
FUTURE PLANS AND USE OF PROCEEDS

BUSINESS OBJECTIVE AND FUTURE PLANS

We aim to become a major biodegradable plastic products providers in the PRC. For a detailed description of our future plans, please refer to the section headed “Business — Business Strategies” in this prospectus.

USE OF PROCEEDS

	<u>Assuming the Over-allotment Option is not exercised</u>	<u>Assuming the Over-allotment Option is exercised in full</u>
Assuming an Offer Price of HK\$1.20 per Offer Share (being the mid-point of the Offer Price range stated in this prospectus)	Approximately HK\$181.0 million	Approximately HK\$223.3 million
Assuming an Offer Price of HK\$1.05 per Offer Share (being the low end of the Offer Price range stated in this prospectus)	Approximately HK\$154.2 million	Approximately HK\$191.2 million
Assuming an Offer Price of HK\$1.35 per Offer Share (being the high end of the Offer Price range stated in this prospectus)	Approximately HK\$207.8 million	Approximately HK\$255.4 million
Assuming an Offer Price of HK\$0.945 per Offer Share (after a Downward Offer Price Adjustment of 10% below the low end of the Offer Price range stated in this prospectus)	Approximately HK\$135.5 million	Approximately HK\$168.8 million

We estimate that the aggregate net proceeds to our Company from the Global Offering (after deducting underwriting fees and estimated expenses in connection with the Global Offering payable by us and assuming that there is no exercise of the Over-allotment Option and an Offer Price of HK\$1.20 per Offer Share, being the mid-point of the indicative Offer Price range stated in this prospectus) will be approximately HK\$181.0 million (equivalent to RMB163.8 million). We currently intend to apply such net proceeds for the following purposes subject to changes in light of our evolving business needs and changing market conditions:

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- (a) approximately 33.3%, or HK\$60.2 million (equivalent to RMB54.5 million) will be used for expanding our biodegradable plastic products production lines at our Changchun Production Base⁽¹⁾.

For details of the expected timeline and key milestones for establishing our new production lines at our Changchun Production Base, please refer to the section headed “Business — Our Production Facilities — Expansion Plan” in this prospectus.

Our plan to apply the net proceeds from the Global Offering for establishing our new biodegradable production lines in our Changchun Production Base is set out as follows:

Year	Approximate amount of net proceeds	Description
2023	RMB8.0 million	<ul style="list-style-type: none"> • Purchasing production machines and equipment for masterbatches to support our Northeast and Southeast operation
	RMB12.3 million	<ul style="list-style-type: none"> • Purchasing production machines and equipment for our existing biodegradable plastic products production lines (including biodegradable plastic produce bag rolls, biodegradable shopping bags and biodegradable stretch wraps)
	RMB15.4 million	<ul style="list-style-type: none"> • Purchasing production machines and equipment for our new biodegradable plastic products production lines (including biodegradable straws, biodegradable tableware, biodegradable packaging bags, and biodegradable agricultural mulch films)
	RMB12.0 million	<ul style="list-style-type: none"> • Renovating the production plants and improving the office environment in Changchun Production Base

Note:

- (1) The total cost for expanding our operation in our Changchun Production Base is approximately RMB83.3 million, of which approximately RMB1.1 million is expected to be settled by our Group by internal resources in 2022 and the first half of 2023.

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Year	Approximate amount of net proceeds	Description
	RMB1.8 million	<ul style="list-style-type: none"> Recruiting 65 staff members for the operation of our Changchun Production Base
	RMB2.0 million	<ul style="list-style-type: none"> Purchasing additional transportation vehicles to support our operation
	RMB3.0 million	<ul style="list-style-type: none"> Purchasing quality control related equipment
Total . . . RMB54.5 million		

We set out below number of staff and average monthly salary range we plan to recruit for our Changchun Production Base:

Title	Number of Staff	Average monthly salary range <i>(RMB)</i>	Qualification requirement
Sales and marketing representative . .	2	2,500-3,500	At least one year of biodegradable plastic product sales or marketing experience
Quality control staff	2	2,500-3,500	At least one year of biodegradable plastic product production quality control experience
Production Supervisor.	3	3,000-5,000	At least three years of biodegradable plastic product production experience
Production staff . .	56	2,500-3,500	Nil
Logistics staff. . . .	2	2,500-3,500	Nil
Total	65		

(b) approximately 33.2%, or HK\$60.1 million (equivalent to RMB54.4 million) will be used for establishing our Huizhou Production Base in Southeast China. We have already leased a plant (with gross floor area of approximately 8,522 sq.m.) in Boluo, Huizhou,

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Guangdong province, the PRC in June 2022, where we will establish a new production base with new production lines for manufacturing of our biodegradable plastic products (except masterbatches).

For details of the expected timeline and key milestones for establishing our Huizhou Production Base in Southeast China, please refer to “Business — Our Production Facilities — Expansion Plan” in this prospectus.

Our plan to apply the net proceeds from the Global Offering for establishing our production base in Southeast China is set out as follows:

Year	Approximate amount of net proceeds	Description
2023	RMB29.5 million	<ul style="list-style-type: none"> • Establishing new production base in Huizhou, Guangdong province for the production of our biodegradable plastic products (including biodegradable produce bag rolls; biodegradable shopping bags; biodegradable stretch wraps; biodegradable straws, biodegradable tableware, and biodegradable agricultural mulch films)
	RMB18.0 million	<ul style="list-style-type: none"> • Constructing the production plant and office in Huizhou Production Base
	RMB1.2 million	<ul style="list-style-type: none"> • Recruiting 55 staff members for the operation of Huizhou Production Base
	RMB5.7 million	<ul style="list-style-type: none"> • Establishing quality control laboratory, purchasing quality control related equipment and hiring quality control specialists
Total	RMB54.4 million	

We had entered into a lease agreement for our Huizhou Production Base in Southeast China with the landlord, an Independent Third Party in June 2022. The rental payment for our Huizhou Production Base in Southeast China from July 2022 to March 2023 will be settled by our internally generated funds.

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We set out below number of staff and average monthly salary range we plan to recruit for our Huizhou Production Base:

Title	Number of Staff	Average monthly salary range ⁽¹⁾ (RMB)	Qualification requirement
Sales and marketing representative . .	2	2,500-3,500	At least one year of biodegradable plastic product sales or marketing experience
Quality control staff	2	2,500-3,500	At least one year of biodegradable plastic product production quality control experience
Production Supervisor.	3	3,000-5,000	At least three years of biodegradable plastic product production experience
Production staff . .	46	2,500-3,500	Nil
Logistics staff. . . .	2	2,500-3,500	Nil
Total	55		

(c) Approximately 25.7%, or HK\$46.5 million (equivalent to RMB42.1 million), will be used for further strengthening our R&D capabilities, upgrading our existing R&D equipment, financing our R&D projects and expanding our product portfolio to add value to our business in the long run. The breakdown of the intended use of net proceeds is set out below:

- approximately 21.4% or HK\$38.7 million (equivalent to RMB35.0 million) will be used in the R&D projects below to improve our production techniques and develop new products (the total capital expenditure for these projects is approximately

Note:

(1) The estimated average monthly salary range for our staff at Huizhou Production Base is slightly higher than the current salary levels of our staff at Changchun Production Base, taking into consideration higher living costs in Southeast China in comparison to Northeast China.

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HK\$55.5 million (equivalent to RMB45.5 million), of which approximately HK\$4.9 million (equivalent to RMB4.0 million) had been settled by our Group using internal funds as at the Latest Practicable Date).

Our plan to apply the net proceeds from the Global Offering for the R&D projects below is set out as follows. For details of our R&D projects, please refer to the subsection headed “Business — Research and development” in this prospectus:

Year of commencement of the project	Approximate amount of net proceeds	Description	Expected year of completion	Approximate total project sum	Source of funding
2021	RMB2.0 million	<ul style="list-style-type: none"> Blown film resin compositions and film conformation (吹膜樹脂組成與薄膜構效) 	2023	RMB12.5 million	This project is in progress. Approximately RMB4.0 million has been paid by us as at 30 September 2022 by internal funds, approximately RMB6.5 million is expected to be paid in 2022 and the first half of 2023 by internal funds, and approximately RMB2.0 million will be paid by the net proceeds from the Global Offering.
2023	RMB3.0 million	<ul style="list-style-type: none"> Composition and properties of resins for biodegradable injection moulding (注塑專用樹脂組成與性能構效) 	2023	RMB3.0 million	Net proceeds from the Global Offering
	RMB13.0 million	<ul style="list-style-type: none"> Industrialisation technology of low-cost PBAT/PLA/starch membrane (低成本PBAT/PLA/澱粉膜的產業化技術) 	2024	RMB13.0 million	Net proceeds from the Global Offering
2024	RMB9.0 million	<ul style="list-style-type: none"> PBAT/PLA/PPC blown film resin and bag making Technology (PBAT/PLA/PPC 吹膜樹脂及製袋技術) 	2024	RMB9.0 million	Net proceeds from the Global Offering

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Year of commencement of the project	Approximate amount of net proceeds	Description	Expected year of completion	Approximate total project sum	Source of funding
	RMB3.0 million	<ul style="list-style-type: none"> Low-cost injection moulding process (低成本注塑製品成型加工) 	2024	RMB3.0 million	Net proceeds from the Global Offering
	RMB1.5 million	<ul style="list-style-type: none"> PBAT/PLA/PPC agricultural mulch resin and blown film (PBAT/PLA/PPC地膜專用樹脂及吹膜) 	2024	RMB1.5 million	Net proceeds from the Global Offering
	RMB3.5 million	<ul style="list-style-type: none"> Optimisation of injection moulding resin and product technology (注塑樹脂及製品技術優化) 	2024	RMB3.5 million	Net proceeds from the Global Offering

Total . . . RMB35.0 million

- approximately 3.7% or HK\$6.7 million (approximately RMB6.1 million) will be used for upgrading our existing R&D equipment and expanding our R&D laboratory by procuring new machines.

We plan to apply the net proceeds from the Global Offering to procure the following new R&D equipment:

For our Changchun Production Base:

R&D Equipment Category	Details	Number of equipment	Approximate cost by net proceeds (RMB'000)
R&D equipment to test the basic qualities of our biodegradable plastic products	Equipment to test various basic attributes of our biodegradable plastic products such as thickness, tearing strength, impact resistance, light transmittance, weight, moisture content, ageing process under UV light, hardness, hygiene, vertical vibration fatigue and infrared absorption.	12	1,476
R&D equipment to test permeability of our biodegradable plastic products	Equipment to test gas and water vapour permeability of our biodegradable plastic products.	3	1,253

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R&D Equipment Category	Details	Number of equipment	Approximate cost by net proceeds (RMB'000)
R&D equipment that utilises thermal energy to test our biodegradable plastic products	Equipment to conduct tests on our biodegradable products to determine i) heat shrinkage performance, ii) heat distortion temperature, iii) flow rate of melt mass and volume, iv) drying constant temperature, v) ageing process under high temperature, and vi) different material components.	9	462
R&D equipment to test our biodegradable plastic films	Equipment to test the tensile and peel strength, smoothness, and pendulum impact resistance of our biodegradable film products.	3	287
R&D equipment to test our biodegradable plastic packaging	Equipment to test the sealing strength and ink fastness of our biodegradable plastic packaging materials.	9	396
Total			3,874

For our Huizhou Production Base:

R&D Equipment Category	Details	Number of equipment	Approximate cost by net proceeds (RMB'000)
R&D equipment to test the basic qualities of our biodegradable plastic products	Equipment to test various basic attributes of our biodegradable plastic products such as thickness, tearing strength, impact resistance, light transmittance, weight, moisture content, ageing process under UV light, hardness, hygiene, vertical vibration fatigue and infrared absorption.	3	369
R&D equipment to test permeability of our biodegradable plastic products	Equipment to test gas and water vapour permeability of our biodegradable plastic products.	1	418

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R&D Equipment Category	Details	Number of equipment	Approximate cost by net proceeds (RMB'000)
R&D equipment that utilises thermal energy to test our biodegradable plastic products	Equipment to conduct tests on our biodegradable products to determine i) heat shrinkage performance, ii) heat distortion temperature, iii) flow rate of melt mass and volume, iv) drying constant temperature, v) ageing process under high temperature, and vi) different material components.	6	308
R&D equipment to test our biodegradable plastic films	Equipment to test the tensile and peel strength, smoothness, and pendulum impact resistance of our biodegradable film products.	3	287
R&D equipment to test our biodegradable plastic packaging	Equipment to test the sealing strength and ink fastness of our biodegradable plastic packaging materials.	5	220
R&D equipment for the production of our biodegradable plastic products	Equipment to improve and fine-tune the production process of our biodegradable plastic products such as stretch wraps, straws, and tableware.	3	602
Total			2,204

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- approximately 0.6% or HK\$1.1 million (approximately RMB1.0 million) will be used for recruiting R&D specialists.

We set out below number of staff and average monthly salary range we plan to recruit as our R&D specialists:

<u>Title</u>	<u>Number of Staff</u>	<u>Average monthly salary range</u>	<u>Qualification requirement</u>
		<i>(RMB)</i>	
R&D Supervisor . . .	1	10,000-12,000	At least three years of relevant experience in the R&D of biodegradable plastic products and have obtained a relevant degree
R&D Specialist . . .	4	5,000-7,000	At least one year of relevant experience in the R&D of biodegradable plastic products and have obtained a relevant degree
Total	5		

- (d) Approximately 3.0%, or HK\$5.5 million (equivalent to RMB5.0 million) will be used for upgrading, developing and integrating our internal operational reporting system and a cloud-based financial reporting system and purchasing and upgrading our hardware and relevant IT equipment.
- (e) Approximately 4.8% or HK\$8.7 million (approximately RMB7.8 million) will be used for working capital and other general corporate purposes.

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If the Offer Price is fixed at the high end of the indicative Offer Price range, being HK\$1.35 per Offer Share, the net proceeds to be received from the Global Offering will increase to approximately HK\$207.8 million⁽¹⁾ (assuming that there is no exercise of the Over-allotment Option). If the Offer Price is set at the low end of the indicative Offer Price range, being HK\$1.05 per Offer Share, the net proceeds to be received from the Global Offering will decrease to approximately HK\$154.2 million⁽¹⁾ (assuming that there is no exercise of the Over-allotment Option). If we make a Downward Offer Price Adjustment to set the final Offer Price at HK\$0.945 per Offer Share, the estimated net proceeds we will receive from the Global Offering will be further reduced by approximately HK\$18.7 million. In such events, we will increase or decrease the allocation of the proceeds to the above purposes on a pro-rata basis and we will also consider internal resources or external financing for the relevant purposes in the case of decrease of proceeds allocated.

If the Over-allotment Option is exercised in full, our Group estimates that the additional net proceeds from the offering of these additional Shares to be received by our Group, after deducting underwriting fees and estimated expenses payable by it, will be approximately (i) HK\$255.4 million⁽¹⁾, assuming the Offer Price is fixed at the high end of the indicative Offer Price range, being HK\$1.35 per Offer Share; (ii) HK\$223.3 million⁽¹⁾, assuming the Offer Price is fixed at the mid-point of the indicative Offer Price range, being HK\$1.20 per Offer Share; and (iii) HK\$191.2 million, assuming the Offer Price is fixed at the low end of the indicative Offer Price range, being HK\$1.05 per Offer Share. Any additional proceeds to be received by our Group from the exercise of the Over-allotment Option will also be allocated to the above businesses and projects on a pro-rata basis. To the extent that the net proceeds are not immediately applied to the above purposes, the Group will only deposit the net proceeds into short-term interest-bearing accounts with authorised financial institutions and/or licensed banks in Hong Kong (as defined under the Securities and Futures Ordinance or other applicable PRC laws and regulations).

We estimate that the net proceeds to be received by the Selling Shareholder from the sale of the Sale Shares (after deduction of proportionate share of underwriting commissions payable by our Selling Shareholder in relation to the Global Offering, and assuming the Offer Price is fixed at the mid-point of the indicative range of the Offer Price, being HK\$1.20 per Offer Share, and the Over-allotment Option is not exercised) will be approximately HK\$67.7 million. We will not receive any of the proceeds from the Sale Shares.

Note:

- (1) This amount is calculated assuming a commission of 6.0% is payable by our Company to the Hong Kong Underwriters and International Underwriters.

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We will issue an appropriate announcement if there is any material change to any of the above proposed use of proceeds.

REASONS FOR THE LISTING AND THE GLOBAL OFFERING

We intend to raise funds by the Global Offering in order to facilitate the implementation of our business strategies which we deem necessary for our Group's long-term development.

Achieving our business strategies

The Listing will enable us to have sufficient financial resources to achieve our business strategies, in particular the followings:

- Expanding our production capacity and broadening our business coverage in Southeast China;
- Raising our customer awareness;
- Strengthening our R&D capabilities, upgrading existing R&D equipment, financing our R&D projects and expanding our product portfolio; and
- A listing status can enhance our standing to existing customers and suppliers and enhance our position to prospective customers and suppliers.

It is essential for us to expand our production capacity. Our current production capacity for biodegradable produce bag rolls and biodegradable shopping bags has been approaching its limit and is restricting us from developing new business opportunities through new customer solicitation and accepting new orders. In addition, using the net proceeds from the Global Offering to establish a new production base in Southeast China can broaden our geographic coverage and allow us to capture the business potentials around Southeast China as they are in early stage of prohibition of plastic policy. Moreover, we anticipate the utilisation rate of our existing masterbatch mixers in our Changchun Production Base to continue to rise due to expected rising demand for biodegradable products in the PRC. It is also important to raise our customer awareness by marketing and promotion efforts, which enable our brand and products reaching out to our potential customers and in turn boosting our sales. Moreover, it is necessary to strengthen our R&D capabilities for our sustainable growth and development.

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Long-term capital needs

Notwithstanding that we had bank balances and cash of approximately RMB86.9 million as at 30 September 2022 and unutilised short-term revolving loan facilities, our Directors consider that such an amount of cash and unutilised banking facilities are only sufficient for our Group's working capital purpose but will be insufficient to fulfil our long-term capital needs in relation to our business strategies and expansion plans. Given the increasing demand of our Group's biodegradable plastic products and the almost-full utilisation rate of our production lines, our Directors recognised the imminent need for additional long-term capital to expand our production facilities in order to capture the expected demand in the biodegradable plastic industry in the PRC.

Enhancing our Group's corporate profile and customer awareness and increasing our competitiveness

Our Directors believe that a public listing status will enhance our corporate profile and assist us in reinforcing our customer awareness and reputation. We believe that a public listing status on the Stock Exchange is a complementary advertising for our Group to potential investors and customers and can enhance our corporate profile and our credibility with the public and potential business partners given a public listed company's greater transparency, relevant regulatory supervision and stability generally. The Global Offering will therefore serve to promote our corporate profile and customer awareness. Moreover, we believe that the Listing will strengthen our internal control and corporate governance practices, which in turn would increase our customers' confidence in us and attract potential customers.

Enhancing market status amongst customers, suppliers and employees

Our Directors believe that a listing status on the Stock Exchange will enhance our credibility with our customers and suppliers and thus, enhance our level of competitiveness in competing for customers and suppliers. With such status, our Group can be differentiated from market competitors, enhancing our capability to compete and to produce quality biodegradable plastic products. Our Directors believe that as a listed company, we will be able to retain our existing employees more effectively, at both operational and administrative level. Our employees will feel more stable and secured about their employment with us, rather than joining a private company, hence strengthening their morale at work. As a listed company, we can also provide better remuneration package to our staff by means of share option scheme.

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BASIS AND ASSUMPTIONS

Our future plans and business strategies are based on the following general assumptions:

- there will be no material change in the funding requirement for each of our future plans described in this prospectus from the amount as estimated by our Directors;
- we will have sufficient financial resources to meet the planned capital expenditure and business development requirements during the period to which our future plans relate;
- the Global Offering will be completed in accordance with and as described in the section headed “Structure and Conditions of the Global Offering” in this prospectus;
- there will be no material changes in existing accounting policies from those stated in the audited combined financial information of our Group for FY2019, FY2020, FY2021 and 9M2022;
- our operations including our future plans will not be interrupted by any force majeure, unforeseeable factors, extraordinary items or economic changes in respect of inflation, interest rate and tax rate in the PRC;
- there will be no material changes in the bases or rates of taxation applicable to our activities;
- we will not be materially affected by the risk factors as set out in the section headed “Risk Factors” in this prospectus;
- we will continue our operation including but not limited to retaining our key staff member and maintaining our customers and suppliers in the same manner as we had operated during the Track Record Period;
- there will be no material change in existing laws and regulations, or other governmental policies relating to our Group, or in the political or market conditions in which we operate; and
- there will be no disasters, natural, political or otherwise, which would materially disrupt our businesses or operations.