>)	<i>10</i>	<u>0.27</u>	<u>4.43</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2020

	<i>Notes</i>	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		122,038	119,013
Intangible assets		223	112
Interest in a joint venture		—	—
Deferred tax assets		445	—
Right-of-use assets		10,427	10,134
Deposits and prepayments	<i>12</i>	1,185	190
Total non-current assets		134,318	129,449
Current assets			
Inventories		16,739	20,771
Trade and bills receivables	<i>11</i>	161,483	148,035
Prepayments, deposits and other receivables	<i>12</i>	24,456	33,301
Amounts due from shareholders		5	5
Cash and cash equivalents		12,073	2,726
Total current assets		214,756	204,838
Total assets		349,074	334,287
Current liabilities			
Contract liabilities		3,021	6,804
Trade payables	<i>13</i>	56,674	67,849
Accruals and other payables	<i>14</i>	6,989	14,477
Amount due to a shareholder		160	—
Borrowings		97,298	95,478
Deferred income		368	368
Lease liabilities		575	356
Income tax payable		451	2,172
Total current liabilities		165,536	187,504
Net current assets		49,220	17,334
Total assets less current liabilities		183,538	146,783

	<i>Notes</i>	2020 RMB'000	2019 <i>RMB'000</i>
Non-current liabilities			
Borrowings		3,081	3,684
Deferred income		2,085	2,453
Deferred tax liabilities		1,497	1,061
Lease liabilities		731	184
		<hr/>	<hr/>
Total non-current liabilities		7,394	7,382
		<hr/>	<hr/>
Net assets		176,144	139,401
		<hr/> <hr/>	<hr/> <hr/>
EQUITY			
Share capital	<i>15</i>	7,226	—*
Reserves		143,759	111,757
		<hr/>	<hr/>
Equity attributable to owners of the Company		150,985	111,757
Non-controlling interests		25,159	27,644
		<hr/>	<hr/>
Total equity		176,144	139,401
		<hr/> <hr/>	<hr/> <hr/>

* Represents the amount less than RMB1,000

NOTES TO THE FINANCIAL INFORMATION

1. GENERAL

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 at 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. The Group is principally engaged in the manufacturing and sale of wires and cables and sale of aluminium products in the PRC.

The consolidated financial statements for the year ended 31 December 2020 were approved and authorised for issue by the Board of the Company on 26 March 2021.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

2.1 Adoption of new or amended HKFRSs — effective 1 January 2020

The Hong Kong Institute of Certified Public Accountants has issued a number of new or amended HKFRSs that are first effective for the current accounting period of the Group:

Amendments to HKFRS 3	Definition of a Business
Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKAS 39, HKFRS 7 and HKFRS 9	Interest Rate Benchmark Reform

None of these new or amended HKFRSs has a material impact on the Group's results and financial position for the current or prior period. The Group has not early applied any new or amended HKFRSs that is not yet effective for the current accounting period except for the amendments to HKFRS 10 and HKAS 28 — Sale or Contribution of Assets between an Investor and its Associate or Joint Venture, which was retrospectively adopted since 1 January 2017 and has no significant impact on the Group's financial position and performance, although the mandatory effective date of such amendments is to be determined.

2.2 New or amended HKFRSs that have been issued but are not yet effective

The following new or amended HKFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group. The Group's current intention is to apply these changes on the date they become effective.

Amendment to HKFRS 16	Covid-19 — Related Rent Concession ¹
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform — Phase 2 ²
Amendments to HKFRS 3	Reference to the Conceptual Framework ⁵
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract ³
Amendment to HKAS 16	Property, Plant and Equipment: Proceeds before Intended Use ³
Amendments to HKFRSs HKFRS 17	Annual Improvements to HKFRSs 2018–2020 ³
Amendments to HKAS 1	Insurance Contracts ⁴
	Classification of Liabilities as Current or Non- current and HK Interpretation 5 (2020), Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause ⁴

¹ Effective for annual periods beginning on or after 1 June 2020

² Effective for annual periods beginning on or after 1 January 2021

³ Effective for annual periods beginning on or after 1 January 2022

⁴ Effective for annual periods beginning on or after 1 January 2023

⁵ Effective for business combinations for which the date of acquisition is on or after the beginning of the first annual period beginning on or after 1 January 2022

The directors of the Company do not anticipate the application of these new or amended HKFRSs in future will have any significant impact on the Group's financial statements.

3. SEGMENT INFORMATION

(a) Operating segments

During the year, the Group was principally engaged in manufacturing and sale of wires and cables and sale of aluminium products in the PRC. Information reported to the Group's chief operating decision maker, 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 sale of wires and cables and sale of aluminium products. Accordingly, no operating segment information is presented.

(b) Geographic information

The Group's revenue 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.

(c) Information about major customers

Revenue from customers for the year contributing over 10% of the total revenue of the Group is as follows:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Customer A	59,053	N/A ⁽¹⁾
Customer B	N/A⁽¹⁾	70,965

⁽¹⁾ The corresponding revenue did not contribute over 10% revenue of the Group.

4. REVENUE

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Revenue from contracts with customers		
<i>Type of goods</i>		
Manufacturing and sale of wires and cables, recognised at a point in time	515,929	640,195
Sale of aluminium products, recognised as a point in time	2,230	45,335
	<u>518,159</u>	<u>685,530</u>

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

5. OTHER INCOME AND GAINS

	<i>Notes</i>	2020 RMB'000	2019 RMB'000
Other income			
Interest income		16	16
Government grants and subsidies	(i)	7,196	15,008
Agency fee income		—	3,134
Compensation income		57	—
Rental income	(ii)	249	530
		<u>7,518</u>	<u>18,688</u>
Gains			
Gains on disposal of property, plant and equipment, net		80	—
Gain on a bargain purchase		—	942
Gain on reversal of trade payables		252	—
Reversal of expected credit losses (“ECLs”) on trade receivables		—	1,136
Reversal of ECLs on other receivables		63	—
Others		372	72
		<u>767</u>	<u>2,150</u>
		<u>8,285</u>	<u>20,838</u>

Notes:

- (i) 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 government grants and subsidies.
- (ii) During the year, the Group leased its machine to an independent third party with the lease period within one year.

During the year ended 31 December 2019, the Group leased its building to the then joint venture, Guangyuan Tongchuang New Materials Company Limited.

6. FINANCE COSTS

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Interest expenses on bank and other borrowings	8,968	7,799
Interest expenses on lease liabilities	29	78
Others	559	—
	<hr/>	<hr/>
Finance expenses	9,556	7,877
Finance cost capitalised in construction-in-progress	(182)	—
	<hr/>	<hr/>
Finance costs recognised in profit or loss	<u>9,374</u>	<u>7,877</u>

7. PROFIT BEFORE INCOME TAX CREDIT/(EXPENSE)

Profit before income tax credit/(expense) is arrived after charging/(crediting):

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Cost of inventories recognised as expense	481,703	631,656
Auditor's remuneration		
— Audit services	748	—
— Non-audit services	200	—
Research and development costs (other than amortisation costs)	1,264	1,381
Depreciation of property, plant and equipment	7,869	5,766
Depreciation of right-of-use assets	752	647
Gain on disposal of property, plant and equipment, net	(80)	—
Amortisation of intangible assets	17	15
Release of deferred income	(368)	(368)
Allowance for/(reversal of) ECLs on trade receivables	309	(1,136)
(Reversal of)/allowance for ECLs on other receivables	(63)	64
Listing expenses	7,795	8,920
Gain on reversal of trade payables	(252)	—
Written-off of other receivables	25	—
Written-off of property, plant and equipment	176	—
Employee costs (including directors' remuneration)		
— Wages, salaries and other benefits	10,921	10,387
— Contributions to defined contribution retirement plan	987	2,255
	<hr/>	<hr/>
	<u>11,908</u>	<u>12,642</u>

8. INCOME TAX CREDIT/(EXPENSE)

The income tax credit/(expense) in the consolidated statements of profit or loss and other comprehensive income during the year represents:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Current tax		
— tax for the year	744	3,322
— over-provision in respect of prior year	<u>(859)</u>	<u>(383)</u>
	(115)	2,939
Deferred tax	<u>(9)</u>	<u>1,202</u>
Income tax (credit)/expense	<u><u>(124)</u></u>	<u><u>4,141</u></u>

No Hong Kong profits tax was provided as the Group has no estimated assessable profit in Hong Kong during the years ended 31 December 2020 and 31 December 2019.

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 preferential tax rate of 15% in the PRC as mentioned below.

Sichuan Saftower Industry Company Limited was approved as High and New Technology Enterprise by the PRC Government, and accordingly, it was subject to a preferential EIT tax rate of 15% during the years ended 31 December 2020 and 31 December 2019.

Guangyuan Tongchuang New Materials Company Limited is subject to 10% income tax concession due to the preferential tax policy of the development of the western region of the PRC fulfilled for the year ended 31 December 2020 and 31 December 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 enterprises established in western regions of the PRC which are engaging in the encouraged industries shall be subject to a reduced rate at 15%.

9. DIVIDENDS

No dividend has been paid or declared by the Company during the year of 2020, nor has any dividend been proposed since the end of the year ended 31 December 2020 (2019: Nil).

10. EARNINGS PER SHARE

The basic earnings per share attributable to owners of the Company for the year is calculated based on the profit attributable to owners of the Company of approximately RMB1,895,000 (2019: RMB26,607,000), and the weighted average number of ordinary shares of 695,342,000 in issue (2019: 600,000,000 shares of the Company in issue, which represents the number of ordinary shares of the Company immediately after the Reorganisation and the capitalisation issue as if these ordinary shares issued under the Reorganisation had been issued on 1 January 2019 but excluding any shares issued pursuant to the share offer). The Company did not have any potential dilutive shares for the years ended 31 December 2020 and 2019. Accordingly, the diluted earnings per share are the same as the basic earnings per share.

11. TRADE AND BILLS RECEIVABLES

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Trade receivables	163,946	147,189
Less: Allowance for ECLs on trade receivables	(2,463)	(2,154)
	161,483	145,035
Bills receivables	—	3,000
	<u>161,483</u>	<u>148,035</u>

The credit period granted to customers is ranging from 0 to 365 days as at the end of the reporting period.

An ageing analysis of the Group's trade receivables as at the end of the reporting period, based on invoice date, is as follows:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
0 to 60 days	84,652	100,686
61 to 180 days	22,379	21,003
181 to 365 days	4,552	5,666
Over 365 days	52,363	19,834
	163,946	147,189

As at 31 December 2020, trade receivables of one customer of approximately RMB20,965,000 (2019: RMB2,797,000) were pledged as securities for the bank and other borrowing.

12. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Non-current:		
Deposits	1,185	—
Prepayments for purchase of property, plants and equipment	—	190
	1,185	190
Current:		
Prepayments	310	4,148
Prepayments to suppliers	16,526	8,296
Deposits	19	946
Other receivables	7,634	20,007
Less: Allowance for ECLs on other receivables	(33)	(96)
	24,456	33,301
	25,641	33,491

13. TRADE PAYABLES

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Trade payables	<u>56,674</u>	<u>67,849</u>

The credit period on purchases from suppliers is generally ranging from 0 to 120 days as at the end of the reporting period.

An ageing analysis of the Group's trade payables as at the end of the reporting period, based on invoice date, is as follows:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
0 to 60 days	38,522	44,544
61 to 180 days	11,868	7,218
181 to 365 days	3,685	2,198
Over 365 days	<u>2,599</u>	<u>13,889</u>
	<u>56,674</u>	<u>67,849</u>

14. ACCRUALS AND OTHER PAYABLES

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Accrued operating expenses	3,361	3,010
Accrued listing expenses	177	2,838
Accrued employee benefit expense	1,286	1,440
Payables for purchase of property, plant and equipment	1,469	3,795
Payable for intangible asset	13	—
Other taxes payable	136	562
Interest payable	178	109
Deposits received	37	174
Other payables	<u>332</u>	<u>2,549</u>
	<u>6,989</u>	<u>14,477</u>

15. SHARE CAPITAL

	Number	Amount RMB'000
Authorised:		
Ordinary shares of US\$1 each upon incorporation (Note (a))	50,000	345
At 1 January 2019	50,000	345
Increase in ordinary shares of HK\$0.01 each (Note (b))	38,000,000	336
Cancellation of ordinary shares of US\$1 each (Note (b))	(50,000)	(345)
At 31 December 2019 and 1 January 2020	38,000,000	336
Increase in ordinary shares of HK\$0.01 each (Note (d))	3,962,000,000	35,658
At 31 December 2020	<u>4,000,000,000</u>	<u>35,994</u>
Issued and fully paid:		
Issue of ordinary shares of US\$1 upon incorporation (Note (a))	1	—*
At 1 January 2019	1	—*
Issue of ordinary shares of HK\$0.01 each (Note (b))	780	—*
Repurchase of ordinary shares of US\$1 each (Note (b))	(1)	—*
Issue of ordinary shares of HK\$0.01 each (Note (c))	9,220	—*
At 31 December 2019 and 1 January 2020	10,000	—*
Capitalisation issue of ordinary shares (Note (e))	599,990,000	5,420
Issue of ordinary shares upon share offer (Note (f))	200,000,000	1,806
At 31 December 2020	<u>800,000,000</u>	<u>7,226</u>

* Represents the amount less than RMB1,000

Notes:

- (a) On 9 October 2018, the Company was incorporated in the Cayman Islands as an exempted company with limited liability with an authorised share capital of US\$50,000 divided into 50,000 ordinary shares of US\$1 each. Upon its incorporation, one ordinary share of US\$1 each as fully paid (the “**USD-denominated Share**”) was allotted and issued.
- (b) On 8 January 2019, the authorised share capital of the Company was increased by HK\$380,000 by the creation of 38,000,000 new ordinary shares of a par value of HK\$0.01 each. The Company allotted and issued 780 such new ordinary shares as fully paid. At the same time, the Company repurchased the USD-denominated Share at a consideration of US\$1 and the USD-denominated Share was cancelled upon repurchase. Immediately following such repurchase, the Company cancelled the 50,000 authorised but unissued shares of a par value of US\$1 each in the share capital of the Company.

The authorised and the issued share capital of the Company was redenominated from US Dollar to Hong Kong Dollar.

- (c) On 20 May 2019, the Company allotted and issued 9,220 ordinary shares pursuant to reorganisation. All the ordinary shares were credited as fully paid.
- (d) On 10 June 2020, the authorised share capital of the Company was increased from HK\$380,000 divided into 38,000,000 ordinary shares to HK\$40,000,000, divided into 4,000,000,000 shares each by the creation of an additional 3,962,000,000 ordinary shares.
- (e) Pursuant to the written resolution of all shareholders of the Company passed on 16 June 2020, the Directors were authorised to capitalise the amount of HK\$5,999,900 from the share premium account of the Company by applying such sum towards the paying up in full at par a total of 599,990,000 ordinary shares for the allotment of ordinary shares to Bonyer Investment Limited, Rock Base Investment Limited, Bigroad Investment Limited, Hisky Investment Limited, Dibell Investment Limited, Gun Wealth Investment Limited, ZH Fortune Investment Limited, Lockxy Investment Limited, Red Fly Investment Limited, Xseven Investment Limited and Ms. Zhao Qi.
- (f) Upon 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 and listing of the Company’s shares on GEM of the Stock Exchange.

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 year ended 31 December 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 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 was an outbreak of COVID-19 in China in early 2020. As a result of the outbreak of COVID-19 and the corresponding public health measures taken by the PRC government, the operation of the Group was suspended from the Chinese 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 "**Listing Date**"), the shares of the Company (the "**Share(s)**") were successfully listed on GEM (the "**Listing**"). For further details of our Group's business objectives, strategies and implementation plans, please refer to the section headed "Future Plans and Use of Proceeds" in the Prospectus and the paragraph headed "Use of Proceeds from the Listing" in this announcement.

FUTURE PROSPECTS

The economic outlook and operating environment of the PRC are anticipated to be stable after COVID-19 being controlled in the PRC since the second half of 2020. The medium-to-long-term economic growth of the PRC has slowed down. As a result of the outbreak of COVID-19, the declining global industrial output and the decreased trade volume added the uncertainties to the operating environment of the market.

The Group will continue to adopt a pragmatic and positive approach to develop the Group's business and 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 of the Group in coming years will improve.

FINANCIAL REVIEW

Revenue

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 review periods:

For the year ended 31 December	Revenue		Gross profit		Gross profit margin	
	2020 RMB'000	2019 RMB'000	2020 RMB'000	2019 RMB'000	2020 %	2019 %
Classic finished wires and cables						
Copper wires and cables	41,805	76,747	5,873	12,620	14.0	16.4
Aluminium wires and cables	176,417	243,683	15,497	18,745	8.8	7.7
Special finished wires and cables						
Copper wires and cables	4,909	24,250	1,381	6,269	28.1	25.9
Aluminium wires and cables	54,317	21,330	8,226	5,899	15.1	27.7
Semi-finished wires						
Bare copper wires	116,942	51,151	1,812	413	1.5	0.8
Aluminium rods	121,014	222,372	3,581	8,622	3.0	3.9
Aluminium products	2,230	45,335	2	1,170	0.1	2.6
Others	525	662	84	136	16.0	20.5
	<u>518,159</u>	<u>685,530</u>	<u>36,456</u>	<u>53,874</u>	<u>7.0</u>	<u>7.9</u>

During the year ended 31 December 2020, 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 RMB518.2 million for the year ended 31 December 2020, representing a decrease of approximately 24.4% as compared with that in 2019. The decrease in revenue was mainly due to (i) the outbreak of COVID-19 with the logistics of the Group's goods to and from the affected districts being disrupted and the sales personnel of the Group being subject to travel restriction and restrained from carrying out their normal duties in the PRC; and (ii) 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 delay in placement of sales orders 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 RMB631.7 million for the year ended 31 December 2019 to RMB481.7 million for the year ended 31 December 2020, representing a decrease of RMB150.0 million, or 23.7%, which was in line with the revenue reduction of 24.4%.

Gross profit and gross profit margin

For the years ended 31 December 2019 and 2020, the Group's gross profit amounted to RMB53.9 million and RMB36.5 million, respectively, with a gross profit margin of 7.9% and 7.0%, respectively. During the year ended 31 December 2020, the decrease in gross profit margin was mainly due to (i) the decreased revenue contribution from sales of classic finished wires and cables during year ended 31 December 2020 by approximately RMB102.2 million, or 31.9%; and (ii) partly offset by the cessation of trading of low-margin aluminium products during the year ended 31 December 2020.

Other income and gains

Other income and gains dropped from approximately RMB20.8 million for the year ended 31 December 2019 to approximately RMB8.3 million for the year ended 31 December 2020. The decrease was mainly due to (i) the decrease in government grants and subsidies due to the receipt of one-off government grants of approximately RMB6.0 million in for the year ended 31 December 2019, while such one-off government grants were not available for the year ended 31 December 2020 and only RMB2.0 million of Listing government grants was received, such government grants was decreased compared to the previous year; and (ii) no agency fee income was recorded during the year ended 31 December 2020 following the cessation of all aluminium oxide agency service arrangements in December 2019, while approximately RMB3.1 million was recorded for the year ended 31 December 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 RMB3.1 million or 33.8% in 2020, which was due to 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) entertainment and travelling expenses and others.

Administrative and other expenses increased from RMB15.5 million for the year ended 31 December 2019 to RMB18.9 million for the year ended 31 December 2020, representing an increase of RMB3.4 million, or 22.0%. The increase was mainly due to the increase in professional fee after the Listing during the year ended 31 December 2020.

Finance costs

Finance costs of the Group increased from approximately RMB7.9 million for the year ended 31 December 2019 to approximately RMB9.4 million for the year ended 31 December 2020. The increase in amount was mainly contributed to the increase in the average utilisation of borrowings during the year ended 31 December 2020.

Share of profit of a joint venture

No share of profit of a joint venture was recorded during the year ended 31 December 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 decreased by approximately RMB4.3 million from approximately RMB4.1 million for the year ended 31 December 2019 to tax credit of approximately RMB124,000 for the year ended 31 December 2020. The decrease in taxation was due to the decrease in taxable income and recognition of credit from deferred tax during the year ended 31 December 2020.

Profit attributable to owners for the year

For the year ended 31 December 2020, a profit attributable to owners of the Company of approximately RMB1.9 million, representing a decrease of approximately 92.9% as compared with that year in 2019, as a result of the combined effects as discussed above.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group financed its operations primarily through a combination of cash generated from its operations, borrowings and equity from shareholders. The 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 expense. As at 31 December 2020, the Group had cash and cash equivalents of approximately RMB12.1 million and (31 December 2019: RMB2.7 million).

As at 31 December 2020, the total equity attributable to equity holders of the Company amounted to approximately RMB151.0 million (31 December 2019: approximately RMB111.8 million).

Gearing ratio is calculated based on the total debts divided by total equity as at the year-end date and expressed as a percentage. The gearing ratio of the Group as at 31 December 2020 was 57.8% (31 December 2019: 71.5%). During the year ended 31 December 2020, the Group did not employ any financial instrument for hedging purpose.

CHARGES ON GROUP'S ASSETS

As at 31 December 2020, the following assets were pledged to secure the Group's bank borrowings:

	Net carrying amounts as at 31 December 2020 RMB'000	Net carrying amounts as at 31 December 2019 RMB'000
Pledged assets		
Buildings	30,248	31,513
Land use rights	6,647	6,834
Plant and machinery	2,711	3,075
Trade receivables	20,965	—
	<u>60,571</u>	<u>41,422</u>

As at 31 December 2020, the following assets were pledged to secure the Group's other borrowings:

Pledged assets	Net carrying amounts as at 31 December 2020 RMB'000	Net carrying amounts as at 31 December 2019 RMB'000
Buildings	16,570	17,201
Land use right	947	970
Trade receivables	—	2,797
	<u>17,517</u>	<u>20,968</u>

As at 31 December 2020, the following assets were pledged to secure the Group's sale and leaseback liabilities:

Pledged assets	Net carrying amounts as at 31 December 2020 RMB'000	Net carrying amounts as at 31 December 2019 RMB'000
Plant and machinery	<u>7,785</u>	<u>5,237</u>

Save as disclosed above, the Group did not have other material charges on assets.

CAPITAL COMMITMENT

The Group had no capital commitment as at 31 December 2020 (31 December 2019: RMB0.4 million).

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31 December 2020.

LITIGATION

During the year ended 31 December 2020, there was one material civil claim made against the Group, which was the claim from Guizhou Galuminium Aluminium-oxide Co., Ltd. (“**Guizhou Galuminium**”). For details, 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 RMB1.6 million paid by the Group 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 paid by the Group as mentioned above. As a result, the Group had no loss arising from such case.

FOREIGN EXCHANGE RISK

The Group has no significant foreign currency risk as its business transactions, majority of its recognised assets and liabilities are principally denominated in RMB, its functional currency. The Group did not have any hedge instruments to hedge against other foreign currency transactions during the year ended 31 December 2020.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2020, the Group employed a total of 212 full-time employees (31 December 2019: 233 full-time employees). Total employee benefit expenses for the year ended 31 December 2020 and the year ended 31 December 2019 were approximately RMB10.9 million and approximately RMB10.4 million respectively. The remuneration package for the Group’s employees includes salaries, commission, bonus and allowances. Remuneration is determined with reference to market term and the performance, qualification and experience of individual employee, which would be reviewed by the Group regularly.

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 year ended 31 December 2020, and there was no plan for material investment or capital assets as at the date of this announcement.

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 were and will be applied by the Group for the purposes in accordance with the section headed “Future Plans and Use of Proceeds” as set out in the Prospectus. Due to the outbreak of COVID-19 in 2020, the Group has slowed down the progress of expanding the Group’s production plant, the plan of expanding the Group’s existing production facilities, which is currently 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 <i>HK\$'000</i>	Amount utilised up to 31 December 2020 <i>HK\$'000</i>	Unutilised balance as at 31 December 2020 <i>HK\$'000</i>	Expected time frame for remaining unused net proceeds <i>(Note)</i>
Expanding our existing production facilities and production plant	55.0%	11,330	9,719	1,611	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
	<u>100.0%</u>	<u>20,600</u>	<u>18,989</u>	<u>1,611</u>	

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.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

The Shares of the Company were first listed on GEM on 10 July 2020. Neither the Company nor its subsidiaries have purchased, redeemed or sold any of the Company's listed securities during the period from the Listing Date and up to the date of this announcement.

FINAL DIVIDEND

The Board resolved not to recommend the payment of final dividend for the year ended 31 December 2020.

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

During the year ended 31 December 2020, other than the investments in subsidiaries the Group had no significant investment held. During the period between the Listing Date and the date of this announcement, there is no material acquisition or disposal of subsidiaries and affiliated companies and there was no plan for material investment or capital assets as at 31 December 2020.

EVENTS AFTER THE YEAR ENDED 31 DECEMBER 2020

There is no significant events occurred subsequent to 31 December 2020 and up to the date of this report.

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. Since the Listing Date and up to the date of this announcement, the Company has complied with all the applicable code provisions of the CG Code contained in Appendix 15 to the GEM Listing Rules, except for code provision A.2.1 of the CG Code, which requires the separation of roles of chief executive officer and the chairman by different individuals.

Currently, Mr. Dang Fei is the chairman and the chief executive officer of the Company. The Board is of the view that Mr. Dang Fei in carrying out both roles can bring strong and consistent leadership for the Group and of the option that such arrangement will be beneficial to the Company and its business. The Board will continue to review and consider splitting the roles of chairman and chief executive officer of the Company at a time when it is appropriate and suitable by taking into account the circumstances of the Group as a whole. The Directors are aware that the Company is expected to comply with the CG Code. Save as disclosed above, the Company will continue to comply with the CG Code to protect the best interests of the shareholders of the Company.

CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the required standard set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding securities transactions by the Directors in respect of the shares of the Company (the “**Code of Conduct**”). The Company has made specific enquiry to all the Directors, and all Directors have confirmed that, they have fully complied with the required standard of dealings set out in the Code of Conduct for since the Listing Date and up to the date of this announcement. No incident of non-compliance was noted by the Company since the Listing Date and up to the date of this announcement.

REVIEW OF FINANCIAL STATEMENTS

Audit Committee

The audit committee of the Company, comprising Mr. Chan Oi Fat (chairman), Dr. Zuo Xinzhang and Ms. Hu Xiaomin, who are the independent non-executive Directors, has discussed with the management and the Board and reviewed this announcement of annual results of the Group for the year ended 31 December 2020.

Scope of work of the Auditor

The figures in respect of this announcement for the Group’s consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereon for the year ended 31 December 2020 as set out in the preliminary announcement have been agreed by the Group’s auditor, BDO Limited (“**BDO**”), to the amounts set out in the Group’s audited consolidated financial statements for the year ended 31 December 2020. The work performed by BDO in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently, no assurance has been expressed by BDO on the preliminary announcement.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This announcement is published on the website of the Stock Exchange (www.hkexnews.hk) and the Company's website (www.saftower.cn). The annual report of the Company for the year ended 31 December 2020 will be despatched to the Shareholders and published on the aforesaid websites according to the GEM Listing Rules.

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

Hong Kong, 26 March 2021

As at the date of this announcement, 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 announcement will remain on the GEM website at www.hkgem.com on the "Latest Listed Company Information" page for at least seven days from the date of its publication and on the website of the Company at www.saftower.cn.

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