
FUTURE PLANS AND USE OF PROCEEDS

BUSINESS OBJECTIVES AND STRATEGIES

Our Group will endeavor to expand our business operations by adopting our business strategies through the following implementation plans. For details of our business strategies, please refer to the paragraph headed “Business — Business strategies” in this prospectus. Our Group’s actual course of business may vary from the business objectives set out in this prospectus. There can be no assurance that the plans of our Group will be materialised in accordance with the expected time frame or that the business objectives of our Group will be accomplished at all.

REASONS FOR THE LISTING

The principal business objective of our Group is to further strengthen our market position, increase our market share and capture the growth in the PRC cigarette packaging paper manufacturing industry. We intend to achieve our business objective by (i) expanding our production capacity, production efficiency and product portfolio; (ii) enhancing our research and development capabilities; (iii) enhancing our enterprise resource planning system and infrastructure systems to improve our operational efficiency; and (iv) increasing our marketing efforts in various provinces in the PRC. Our executive Directors believe that the Listing is beneficial to our Company and our Shareholders as a whole because of the following reasons:

- according to the Industry Report, the total sales value of cigarette packaging paper in the PRC is forecasted to grow from approximately RMB41,155.9 million in 2022 to RMB44,349.5 million in 2025 at a CAGR of approximately 2.5%. The forecasted increase in sales value of cigarette packaging paper manufacturing industry in the PRC is mainly attributable to (i) the continuation of the focus of cigarette industry towards mid-to-high-end cigarettes. Mid-to-high-end cigarettes, which are charged at a higher selling price, generally entails the use of cigarette packaging paper with advanced technical requirements so as to enhance their brand recognition and product appeal; and (ii) the increase in purchasing power of PRC citizens will likely result in a growth in demand for mid-to-high-end cigarettes. Driven by the PRC Government’s policy in promoting mid-to-high-end cigarette such as the “Three qualities strategy (三品戰略)” and the “136/345 development goals”, the demand for mid-to-high-end cigarette packaging paper is expected to maintain a steady growth. With our product quality, experienced management team and past track record, our executive Directors believe that we are well-positioned to capture the growing demand for mid-to-high-end cigarette packaging paper in the PRC. The net proceeds from the Share Offer will provide additional financial resources to our Group for our business plans as set out in the paragraph headed “Business — Business strategies” in this prospectus, which will further strengthen our market position and expand our market share in the PRC cigarette packaging paper manufacturing industry;

FUTURE PLANS AND USE OF PROCEEDS

- a number of key market players in the PRC cigarette package or cigarette packaging paper manufacturing industry are listed companies or have sought listing in exchanges such as the Stock Exchange, the Shenzhen Stock Exchange and the Shanghai Stock Exchange. Given that a listed company is subject to ongoing regulatory compliance for announcements, financial disclosures and corporate governance, a public listing status will enhance our corporate profile and recognition and provide better assurance to our customers and suppliers and thus enhance our competitiveness within the PRC cigarette packaging paper manufacturing industry. The enhanced corporate profile can potentially lead to more business opportunities to our Group as we will be considered more favourably by potential and existing customers, especially state-owned enterprises;
- the Share Offer will provide a fund-raising platform for our Company, thereby enabling us to raise the capital required to finance our future growth and expansion without reliance on our Controlling Shareholders. Such platform would allow us to gain direct access to the capital market for equity and/or debt financing, both at the time of the Listing as well as at later stage, to fund our existing operations and future expansion, which could be instrumental to our expansion and improving our operating and financial performance to enhance Shareholders' return; and
- upon the Listing, our Shares will be freely traded on the Stock Exchange. A public listing status will offer us a broader shareholder base which could lead to a more liquid market in the trading of our Shares. We also believe that our internal control and corporate governance practices could be further enhanced following the Listing.

Funding needs for implementing our business strategies

As at 30 April 2022, our cash and cash equivalents, which represents our immediately available working capital, amounted to approximately RMB13.5 million, as set out in the paragraph headed “Financial information — Net current assets” in this prospectus. Our executive Directors consider that the amount of our available working capital fluctuates from time to time, depending on the timing of (i) payment from our customers; and (ii) payment to our suppliers of raw materials. We had experienced significant growth in our business during the Track Record Period, as evidenced by the increase in our revenue from approximately RMB312.8 million for FY2019 to approximately RMB370.3 million for FY2021. The average monthly expenses incurred by us, primarily comprising cost of raw materials and goods used, staff costs, freight charges, utilities cost, administrative expenses and other miscellaneous expenses for our daily operations. In light of our plan to expand our operating scale, our executive Directors consider that it is financially prudent for us to reserve our current available cash resources for meeting our operating expenses.

In view of the aforesaid, our current available working capital would not have room for our further business expansion such as expanding our production capacity and enhancing our research and development capacities which would inevitably require more available cash for general working capital. Therefore, our executive Directors consider that we will need to raise additional funding through the Share Offer to facilitate the implementation of our future plans, while reserving our current available working capital for our existing business operations.

FUTURE PLANS AND USE OF PROCEEDS

USE OF PROCEEDS

We estimate that the net proceeds from the Share Offer (assuming the Over-allotment Option is not exercised) based on the Offer Price of HK\$0.65 per Offer Share, being the mid-point of the indicative Offer Price range of HK\$0.63 to HK\$0.67 per Offer Share, after deducting the related expenses, are estimated to be approximately HK\$94.1 million. We intend to apply such net proceeds in the following manner:

- (a) approximately HK\$33.3 million (equivalent to approximately RMB28.3 million), representing approximately 35.4% of the estimated net proceeds, will be used for constructing a two-storey factory building of approximately 8,200 sq.m., mainly for production workshops and warehouse use (“**New Factory Building**”). Based on our management’s best estimation and past experience, it will take approximately 12 to 18 months to complete the construction of the New Factory Building. The capital expenditure for the construction of the New Factory Building is currently estimated to be approximately HK\$33.3 million which will be fully financed with the net proceeds from the Share Offer;
- (b) approximately HK\$24.4 million (equivalent to approximately RMB20.7 million), representing approximately 25.9% of the estimated net proceeds, will be used for (i) acquiring four sets of advanced laminating machine to facilitate the replacement of an existing production line and set up three new production lines. Such machinery could produce wider range of cigarette packaging paper products and achieve higher operational efficiency than our existing models; and (ii) acquiring ten sets of automatic control system for our existing and new production lines that could perform automatic identification and elimination of defective products. As the existing premises at our factory buildings were already substantially occupied, the four new production lines will be installed in the New Factory Building. The capital expenditure for the acquisition of additional machinery is currently estimated to be approximately HK\$24.4 million in aggregate which will be fully financed with the net proceeds from the Share Offer.

Under the assumptions that the three new production lines and the replaced production line will achieve (i) a utilisation rate of approximately 92.0% with reference to the average utilisation rate of our existing productions lines for the three years ended 31 December 2021; and (ii) an estimated annual maximum production capacity of approximately 4,605 tonnes for each new production line, it is expected that the three new production lines and the replaced production line will contribute to an increase in our annual actual production volume by approximately 12,710 tonnes and 553 tonnes, respectively. As a result, our Group’s annual actual production volume is estimated to increase by approximately 13,263 tonnes in aggregate following (i) the construction of the New Factory Building; and (ii) the establishment of the three new production lines and the replaced production line.

FUTURE PLANS AND USE OF PROCEEDS

Following the establishment of the new production lines, our existing production lines will continue to manufacture cigarette packaging paper with basic anti-counterfeiting, eco-friendliness and/or technical features (the “**Existing Products**”); whereas our new production lines will mainly focus on manufacturing cigarette packaging paper with (i) enhanced anti-counterfeiting features such as positioning pattern, watermarks and special symbols; (ii) enhanced eco-friendliness features such as aluminum foil-imitation characteristics; and (iii) advanced technical features such as double-sided lamination, hollowing, extra low weight and extra thin characteristics. For further details, please refer to the paragraph headed “Business — Business strategies — Expanding our production capacity, production efficiency and product portfolio — (VII) Technical improvement of our production lines — Features of products to be manufactured by the new production lines” in this prospectus;

- (c) approximately HK\$18.4 million (equivalent to approximately RMB15.6 million), representing approximately 19.5% of the estimated net proceeds, will be used for enhancing our research and development capabilities by (i) constructing a research and development centre of approximately 3,200 sq.m. (the “**R&D Centre**”); (ii) acquiring three types of advanced research and development equipment to assist us in the design, development and production of new products. Such equipment is expected to possess enhanced function of anti-counterfeit imprinting and high-resolution graphics; (iii) acquiring four types of advanced testing equipment to assist us in conducting a wider range of testing on our products on different aspects (e.g. chemical compositions and moisture content etc.); and (iv) recruiting four additional research and development staff member. Based on our management’s best estimation and past experience, it will take approximately 12 to 18 months to complete the construction of the R&D Centre. The capital expenditure for the construction of the R&D Centre and the acquisition of additional research and development equipment and testing equipment is currently estimated to be approximately HK\$4.7 million and HK\$12.7 million, respectively. We currently intend to finance the construction of the R&D Centre, the acquisition of additional research and development equipment and testing equipment and the recruitment of additional research and development staff fully with the net proceeds from the Share Offer;

- (d) approximately HK\$6.0 million (equivalent to approximately RMB5.1 million), representing approximately 6.4% of the estimated net proceeds, will be used for enhancing our enterprise resource planning system and infrastructure systems to improve our operational efficiency. The capital expenditure for the upgrade of our enterprise resource planning system and infrastructure systems is currently estimated to be approximately HK\$6.0 million in aggregate which will be fully financed with the net proceeds from the Share Offer;

FUTURE PLANS AND USE OF PROCEEDS

- (e) approximately HK\$2.7 million (equivalent to approximately RMB2.3 million), representing approximately 2.9% of the estimated net proceeds, will be used for increasing our marketing efforts by establishing three sales centres in Shanghai Municipality, Yunnan Province and Henan Province. Under our plan, these would involve (i) leasing a total of three offices in Jiading District of Shanghai Municipality, Kunming City of Yunnan Province and Zhengzhou City of Henan Province and conducting the necessary renovation works; (ii) purchasing three additional motor vehicles to facilitate the travelling of our marketing staff in their respective regions; and (iii) recruiting six additional marketing staff. We currently intend to finance the establishment of the three sales centre, the acquisition of additional motor vehicles and the recruitment of additional marketing staff fully with the net proceeds from the Share Offer; and
- (f) approximately HK\$9.3 million (equivalent to approximately RMB7.9 million), representing approximately 9.9% of the estimated net proceeds, will be reserved as our general working capital.

IMPLEMENTATION PLAN

We will endeavor to achieve the following milestone events for each of the six-month period from 1 July 2022, and their respective scheduled completion times are based on certain bases and assumptions as set out in the paragraph headed “Bases and assumptions” in this section. We intend to fund the following business strategies entirely with the net proceeds from the Share Offer:

Business strategies	Implementation plans	Use of proceeds HK\$'million
<i>From 1 July 2022 to 31 December 2022</i>		
Expanding our production capacity, production efficiency and product portfolio	<ul style="list-style-type: none"> ● Progress payment for constructing a two-storey factory 	3.0
Enhancing our research and development capabilities	<ul style="list-style-type: none"> ● Progress payment for constructing a research and development centre 	3.3
Enhancing our enterprise resource planning system and infrastructure system	<ul style="list-style-type: none"> ● Progress payment for enhancing our enterprise resource planning system and infrastructure system 	1.8
Increasing our marketing efforts	<ul style="list-style-type: none"> ● Establishing three sales centres ● Recruiting six additional marketing staff with a monthly salary of approximately RMB7,500 	2.2

FUTURE PLANS AND USE OF PROCEEDS

Business strategies	Implementation plans	Use of proceeds <i>HK\$'million</i>
<i>From 1 January 2023 to 30 June 2023</i>		
Expanding our production capacity, production efficiency and product portfolio	<ul style="list-style-type: none"> ● Progress payment for constructing a two-storey factory ● Down payment for acquiring four sets of advanced laminating machine and ten sets of automatic control system 	1.3
Enhancing our enterprise resource planning system and infrastructure system	<ul style="list-style-type: none"> ● Progress payment for enhancing our enterprise resource planning system and infrastructure system 	3.6
Increasing our marketing efforts	<ul style="list-style-type: none"> ● Salary payment for six additional marketing staff 	0.5
<i>From 1 July 2023 to 31 December 2023</i>		
Expanding our production capacity, production efficiency and product portfolio	<ul style="list-style-type: none"> ● Progress payment for constructing a two-storey factory 	3.5
Enhancing our research and development capabilities	<ul style="list-style-type: none"> ● Progress payment for constructing a research and development centre ● Recruiting four additional research and development staff members with a monthly salary of approximately RMB6,700 	1.7
<i>From 1 January 2024 to 30 June 2024</i>		
Expanding our production capacity, production efficiency and product portfolio	<ul style="list-style-type: none"> ● Progress payment for constructing a two-storey factory ● Interim payment for acquiring four sets of advanced laminating machine and ten sets of automatic control system 	37.8

FUTURE PLANS AND USE OF PROCEEDS

Business strategies	Implementation plans	Use of proceeds <i>HK\$'million</i>
Enhancing our research and development capabilities	<ul style="list-style-type: none"> ● Down payment for acquiring six advanced research and development equipment and two advanced testing equipment ● Salary payments for four additional research and development staff members 	6.2
Enhancing our enterprise resource planning system and infrastructure system	<ul style="list-style-type: none"> ● Progress payment for enhancing our enterprise resource planning system and infrastructure system 	0.6
<i>From 1 July 2024 onwards</i>		
Expanding our production capacity, production efficiency and product portfolio	<ul style="list-style-type: none"> ● Progress payment for constructing a two-storey factory ● Payment of the balance for acquiring four sets of advanced laminating machine and ten sets of automatic control system 	12.1
Enhancing our research and development capabilities	<ul style="list-style-type: none"> ● Progress payment for constructing a research and development centre ● Payment of the balance for acquiring six advanced research and development equipment and two advanced testing equipment ● Acquiring two advanced testing equipment ● Salary payments for four additional research and development staff members 	7.2

In addition to the above, we intend to reserve approximately HK\$9.3 million of the estimated net proceeds as our general working capital.

FUTURE PLANS AND USE OF PROCEEDS

BASIS AND ASSUMPTIONS

The implementation plan set out by our Directors is based on the following assumptions:

- there will be no impediments, legal or otherwise, such as obtaining the relevant construction permits, which would materially disrupt our construction of the new factory building and research and development centre;
- our Group will have sufficient financial resources to meet the planned capital expenditure and business development requirements during the period to which our future plans relate;
- there will be no material changes in the funding requirement for each of our Group's future plans described in this prospectus from the amount as estimated by our Directors;
- there will be no material changes in existing laws and regulations, or other governmental policies relating to our Group, or in the political, economic or market conditions in which our Group operates;
- there will be no changes in the effectiveness of the licences, permits and qualifications obtained by our Group, where applicable;
- there will be no material changes in the bases or rates of taxation applicable to the activities of our Group;
- there will be no disasters, natural, political or otherwise, which would materially disrupt the businesses or operations of our Group; and
- our Group will not be materially affected by the risk factors as set out in the section headed "Risk factors" in this prospectus.

There can be no assurance that the net proceeds from the Share Offer will be sufficient for fully implementing our business expansion plans. For instance, (i) the construction costs of the New Factory Building and R&D Centre may exceed the net proceeds allocated for such purpose as set out above; (ii) the number of additional staff members we intend to recruit may not fulfil the manpower needs; and (iii) the number of machinery and equipment we intend to purchase may not be sufficient to fulfil the needs associated with the increase in our operation scale. In the event any of the above occurs or that the Listing becomes unsuccessful such that the net proceeds from the Share Offer becomes unavailable to us, we may adjust the timing and scale of our business expansion plans and/or seek alternative form of financing.

To the extent that the net proceeds are not immediately required for the above purposes and to the extent permitted by the applicable laws and regulations, such net proceeds can only be placed by us as interest-bearing deposits with authorised financial institutions in the PRC or Hong Kong.

FUTURE PLANS AND USE OF PROCEEDS

In the event that the Over-allotment Option is exercised in full, we estimate that we will receive additional net proceeds from the sales of these additional Offer Shares of approximately HK\$18.5 million, after deducting the underwriting commissions and other estimated offering expenses payable by us and assuming an Offer Price of HK\$0.65 per Share, being the mid-point of the proposed Offer Price range of HK\$0.63 to HK\$0.67. In the event that the Offer Price is set at the low-end of the proposed Offer Price range and the Over-allotment Option is exercised in full, our Company will receive additional net proceeds of approximately HK\$14.2 million, as compared to the net proceeds received by us from the Share Offer based on the mid-point of the Offer Price and assuming the Over-allotment Option is not exercised at all. In the event that the Offer Price is set at the high-end of the proposed Offer Price range and the Over-allotment Option is exercised in full, our Company will receive additional net proceeds of approximately HK\$22.3 million, as compared to the net proceeds received by us from the Share Offer based on the mid-point of the Offer Price and assuming the Over-allotment Option is not exercised at all. The allocation of the additional net proceeds will be used in the same proportions as set out above.

Assuming the Over-allotment Option is not exercised at all, and in the event that the Offer Price is set at the highest or lowest point of the indicative Offer Price range, the net proceeds to be received from the Share Offer will increase or decrease by approximately HK\$3.8 million, respectively. In such event, the net proceeds will be used in the same proportions as disclosed above.

We will issue an announcement in the event that there is any material change in the use of proceeds of the Share Offer as described above.