BUSINESS STRATEGIES AND FUTURE PLANS

Please refer to the paragraph headed "Business — Our business strategies" in this document for our business strategies and future plans.

[REDACTED]

Based on an **[REDACTED]** of **[REDACTED]** per **[REDACTED]** (being the mid-point of the **[REDACTED]** range stated in this document), the **[REDACTED]** are expected to be approximately **[REDACTED]** after deducting the **[REDACTED]** and commissions and estimated total **[REDACTED]** and assuming that the **[REDACTED]** is not exercised. Our Directors currently intend to apply such **[REDACTED]** in the following manner:

(i) approximately **[REDACTED]** (equivalent to approximately **[REDACTED]**) or **[REDACTED]** of the total **[REDACTED]** from the issue of **[REDACTED]** under the **[REDACTED]** will be used to purchase machinery in order to upgrade our Shanghai Production Site and our Chengdu Production Site under phase two of our production capacity expansion plan. The intended allocation of this portion of the **[REDACTED]** is primarily as follows:

Intended applications	**Approximate percentage of [REDACTED]**
(a) acquiring a set of production machinery as additional production line in Shanghai Production Site;	**[REDACTED]**
(b) acquiring supplemental equipment and upgrading certain production lines of our Chengdu Production Site; and	**[REDACTED]**
(c) performing technical transformation on our machinery and production lines of both of our Chengdu Production Site and our Shanghai Production Site.	**[REDACTED]**

Reasons for acquisition of new machinery

(a) Increasing sales volume and sales value in the papermaking felts manufacturing industry

According to the Frost & Sullivan Report, from 2016 to 2020, the sales volume of papermaking felts in the PRC grew from approximately 12,820.1 tonnes to approximately 17,487.9 tonnes, representing a CAGR of approximately 8.1%. Driven by the expected growth of domestic paper production and strong demand for papermaking felts in Southeast Asia, the sales volume of papermaking felts has seen a rapid growth from 2016 onwards and the growth is set to maintain at a CAGR of approximately 6.3% during 2021 to 2025. Similarly, the sales value of papermaking felts in the PRC has achieved an overall growth from approximately RMB2,189.9 million in 2016 to approximately RMB3,166.1 million in 2020, representing a CAGR of approximately 9.7%, and the sales value of papermaking felts is expected to increase at a CAGR of approximately 7.6% during 2021 to 2025.

In light of the increasing sales volume and sales value in the papermaking felts manufacturing industry, as well as the expected increase in average selling price of papermaking felts in the PRC at a CAGR of approximately 1.2% from 2021 to 2025 estimated by Frost & Sullivan, our Directors believe that there is room for raising the average selling price of our papermaking felts.

With reference to (i) the estimated sales value of papermaking felts in the PRC in 2025 (i.e. RMB4,638.7 million); (ii) the existing market share of our Group (i.e. 5.8%) as provided in the Frost & Sullivan Report; and (iii) our Group's revenue growth rate of approximately 5.0%, 9.2% and 15.6% during the year ended 31 December 2019, 2020 and the six months ended 30 June 2021, our Directors believe that our Group can maintain its existing market share in the PRC papermaking felts industry and revenue growth rate.

(b) Ample opportunities for market expansion

Our Directors note from the Frost & Sullivan Report that we were ranked amongst the top five papermaking felts manufacturers in the PRC market in 2020 and its approximate market share by revenue is 5.8% of the market size and the top five players within the market accounted for approximately 48.6% of the whole papermaking felts manufacturing industry in 2020. Further, amongst the top ten paper and paper products manufacturers in the PRC by production volume in 2020 as provided in the Frost & Sullivan Report, nine were our Group's customers while two of them were our Group's top five customers during the Track Record Period and up to the Latest Practicable Date. These nine paper and paper products manufacturers accounted for 48.6% of the market share in terms of production volume in the PRC in 2020. Leveraging our established business relationship with customers which included key market players in the papermaking industry, our Directors believe that our Group has ample opportunities to gain a greater market share and strengthen the market position of our business in the papermaking felts manufacturing industry.

(c) Expected increasing demand in our high-speed papermaking felts

According to Frost & Sullivan, the development of the papermaking felts manufacturing industry in the PRC in respect of technological advancement and strengthened research and development capabilities of leading market participants may pose the barrier for new entrants and threats to existing local enterprises without development capability. In addition, due to the more stringent environmental policies imposed on paper and paper products manufacturers by the government in the PRC, small-sized paper and paper products manufacturers will gradually be eliminated in the papermaking manufacturing industry. These small-sized paper and paper products manufacturers incline to use low-speed papermaking machines and papermaking machines that generally produce shorter and narrower width of paper and paper products as a result. According to the Frost & Sullivan Report, the PRC paper and paper products manufacturers have also shown a strong preference on sourcing papermaking felts from manufacturers with distinctive product development capability and technology in design and production of high-speed papermaking felts. Moreover, as there is a growing demand for high-speed papermaking felts among local manufacturers and a sustained demand from overseas markets, the sales value of papermaking felts is expected to increase at a CAGR of approximately 7.6% during 2021 to 2025, among which the high-speed papermaking felts are estimated to be accounted for approximately 50% of the total sales volume of papermaking felts in the PRC based on the figures recorded in 2020. In particular, the sales value of high-speed papermaking felts in the PRC is expected to grow at a CAGR of 9.1% from 2021 to 2025, which is expected to be higher than the CAGR of sales value of overall papermaking felts in the PRC of approximately 7.6% from 2021 to 2025. According to Frost & Sullivan, the advancement of paper machine with higher operational efficiency, larger width and higher speed contributed to the higher requirements on consumables including papermaking felt. Specifically, the market of high-speed papermaking felt is expected to expand more rapidly as compared to other types of papermaking felts, which is mainly supported by the growing capability and investment of domestic enterprises on development and manufacturing of high-speed papermaking felt with improving product quality and at a competitive price over the foreign enterprises. In view of the above trend, our Group is in a competitive position to capture the business opportunities from growing market demand for high-speed papermaking felts on the following basis: (i) our Group is one of the top five/leading papermaking felt manufacturers in the PRC in terms of revenue, (ii) our Group has established relationship with major papermaking enterprises in the PRC, including nine out of the top ten papermaking companies in the PRC in 2020, (iii) high-end brand reputation and proven research and development capability over the other domestic industry peers, and (iv) our Group has a proven track record with revenue growth rate of approximately 5.0%, 9.2% and 15.6% during the Track Record Period, respectively.

Given this circumstance, our Group has since allocated more resources to change our focus on enhancing research and development and production capacity to produce high-speed papermaking felts. Our Directors believe that our Group's advanced technology and research and development capacity have given them competitive advantages and consider themselves more competitive over majority of local papermaking felts manufacturers in the PRC. As supported by Frost & Sullivan, only a few local manufacturers, including our Group, have demonstrated capability of producing high quality papermaking felts for high-speed papermaking machines, whilst most of the other local manufacturers generally compete on supplying papermaking felts for medium-speed and low-speed papermaking machines.

According to the Frost & Sullivan Report, with the positive outlook of the paper and paper products manufacturing industry in the PRC and the growing demand for high-speed and high-performance papermaking felts, the average selling price of papermaking felts in the PRC is expected to maintain a steady growth at a CAGR of approximately 1.2% from 2021 to 2025, among which the high-speed papermaking felts are estimated to be accounted for approximately 50% of the total sales volume of papermaking felts in the PRC based on the figures recorded in 2020. Furthermore, there has been a growth in terms of sales volume and sales value in the papermaking felts manufacturing industry as mentioned above, our Directors believe that there will be sufficient demand for the Group's high-speed papermaking felts and there is room to further increase the selling prices of our products. Therefore, with our business strategy in investing our resources on manufacturing high-speed papermaking felts, our revenue and gross profit had been increasing throughout the Track Record Period due to an overall growth of average selling price of our papermaking felts with a view to obtaining a higher profit margin.

(d) Strategically enhance our focus on high-speed papermaking felts with higher profitability

During the Track Record Period, our papermaking felts can mainly be categorised into (i) high-speed papermaking felts; (ii) medium-speed papermaking felts; and (iii) low-speed papermaking felts based on the operating speed of the applicable papermaking machine. According to our Directors, high-speed papermaking felts are generally applied in papermaking machine with operating speed of 700 metres or above per minute for packaging papermaking felts and printing papermaking felts and 600 metres or above per minute for our other products; while low-speed papermaking felts are generally applied in papermaking machine with operating speed of 300 metres or below per minute for packaging papermaking felts and printing papermaking felts and 200 metres or below per minute for our other products. Medium-speed papermaking felts are generally applied in papermaking machine with operating speed other than high-speed papermaking felts and low-speed papermaking felts.

According to the Frost & Sullivan Report, the papermaking industry is shifting towards the use of high-speed papermaking machine and demand for high production speed and quality of paper. Driven by the trend of eliminating outdated production capacity of papermaking enterprises which are mainly equipped with low-speed papermaking machines, and increasing application of high-speed papermaking machines in recent years, the sales value of high-speed papermaking felts in the PRC is expected to grow at a CAGR of 9.1% from 2021 to 2025, which is expected to be higher than the CAGR of sales value of overall papermaking felts in the PRC of approximately 7.6% from 2020 to 2024. Taking into consideration the increase in market demand for high-speed papermaking felts, our Group has gradually enhanced our focus on high-speed papermaking felts. During the Track Record Period and up to the Latest Practicable Date, we generally sourced our customers through various marketing activities, including (i) participating in local and international product exhibitions to showcase our latest product design and research development; (ii) organising thematic seminars to share and exchange latest development within the industry with our customers; (iii) conducting visits to potential customers to promote our Group, strengthen our understanding of their needs and discuss, among other things, business and operational requirements of our customers and market trends. Leveraging on (i) our continuous efforts on our research and development; (ii) our business relationship with our major customers who are top industry players in the papermaking industry in the PRC; and (iii) the fact that we ranked fourth in the papermaking felts industry in the PRC market and were the only papermaking felts manufacturer headquartered in the PRC among the top five players, we believe our product quality, brand reputation and research and development capability have been recognised by our customers, and we can maintain our relationship with our existing customers and are able to source new customers in the future. In particular, the proportion of our sales of high-speed papermaking felts increased by approximately 20.0%, 23.4%, 30.1% and 31.0% as to the total revenue during the Track Record Period, respectively. Our source of customers for high-speed papermaking felts was mainly (i) well-established papermaking companies, which are mainly top ten players in the papermaking industry in the PRC or listed companies, with advanced high-speed papermaking machines; and (ii) other existing customers for low-speed papermaking felts and medium-speed papermaking felts who have upgraded or will upgrade from medium-speed and/or low-speed papermaking machines according to the industry trend. Our Group recorded a steady growth in revenue and sales volume from the sale of high-speed papermaking felts during the

Track Record Period. For the three years ended 31 December 2020 and the six months ended 30 June 2021, our Group recorded sales of 160.8 tonnes, 177.9 tonnes, 256.5 tonnes and 113.9 tonnes of high-speed papermaking felts,which generated revenue of approximately RMB31.8 million, RMB39.1 million, RMB55.0 million and RMB23.7 million, respectively. From 1 July 2021 up to the Latest Practicable Date, we have received confirmed orders of 54.9 tonnes of high-speed papermaking felts, with revenue of approximately RMB11.2 million. Our Directors believe that our emphasis on high-speed papermaking felts has and will place us in better position in the papermaking felts manufacturing industry as the use of high-speed papermaking machine continues to grow.

The production of high-speed papermaking felts generally involves more complex techniques and longer processing time. Therefore, we charged a higher selling price and factored in a higher profit margin when determining the pricing of high-speed papermaking felts, as compared to medium-speed and low-speed papermaking felts. The average selling price of our high-speed papermaking felts ranged from approximately RMB198,000 to RMB220,000 per tonne during the Track Record Period, which was higher than that of our medium-speed and low-speed papermaking felts, ranging from RMB104,000 to RMB155,000 per tonne for the same period. Further, the gross profit margin of our high-speed papermaking felts was 62.0%, 65.9%, 65.9% and 64.0% for the three years ended 31 December 2020 and the six months ended 30 June 2021, respectively, which was higher than the gross profit margins of our medium-speed papermaking felts (i.e. 48.5%, 52.7%, 51.0% and 48.3% for the corresponding periods) and low-speed papermaking felts (i.e. 38.4%, 41.4%, 46.1% and 38.1% for the corresponding periods). In light of the higher average selling price and gross profit margin of our high-speed papermaking felts as compared to our medium-speed and low-speed papermaking felts, our Directors consider that we will be able to achieve a higher profitability by enhancing our focus on high-speed papermaking felts.

According to the Frost & Sullivan Report, foreign invested papermaking felts manufacturers are highly competitive in the high-speed and high-performance segment of papermaking felts, and four out of the top five papermaking felts manufacturers in the PRC market are foreign invested companies. Leveraging our competitive strengths as (i) the only papermaking felts manufacturer headquartered in the PRC among the top five papermaking felts manufacturers in the PRC market, and (ii) one of the few local papermaking felts manufacturers which demonstrate capability of producing high quality papermaking felts for high-speed papermaking machines, our Directors consider that we will be able to increase our competitiveness relative to the foreign invested papermaking felts manufacturers and further increase our market share by expanding our production capacity for high-speed papermaking felts. In 2020, approximately 42.7% of the market share by revenue of the papermaking felts manufacturing industry in the PRC was dominated by the top four foreign invested manufacturers. As the only top five market player headquartered in the PRC with deep and comprehensive understanding of the papermaking industry in the PRC, and coupled with our Huanlong Paper Machine Efficiency Operation System which could enable us to help improve the efficiency of customers' papermaking machines, we target to seize the market share of these foreign invested manufacturers. In particular, our Directors consider that the acquisition of a new set of production machinery will strengthen our efforts to produce papermaking felts with premium product quality, which is one of the competitive features of the foreign invested market participants.

(e) Limited production capacity

Our Directors consider that our production facilities were highly utilised during the Track Record Period. The overall effective utilisation rates of our production facilities were approximately 95.9%, 95.3%, 94.6% and 83.6% for the three years ended 31 December 2020 and the six months ended 30 June 2021, respectively. Our total actual production volume was approximately 1,045 tonnes, 1,124 tonnes, 1,211 tonnes and 535 tonnes for the three years ended 31 December 2020 and the six months ended 30 June 2021, respectively.

Our total actual production volume of papermaking felts increased from 1,045 tonnes for the year ended 31 December 2018 to 1,124 tonnes for the year ended 31 December 2019 which was mainly attributable to (i) the completion of replacement, adjustment and testing of the malfunctioning needling machine during the year ended 31 December 2019 as explained above, resulting in the increase in actual production volume of our Chengdu Production Site from 547 tonnes for the year ended 31 December 2018 to 587 tonnes for the year ended 31 December 2019; and (ii) the increase in number of days that our Shanghai Production Site had operated during the year ended 31 December 2019. Meanwhile, the increase in our Group's total actual production volume for the year ended 31 December 2019 was limited by our business strategy in allocating more resources on the production of high-speed papermaking felts which involved a longer production time as explained above. The actual production volume of our high-speed papermaking felts increased from 136 tonnes for the year ended 31 December 2018 to 184 tonnes for the year ended 31 December 2019, accounting for 13.1% and 16.4% of our total actual production volume, respectively.

Our total actual production volume increased from 1,124 tonnes for the year ended 31 December 2019 to 1,211 tonnes for the year ended 31 December 2020, which corresponded to (i) the increase in our revenue from approximately RMB167.3 million for the year ended 31 December 2019 to approximately RMB182.8 million for the year ended 31 December 2020; and partially offset by (ii) the extension of our Chinese New Year holidays during early 2020 from 23 January 2020 to 13 February 2020 due to the outbreak of COVID-19 in the PRC; and (iii) our business strategy in allocating more resources on the production of high-speed papermaking felts which involved a longer production time as explained above. The actual production volume of our high-speed papermaking felts increased from 184 tonnes for the year ended 31 December 2019 to 260 tonnes for the year ended 31 December 2020, accounting for 16.4% and 21.5% of our total actual production volume, respectively.

Our total actual production volume increased from 459 tonnes for the six months ended 30 June 2020 to 535 tonnes for the six months ended 30 June 2021, which corresponded to the increase in our revenue from approximately RMB66.2 million for the six months ended 30 June 2020 to approximately RMB76.5 million for the six months ended 30 June 2021. The actual production volume of our high-speed papermaking felts increased from 88 tonnes for the six months ended 30 June 2020 to 122 tonnes for the six months ended 30 June 2021, accounting for 19.2% and 22.8% of our total actual production volume, respectively.

As at 30 June 2021, we manufactured our products in our production facilities in Chengdu and Shanghai, the PRC, which possessed a total of eight production lines. Depending on our production schedule and customers' orders from time to time, we may allocate our production lines to produce either high-speed, medium-speed or low-speed papermaking felts. During the Track Record Period, our Group has allocated more of our production capacity for high-speed papermaking felts as we intend to enhance our focus on high-speed papermaking felts amid the increase in market demand for high production speed and quality of paper according to the Frost & Sullivan Report. For the three years ended 31 December 2020 and the six months ended 30 June 2021, the actual production volume of our high-speed papermaking felts was 136 tonnes, 184 tonnes, 260 tonnes and 122 tonnes, representing 13.1%, 16.4%, 21.5% and 22.8% of our total actual production volume, respectively. Given (i) the production of high-speed papermaking felts generally involves more complex techniques and longer processing time; and (ii) the number of our production lines had remained the same during the Track Record Period, our plan to enhance the focus on high-speed papermaking felts has inevitably posed a constraint on our production capacity for medium-speed and low-speed papermaking felts as well as our overall production capacity.

Due to our limited production capacity, our Directors estimate that we have lost business opportunities and/or customer orders from our then existing customers for purchasing papermaking felts in an aggregate contract value of approximately RMB6.1 million for the year ended 31 December 2018. In making such estimation, our Directors had not taken into consideration (i) the lost business opportunities and/or customer orders from our then existing customers for papermaking felts based on our production priorities given to papermaking felts of different speeds; and (ii) business opportunities and/or customer orders from other new potential customers in that year. Therefore, our

Directors believe that the additional production machinery should be acquired to increase its production capacity with a view to capturing the business opportunities offered within the market.

(f) Insufficient liquidity for acquiring additional major production machinery

During the Track Record Period, we had incurred capital expenditures (including additions and transfers from construction in progress) for plant and machinery, including major production machinery for replacement and other supplemental equipment of approximately RMB9.7 million, RMB5.7 million, RMB1.2 million and RMB2.6 million for the three years ended 31 December 2020 and the six months ended 30 June 2021, respectively. As at 30 June 2021, our Group had prepayment of acquisition of plant and machinery of approximately RMB5.0 million. As confirmed by our Directors, acquisition of a full set of additional major production machinery for manufacturing papermaking felts requires substantial capital. Since we did not have sufficient liquidity for acquiring a full set of additional major production machinery during the Track Record Period, there was no net increase in the number of major production machinery during the same period. For details of our major production machinery, please refer to the paragraph headed "Business — Production — Our production machinery" in this document.

In order to cater for our business growth, as part of phase two of our production capacity expansion plan, we intend to increase our production by acquiring a set of production machinery as additional production line in Shanghai Production site, acquiring supplemental equipment and upgrading certain production lines of our Chengdu Production Site and performing technical transformation on our machinery and production lines of both of our Chengdu Production Site and our Shanghai Production Site, **[REDACTED]** of which will be financed by the **[REDACTED]**, with the remaining to be financed by internal resources. The set of production machinery to be acquired includes three weaving machines, one carding machine, one needling machine, one setting machine and one winding machine. For details of our production processes, please refer to the paragraph headed "Business — Production — Our production process" in this document. Given that our Shanghai Production Site has enough floor space to accommodate both our new and existing machineries, we do not need to renovate our production facility to accommodate these new machinery.

The following table sets forth the particulars of each machine that we intend to purchase:

Type of machinery	Principal use
Weaving machine	Knitting warp beams and weft threads into fabric pieces
Carding machine	Brushing and pulling fibre into parallel form
Needling machine	Punching and entangling different layers of fabrics into a single layer of felt
Setting machine	Eliminating any tension variations in the fabrics and stabilising the shape and structure of the felt
Winding machine	Weaving single yarns into warp beams and weft threads

As confirmed by our Directors, the expected useful life of the newly acquired, upgraded and transformed of machineries under phase two of our production capacity expansion plan is 12 years (which is consistent with the existing accounting policy) and its depreciation rate is approximately 8.3%. If the machines are purchased at the cost as budgeted above, the estimated additional annual depreciation expenses will be approximately RMB7.9 million.

For the details of the expected change of our annual production capacity, please refer to paragraph headed "Business — Our business strategies — Expanding our production capacity" in this document.

The way of settlement of the acquisition cost of the new machineries

Our Directors consider that it is in the interest of our Group to purchase the new machineries that we intended to acquire partly with the **[REDACTED]** rather than obtaining full loan financing.

Based on our preliminary discussion with a financial institution in the PRC regarding a loan facility or a financial leasing in the amount of approximately RMB94.6 million to finance the capital expenditure to be incurred under phase two of our production capacity expansion plan, we were offered that such arrangement will be subject to a repayment period of approximately 36 to 50 months with an interest rate of approximately 8% to 10% per year and that the securities and/or guarantees will be required.

In light of the high finance cost arising from the loan facility offered by the financial institution, as well as the security required to be pledged, our Directors are of the view that it is more beneficial for our Group to purchase the new machineries partly with **[REDACTED]** rather than by way of obtaining full loan financing.

Breakeven and investment payback periods

Breakeven period refers to the number of months needed for the revenue generated by acquiring the new machineries, upgrading and performing technical transformation on our machinery and production lines under phase two of our production capacity expansion plan to cover the relevant operating costs and expenses on accounting basis, taking into account the non-cash items such as depreciation and amortisation expenses. For illustrative purpose only, based on the assumptions, including but not limited to, (i) our business plans and strategies to focus on expanding our production capacity to produce high-speed papermaking felts; (ii) our competitive advantages and sales and marketing strategies to expand our market exposure and enlarge our market share; (iii) the estimated maximum capacity of the new machineries of 400 tonnes per year in Shanghai Production Site, of which we assume lower production capacity in the early stage after installation of the new machineries to ensure smooth and stable production arrangement by carrying out initial adjustment and testing; and (iv) the operating costs and expenses of machineries mainly include maintenance costs, utilities and depreciation and there will be no material change in the market, fiscal and economic conditions, our Directors expect that breakeven period will be approximately five months after the newly acquired machineries are in operation.

Investment payback period refers to the number of years needed for the accumulated cash inflows from operating the new, upgraded and transformed machineries to equate the total costs paid for acquiring the new machineries under phase two of our production capacity expansion plan. For illustrative purpose only, based on the assumptions, including but not limited to, (i) our business plans and strategies to focus on expanding our production capacity to produce high-speed papermaking felts; (ii) our competitive advantages and sales and marketing strategies to expand our market exposure and enlarge our market share; (iii) the estimated maximum capacity of the new machineries of 400 tonnes per year in Shanghai Production Site, of which we assume lower production capacity in the early stage after installation of the new machineries to ensure smooth and stable production arrangement by carrying out initial adjustment and testing; and (iv) the operating costs and expenses of machinery mainly include maintenance costs, utilities and depreciation and there will be no material change in the market, fiscal and economic conditions, our Directors expect that the investment payback period will be approximately five years after the acquisition of the machineries.

A number of our production machineries set out in the paragraph headed "Business — Production — Our production machinery" were transferred to our Group when we acquired Shanghai Jinxiong in 2010. Taking into consideration (i) the net book value of these machineries at the time when we acquired Shanghai Jinxiong; (ii) their operating costs and expenses mainly including maintenance costs, insurance costs, utilities and depreciation; and (iii) the additional income generated therefrom, the investment payback period of these machineries was approximately four years. As Shanghai Jinxiong had been operating profitably at the time it was acquired by us, the breakeven period analysis was not applicable to those machineries transferred to us from Shanghai Jinxiong.

Our Directors consider that those machineries transferred from Shanghai Jinxiong to our Group are expected to have a shorter investment payback period than the new set of machinery to be acquired by us mainly because: (i) such machineries were fully operational at the time when we acquired Shanghai Jinxiong in 2010 as they had already been put into use for a certain period of time before that, and hence it saved us the time required for installing, adjusting and testing the machineries, ranging from approximately several months to a year; and (ii) such machineries had been subject to depreciations in the financial periods before we acquired Shanghai Jinxiong, thus the net book value of these machineries at the time of our acquisition did not fully reflect the investment cost incurred by Shanghai Jinxiong.

Apart from the aforesaid, a substantial portion of our existing machineries were acquired by our Group over a decade ago, hence the computation of their breakeven period and investment payback period may not be relevant or representative, taking into account the differences in costs of production machinery and operating environments of the PRC papermaking felts industry back then and nowadays.

Please refer to the paragraph headed "Business — Our business strategies" in this document for more information regarding our business objectives;

(ii) approximately **[REDACTED]** (equivalent to approximately **[REDACTED]**) or **[REDACTED]** of the total **[REDACTED]** from the issue of **[REDACTED]** under the **[REDACTED]**, will be used for strengthening our research and development capabilities.

The intended allocation of this portion of the **[REDACTED]** is primarily as follows:

Intended applications	**Approximate percentage of [REDACTED]**
(a) upgrading our Huanlong Paper Machine Efficiency Operation System, including; • approximately **[REDACTED]** or **[REDACTED]** (equivalent to **[REDACTED]**) for developing and upgrading the software platform; • approximately **[REDACTED]** or **[REDACTED]** (equivalent to **[REDACTED]**) for investing in the hardwares; • approximately **[REDACTED]** or **[REDACTED]** (equivalent to **[REDACTED]** for hiring professional staff; and • approximately **[REDACTED]** or **[REDACTED]** (equivalent to **[REDACTED]**) for strengthening our information technology facilities; and	**[REDACTED]**
(b) upgrading our technology centre	**[REDACTED]**

(iii) approximately **[REDACTED]** (equivalent to approximately **[REDACTED]**) or **[REDACTED]** of the total **[REDACTED]** from the issue of **[REDACTED]** under the **[REDACTED]**, will be used for pursuing strategic acquisitions. For details of our plan of pursuing strategic acquisitions, please refer to the paragraph headed "Business — Our business strategies — Pursuing strategic acquisitions" in this document;

(iv) approximately **[REDACTED]** (equivalent to approximately **[REDACTED]**) or **[REDACTED]** of the total **[REDACTED]** from the issue of **[REDACTED]** under the **[REDACTED]**, will be used to reduce our indebtedness by repaying certain outstanding bank borrowings. As at 31 August 2021, being the date of our indebtedness statement, our total bank borrowings amounted to approximately RMB115.0 million. We intend to use part of the **[REDACTED]** from the **[REDACTED]** to partially repay the following bank borrowings:

(i) five bank loans amounting to, in aggregate, **[REDACTED]** with a bank, all bearing fixed interest rate of 6.05% in which three are to be due in March 2022 and two are to be due in May 2021; and

(ii) a bank loan amounting to **[REDACTED]** with another bank, bearing fixed interest rate of 6.53% and to be due in December 2021.

Please refer to the paragraph headed "Financial Information — Indebtedness — Bank borrowings" in this document for further information on our bank borrowings.

Following the aforesaid reduction of indebtedness with our **[REDACTED]**, our net current liabilities will change from approximately RMB6.7 million as at 31 August 2021 to the position of net current assets of approximately **[REDACTED]** and our net debt to equity ratio and working capital will also be improved as a result. Our Directors believe that this will enhance our flexibility in carrying out further expansion when the opportunities arise, and strengthen our position in obtaining additional funds through equity and/or debt financing, when necessary, given that the indebtedness level of a company is generally one of the key criteria for investors and/or financial institutions in assessing its creditworthiness and repayment ability; and

(v) the remaining amount of approximately **[REDACTED]** (equivalent to approximately **[REDACTED]**) or **[REDACTED]** of the **[REDACTED]** from the issue of **[REDACTED]** under the **[REDACTED]**, will be used for our working capital and other general corporate purposes.

If the final **[REDACTED]** is set at the highest point of the indicative **[REDACTED]** range, the **[REDACTED]** from the issue of **[REDACTED]** under the **[REDACTED]** to be received by us is estimated to increase to approximately **[REDACTED]**. We intend to apply such additional **[REDACTED]** to the above purposes in the same proportions as disclosed above. If the **[REDACTED]** is determined at the lowest point of the indicative **[REDACTED]** range, the **[REDACTED]** from the issue of **[REDACTED]** under the **[REDACTED]** to be received by us is estimated to decrease to approximately **[REDACTED]**. In such case, we intend to reduce the allocation of such **[REDACTED]** for the above purposes in the same proportions as disclosed above. If the **[REDACTED]** is exercised in full or in part, we intend to apply the additional **[REDACTED]** from the exercise of the **[REDACTED]** to the above purposes in the same proportions as disclosed above.

The table below sets out the estimated **[REDACTED]** which we will receive after deduction of the **[REDACTED]** and other estimated expenses borne by our Company in connection with the **[REDACTED]**:

	Assuming the [REDACTED] is not exercised	**Assuming the [REDACTED] is exercised in full**
If the **[REDACTED]** is fixed at **[REDACTED]** per Share (being the **high end** of the **[REDACTED]** range stated in this document)	**[REDACTED]**	**[REDACTED]**
If the **[REDACTED]** is fixed at **[REDACTED]** per Share (being the **mid-point** of the **[REDACTED]** range stated in this document)	**[REDACTED]**	**[REDACTED]**
If the **[REDACTED]** is fixed at **[REDACTED]** per Share (being the **low end** of the **[REDACTED]** range stated in this document)	**[REDACTED]**	**[REDACTED]**

The use of our **[REDACTED]** outlined above may change in light of our evolving business needs, conditions and management requirements as well as prevailing market circumstances. In the event of any material modification to the **[REDACTED]** as described above, we will issue an announcement and make disclosure in our annual report for the relevant year as required under the Listing Rules.

To the extent that the **[REDACTED]** from the issue of **[REDACTED]** under the **[REDACTED]** are not immediately required for or applied to the above purposes, it is the present intention of our Directors that such **[REDACTED]** will be placed in short-term interest bearing deposits held with authorised financial institutions and/or licensed banks in Hong Kong and/or the PRC.

REASONS FOR THE [REDACTED] AND THE [REDACTED]

Our Directors believe that the **[REDACTED]** on the Stock Exchange will benefit our Group because of the following: (i) the Stock Exchange is a more suitable place to pursue the **[REDACTED]** than in the PRC; (ii) ease of raising funds in the capital market for future business development; (iii) long-term growth of our Group could be sustained and competitiveness strengthened; (iv) enhancement of our corporate profile, brand awareness and competitiveness among business stakeholders; and (v) enhancement of work morale to nurture an integrated workforce.

[REDACTED] in Hong Kong as opposed to the PRC

Our Directors consider that the Stock Exchange is a more suitable place to pursue the **[REDACTED]** than in the PRC due to the following reasons:

(i) the level of trading activities on a stock exchange is one of the main indicators for the ease of conducting secondary fund raising exercises after **[REDACTED]**. Given the high liquidity of the Hong Kong stock market, our Directors are of the view that it would be easier to conduct secondary fund raising in the Hong Kong stock market, if necessary, for our further expansion in the future; and

(ii) the Hong Kong stock market has a high level of internationalisation, maturity in the global financial market, with sufficient institutional capital and funds following the companies listed in Hong Kong.

Ease of raising funds in the capital market for future business development

Despite the fact that our Group was able to sustain our business using internally generated funds and bank borrowings during the Track Record Period, we plan to seek equity financing as it would ease our cash flow as compared to debt financing from bank or financial institutions because heavy reliance on debt financing would subject our Group to the inherent risks of higher interest rate and finance costs. Our Group's financial performance and liquidity may be negatively affected due to principal and interest payments if we proceed with debt financing to fund our business expansion.

The **[REDACTED]** will allow us to gain access to the capital market for fund raising, will assist our future business development and enhance our competitiveness. We will be able to use secondary fund raising after the **[REDACTED]** for our future expansion plans and when necessary, through the issuance of equity and/or debt securities. While we will continue to obtain certain amount of banking facilities after the **[REDACTED]** alongside with equity financing, our

Directors believe that we would be in a better position to negotiate with banks and financial institutions if we are a **[REDACTED]** **[REDACTED]** with enlarged capital structure. By strengthening our financial position through fund-raising, we will also have more bargaining power when negotiating terms with our suppliers and subcontractors. Our Directors therefore believe that the use of equity financing would avoid the risk of high interest rate generally associated with debt financing which exposes us to increasing financial costs in the future.

Sustaining the long-term growth of our Group and strengthen our competitiveness

Taking advantage of the forecasted growth in sales volume, sales value, export volume and export value of papermaking felts in the PRC, our Directors believe that the **[REDACTED]** is strategically critical to the long-term growth of our Group as it will strengthen our competitiveness, capture more business opportunities, provide us with additional avenues to raise capital in the long run and ultimately lay a solid foundation for our business.

Enhance our corporate profile, brand awareness and competitiveness among business stakeholders

Our Directors believe that the **[REDACTED]** will enhance our corporate profile and brand awareness among business stakeholders such as customers and suppliers. We believe that the **[REDACTED]** will strengthen our internal control and corporate governance practices, which in turn would bolster our customers' and suppliers' confidence in us and attract potential new customers, as well as quality suppliers.

Enhance work morale to nurture an integrated workforce

To effectively implement our business strategies, our Directors believe that a **[REDACTED]** status allows us to retain our existing staff more effectively, at both operational and administrative levels. We believe that our staff will feel more stable and secure about their employment with us as compared to a **[REDACTED]** group, hence strengthening their morale at work. In turn, an integrated workforce will improve the quality of our services and optimise our day-to-day operations to the benefit of our long-term development.

We will issue an announcement in the event that there is any material change in the **[REDACTED]** as described above.

BASES AND KEY ASSUMPTIONS

The implementation plans for our business strategies are set out by our Directors based on the following principal bases and assumptions:

(i) there will be no material changes in the existing political, legal, fiscal or economic conditions in the PRC, and any other places where any members of our Group carry on business and provide or will provide services;

(ii) there will be no material changes in the bases or rates of taxation and duties in the PRC or in any other places where any member of our Group operates or will operate or is incorporated;

(iii) our Group will have sufficient financial resources to meet the planned capital and business development requirements during the period to which the business objective relates;

(iv) the **[REDACTED]** will be completed in accordance with and as described in the section headed "Structure and Conditions of the **[REDACTED]**" in this document;

(v) our Directors' and key senior management will continue their involvement in the development of our existing and future development and we will be able to retain our key management personnel;

(vi) we will be able to recruit new staff when required;

(vii) there will be no change in the funding requirement for carrying out each of the implementation plans described in this document from the amount as estimated by our Directors;

(viii) we will be able to continue our operations in substantially the same manner as we had been operating during the Track Record Period and we will also be able to carry out our implementation plans without disruption; and

(ix) we will not be materially and adversely affected by the risk factors as set out in the section headed "Risk Factors" in this document. The successful implementation of our business plans may be affected by a number of factors including the availability of sufficient funds, the economic condition, our ability to maintain our existing competitive advantages, relationship with our customers and the threat of substitutes and new market entrants.

These bases and assumptions are inherently subject to many uncertainties, variables and unpredictable factors, in particular the risk factors set forth in the section headed "Risk Factors" in this document. There can be no assurance that our plans will materialise in accordance with the expected time frame or that the business objective of our Group will be accomplished at all.