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The following discussion should be read in conjunction with our combined financial information as at and for each of FY2019, FY2020, FY2021 and 9M2022, together with the accompanying notes, as set forth in the Accountants’ Report in Appendix I to this document. Our combined financial information has been prepared in accordance with IFRSs. Potential investors should read the entire Accountants’ Report and not merely rely on the information contained in this section.

The following discussion and analysis of our financial conditions and results of operation contain certain forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on our assumptions and analysis in light of our experience and historical trends, current conditions and expected future developments, as well as factors we believe are appropriate under the circumstances. However, whether actual outcomes and developments will meet our expectations and predictions or not depends on a number of risks and uncertainties. Factors that could cause or contribute to such differences include those disclosed in the sections headed “Risk Factors”, “Forward-looking statements” and elsewhere in this document.

OVERVIEW

We commenced our business in 2014. At our inception, we were primarily engaged in the development and manufacture of non-biodegradable automobile plastic parts. With a vision that the implementation of encouraging policies in the PRC (which restricted or prohibited the sale or use of non-degradable plastic bags and utensils and required shopping malls, shops and markets’ organisers to monitor the implementation of the plastic ban) could potentially drive the demand and sales of biodegradable plastic products in the future, our founders, Controlling Shareholders and executive Directors — Ms. Zhang and Mr. Shan then diversified our business in 2015 into manufacture fast-moving biodegradable plastic products. Since then, we have conducted R&D of biodegradable plastic products by collaborating with the CIAC (中國科學院長春應用化學研究所), a third-party research institute. Our products are sold to our customers such as supermarket chains, department stores and outlets, mainly in the form of biodegradable produce bag rolls and biodegradable shopping bags.

From FY2019 to FY2021, our total revenue increased from approximately RMB102.7 million in FY2019 to approximately RMB166.7 million in FY2020 and further to approximately RMB256.7 million in FY2021, representing a CAGR of approximately 58.1%. Such an increase in revenue was mainly due to growing public awareness of environmental protection and preservation and favourable government policies to prohibit non-degradable plastic products and promote biodegradable plastic products. According to Frost & Sullivan, Jilin Province has been one of the pioneer provinces that implemented such policies since 2015. The temporary lockdown of

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Changchun from March to May 2022 had negatively impacted our revenue in March and April 2022 yet our business gradually picked up since May 2022. For 9M2022, our total revenue increased by 12.5% to approximately RMB214.1 million compared to approximately RMB190.3 million in 9M2021.

Our net profit increased from approximately RMB27.1 million in FY2019 to RMB49.3 million in FY2020, and further to RMB78.4 million in FY2021, representing a CAGR of approximately 70.1%. Our net profit decreased by 26.8% from approximately RMB62.2 million in 9M2021 to RMB45.5 million in 9M2022. Such decrease was a combined result of (i) increases in cost of sales (which lead to a fall in our overall gross profit margin), selling and distribution expenses, and administrative and other operating expenses from 9M2021 to 9M2022; and (ii) our Group incurred [REDACTED] expenses amounted to approximately RMB12.2 million during the 9M2022; and partially offset by our increase in revenue (in particular for our shopping bag) from RMB82.6 million in 9M2021 to RMB96.5 million in 9M2022.

BASIS OF PREPARATION

Our Company was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Act of the Cayman Islands on 21 January 2022. Through a corporate reorganisation as more fully explained in the subsection headed “History, Reorganisation and Group Structure — Reorganisation” in this document, our Company became the holding company of the companies now comprising our Group on 2 June 2022. Immediately prior to and after the Reorganisation, our Company and its subsidiaries now comprising our Group are under common control of our Controlling Shareholders, Ms. Zhang and Mr. Shan. Our Group’s business is mostly conducted through Jilin Kaishun and Yizheng Juxinyuan while other entities within our Group have not been involved in any other significant activities prior to the Reorganisation except for the reorganisation and certain fund raising activities. As the Reorganisation did not result in any change in the ultimate control of and the resources employed by the Group’s business, the Group is regarded as a continuity entity and, therefore, the Reorganisation is considered to be a restructuring of entities and business under common control. Accordingly, the historical financial information has been prepared on a combined basis under merger accounting principles, which presents the combined financial position, combined financial performance, combined changes in equity and combined cash flows of the entities now comprising the Group as if the current group structure had always been in existence throughout the Track Record Period or since their respective date of establishment or incorporation, where applicable, except for an aggregate of 1% registered capital subscribed in Changchun Guangke by Ms. Zhang, Mr. Shan, Mr. Li, Mr. Chen Guobin and Mr. Lu Changdong, which was completed on 20 April 2022.

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The combined financial information incorporates the financial statements of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the Controlling Shareholders. The net assets of the combining entities or businesses are combined using the existing carrying values. The combined statements of profit or loss and other comprehensive income include the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

Items included in the financial statements of each of the Group’s entities are measured using the currency of the primary economic environment in which the entity operates (the “**functional currency**”). The Company’s functional currency is HK\$ and majority of its subsidiaries have RMB as their functional currency. The combined financial information is presented in RMB, which is the Group’s presentation currency.

SIGNIFICANT FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Our financial condition, results of operations and the period-to-period comparability of our financial results are principally affected by a number of factors, some of which may be beyond the control of our Group as set out in “Risk Factors” of this document and others as set forth below. During the Track Record Period, the following factors significantly affected our results of operations and financial condition.

The economic condition of the PRC

We generated all our revenue from customers in the PRC during the Track Record Period. The PRC is our principal place of operations where our products are developed and manufactured. Accordingly, the PRC’s economic conditions and other economic trends and factors have a direct impact on our business operation, the demand for our products, the supplies and prices of our requisite raw materials, and our other costs.

In addition, in order to maintain a steady growth of the PRC economy, the PRC government has from time to time adjusted its monetary, financial, fiscal or industrial policies, or implemented other macroeconomic measures. We believe any adjustment in or implementation of economic policies and measures would also directly or indirectly affect our business and financial condition and operating results. Both the PRC’s macroeconomic trends and policies could affect our procurement, production, sales, R&D and other parts of our business, affecting our business results. For the associated risk, please refer to the subsection headed “Risk Factors — Risks

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relating to conducting business in the PRC — Changes in political and economic policies of the PRC government could have an adverse effect on the overall economic growth of the PRC, which could increase our manufacturing costs and adversely affect our competitive position” in this document.

Our sales mix and gross profit margin

	FY2019		FY2020		FY2021		9M2021		9M2022	
	Revenue	Sales volume	Revenue	Sales volume	Revenue	Sales volume	Revenue	Sales volume	Revenue	Sales volume
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(unaudited)									
	(approximately)		(approximately)		(approximately)		(approximately)		(approximately)	
Biodegradable plastic products . . .	97,200	94.6	150,068	90.0	238,773	93.0	177,143	93.1	198,872	92.9
Non-biodegradable automobile plastic parts	5,500	5.4	16,654	10.0	17,967	7.0	13,119	6.9	15,239	7.1
Total	102,700	100.0	166,722	100.0	256,740	100.0	190,262	100.0	214,111	100.0

During the Track Record Period, biodegradable plastic products segment was our major source of revenue and growth driver, it accounted for approximately 94.6%, 90.0%, 93.0%, 93.1% and 92.9% of our total revenue for FY2019, FY2020, FY2021, 9M2021 and 9M2022, respectively. For non-biodegradable automobile plastic parts segment, it accounted for approximately 5.4%, 10.0%, 7.0%, 6.9% and 7.1% of our total revenue for FY2019, FY2020, FY2021, 9M2021 and 9M2022, respectively. In terms of absolute dollars terms, each segment exhibited a growth from FY2019 to FY2021. For 9M2022, our total revenue increased by approximately 12.5% compared to 9M2021. The temporary lockdown of Changchun from March to May 2022 reduced the revenue of our biodegradable plastic products notably in March and April 2022. Since May 2022, our business gradually picked up. For 9M2022, our non-biodegradable automobile plastic parts business exhibited slight growth in terms of sales revenue compared to 9M2021.

Gross profit margin of both segments and our overall gross profit margin improved, while the gross profit margin of non-biodegradable automobile plastic parts surpassed that of biodegradable plastic products in FY2020 and FY2021. The increase in gross profit margin of the non-biodegradable automobile plastic parts segment in FY2020 and FY2021 was mainly due to the fact that we acquired two new injection machines around year-end of FY2019 to introduce new products (engine guard and side panel) with higher gross profit margin. Since the proportion of revenue derived from non-biodegradable automobile plastic parts was relatively low (not more than 10% from FY2019 to FY2021), our overall gross profit margin was mainly affected by the gross profit margin of our biodegradable plastic products segment. The gross profit margin of the

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biodegradable plastic products segment in FY2020 increased slightly as the gross profit margin for biodegradable shopping bags, which contributed to approximately 32.6% of total revenue in FY2020, had increased in FY2020 as compared to FY2019 and net off against the decrease in gross profit margin in biodegradable produce bag rolls in the same year, which contributed to approximately 56.9% of total revenue in FY2020. The increase in the gross profit margin of the biodegradable plastic products segment in FY2021 was mainly due to our ability to control the average unit cost coupled with a decrease in the prices of PLA and PBAT, our principal raw materials. Given that the product specification for biodegradable shopping bags were relatively more complicated than biodegradable produce bag rolls, we can normally sell them at a higher price than biodegradable produce bag rolls with a higher gross profit margin. In addition, produce bag rolls are usually provided to end-users for free while shopping bags are being charged. Our customers (such as supermarket chains, department stores and outlets) are therefore more sensitive to price fluctuations in produce bag rolls than shopping bags.

Our gross profit slightly increased by approximately 1.2% from approximately RMB85.0 million for 9M2021 to approximately RMB86.0 million for 9M2022. For 9M2022, the decrease in gross profit margin of both biodegradable plastic products segment and non-biodegradable automobile plastic parts segment was mainly due to a combined results of (i) increase in staff costs, depreciation and raw material costs; and (ii) the temporary lockdown of Changchun, when we were temporarily able to increase the selling price of our main biodegradable plastic products, namely shopping bags and produce bag rolls as our customers were willing to pay a higher price to secure supply. We managed to mitigate the fall in overall gross profit margin of biodegradable plastic products segment due to further increase in revenue from shopping bags (which had a relatively higher gross profit margin than that of produce bag rolls). Hence, the overall gross profit margin fell to approximately 40.2% for 9M2022 (44.7% in 9M2021).

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Inventory volume, production volume, sales volume and average selling price

	FY2019				FY2020				FY2021			
	Quantity			Average selling price	Quantity			Average selling price	Quantity			Average selling price
	Inventory	Produced	Sold		Inventory	Produced	Sold		Inventory	Produced	Sold	
	<i>kg'000 (approximately)</i>			<i>RMB/kg</i>	<i>kg'000 (approximately)</i>			<i>RMB/kg</i>	<i>kg'000 (approximately)</i>			<i>RMB/kg</i>
Biodegradable plastic products	871	2,653	2,791	34.8	1,087	4,520	4,303	34.9	346	6,394	7,136	33.5
— Produce bag rolls	412	1,343	1,570	36.1	541	2,931	2,802	33.9	163	3,459	3,836	32.6
— Shopping bags	459	1,301	1,213	33.2	536	1,541	1,463	37.2	182	2,663	3,017	35.9
— Stretch wraps	0*	9	9	24.2	10	48	38	22.7	—	60	70	24.2
— Masterbatches	—	—	—	—	—	—	—	—	—	212	212	18.8
Non-biodegradable automobile plastic parts	14	135	156	35.3	38	833	809	20.6	78	830	790	22.7
Total	885	2,788	2,947		1,125	5,353	5,112		424	7,224	7,926	

	9M2021				9M2022			
	Quantity			Average selling price	Quantity			Average selling price
	Inventory	Produced	Sold		Inventory	Produced	Sold	
	<i>kg'000 (approximately)</i>			<i>RMB/kg</i>	<i>kg'000 (approximately)</i>			<i>RMB/kg</i>
	<i>(unaudited)</i>							
Biodegradable plastic products	1,023	5,174	5,238	33.8	273	5,661	5,733	34.7
— Produce bag rolls	471	2,762	2,832	32.6	131	2,950	2,982	32.4
— Shopping bags	552	2,319	2,303	35.9	142	2,449	2,489	38.8
— Stretch wraps	0*	35	45	24.4	0*	64	64	25.3
— Masterbatches	0*	58	58	19.5	0*	198	198	21.3
Non-biodegradable automobile plastic parts	42	592	588	22.3	65	649	664	23.0
Total	1,065	5,766	5,826		338	6,310	6,397	

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Note:

For reference, the inventory volume in the above table represents the inventory as at the end of the relevant year/period. It is our policy not to keep excessive finished goods. For those year(s)/periods with quantity sold more than quantity produced, we satisfied the shortfall by our inventory.

* represents less than 1,000 kg

Our growth highly depends on our ability to continually expand the Company’s production capacity and enhance its operating efficiency. We believe that the scale of our production is essential for our business development which enables us to (i) be flexible in accepting sales orders of various sizes and fulfil large orders in a timely manner; and (ii) centralise our raw materials purchases and enhance the effectiveness of managing our overheads costs. Our production capacity increased significantly during the Track Record Period due to growing demand of our products driven by favourable government policy. In general, we sell our products within a year.

For FY2019, FY2020, FY2021, 9M2021 and 9M2022, we produced approximately 2,653 thousand kg, 4,520 thousand kg, 6,394 thousand kg, 5,174 thousand kg and 5,661 thousand kg of biodegradable plastic products, respectively. For the same periods, we produced approximately 135 thousand kg, 833 thousand kg, 830 thousand kg, 592 thousand kg and 649 thousand kg of our non-biodegradable automobile plastic parts respectively.

Prices of our products

During the Track Record Period, the average selling price for our biodegradable plastic products ranged from approximately RMB33.5 per kg to RMB34.9 per kg. For our non-biodegradable automobile plastic part products, the average selling price ranged from approximately RMB20.6 per kg to RMB35.3 per kg.

Historically, market prices of our products fluctuated. The degree of market fluctuations and prices of our products depend on a number of factors, including:

- prices of our major raw materials;
- prices of crude oil and certain chemicals in the international market;
- supply of and demand for our products;
- the characteristics and quality of our products;
- the supply and prices of other similar or substitute products;
- our transportation and logistics costs, the availability of transportation capacity and means of transportation;
- domestic and global economic conditions; and
- PRC government policies.

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The cost of our biodegradable plastic products will be affected by the price of raw materials and production capacity. According to the Frost & Sullivan Report, from 2019 to 2020, the prices of PBAT and PLA were greatly affected by the supply of their unprocessed materials, such as BDO, PTA and corn. BDO were restricted from expansion due to shortage of its primary material calcium carbide, and thus increased the price of PBAT (60% PBAT are made of BDO). Also, the supply of PLA in the PRC is limited by lactide purification technology. Lactide is the key unprocessed material of PLA, and is mainly imported from other countries. The unstable supply of raw materials might directly affect the profitability of the biodegradable plastic product manufacturers.

The following table demonstrates the impact of a hypothetical change in the average selling price of our products on our net profit during the Track Record Period, with all other factors remain constant. Fluctuations are assumed to be 5% and 10% for FY2019, FY2020, FY2021 and 9M2022 with reference to the historical and anticipative fluctuations of our average selling price of our products during and after the Track Record Period.

Impact of a change in average selling price of our products

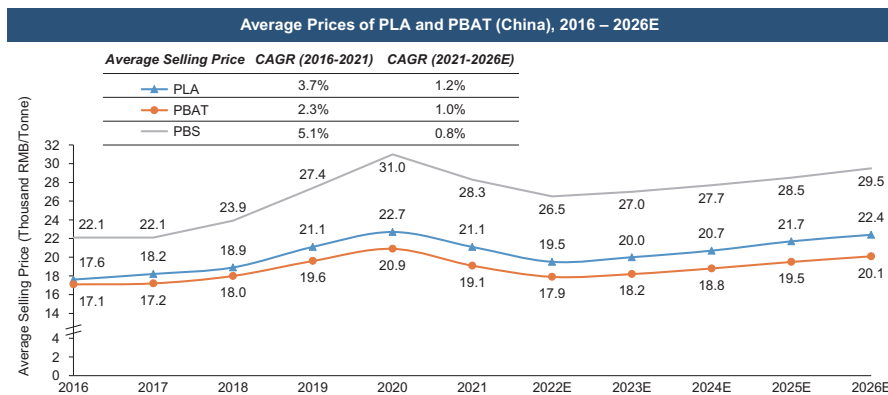
	FY2019	FY2020	FY2021	9M2022
	Hypothetical change in net profit	Hypothetical change in net profit	Hypothetical change in net profit	Hypothetical change in net profit
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
+10%	10,270	16,672	25,674	21,411
+5%	5,135	8,336	12,837	10,705
-5%	(5,135)	(8,336)	(12,837)	(10,705)
-10%	(10,270)	(16,672)	(25,674)	(21,411)

Prices of our major raw materials

The raw material costs are the principal component of our cost of sales. For FY2019, FY2020, FY2021, 9M2021 and 9M2022, we incurred total raw material costs of approximately RMB47.9 million, RMB82.7 million, RMB125.3 million, RMB93.1 million and RMB110.7 million, representing approximately 78.4%, 85.6%, 87.2%, 88.5% and 86.4% of our total cost of sales, respectively. Among various raw materials we procured, PLA, PBAT and PBS are the major raw materials of biodegradable plastic products. Accordingly, any fluctuations in the availability and prices of these major raw materials may have significant impacts on our cost of sales, gross profit margins and overall financial performance. According to the Frost & Sullivan Report, the average selling prices of PLA and PBAT are primarily affected by the fluctuation of the prices of their respective unprocessed materials, such as BDO, PTA and corn.

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The following chart shows the average selling price of PLA and PBAT in the PRC from 2016 to 2026:



Notes:

- From 2016 to 2020, the average selling prices of PLA and PBAT exhibited an upward trend. Furthermore, according to the Frost & Sullivan Report, the average selling prices of PLA and PBAT are anticipated to rise from 2021 to 2026 at a CAGR of 1.2% and 1.0%, respectively.
- The above average price of raw material may not reflect the actual transaction price between us and our suppliers due to the timing of orders and prices of different suppliers.

In addition, tightened environmental regulations or increased industry consolidation in the chemical industry could reduce the supply or increase the price of these major raw materials. Notwithstanding the above, our Directors are of the view that a temporary increase or decrease in the prices of our major raw materials may not result in material adverse changes in our cost of sales.

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The following table demonstrates the impact of a hypothetical change in the average costs of our raw materials on our net profit during the Track Record Period, with all other factors remaining constant. Fluctuations are assumed to be 5% and 10% for FY2019, FY2020, FY2021 and 9M2022 with reference to the historical and anticipative fluctuations of our average costs of raw materials during and after the Track Record Period.

	FY2019	FY2020	FY2021	9M2022
	Hypothetical change in net profit	Hypothetical change in net profit	Hypothetical change in net profit	Hypothetical change in net profit
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
+10%	(4,793)	(8,270)	(12,526)	(11,070)
+5%	(2,396)	(4,135)	(6,263)	(5,535)
-5%	2,396	4,135	6,263	5,535
-10%	4,793	8,270	12,526	11,070

Taxation

Since November 2018, Jilin Kaishun has obtained the “High and New Technology Enterprise Certificate” (高新技術企業證書) and has been granted the preferential tax status of “High and New Technology Enterprise” (高新技術企業) by the local authorities. Jilin Kaishun has been entitled to enjoy a preferential PRC enterprise income tax rate of 15% for the calendar years since FY2018. Furthermore, under the Enterprise Income Tax Law of the PRC and its relevant regulations, we enjoyed additional deduction allowance for our qualified R&D costs. These tax benefits allowed us to have a higher net profit margin compared with other PRC companies, which did not enjoy preferential enterprise income tax policies. Our “High and New Technology Enterprise Certificate” will be expired in September 2024 and our Directors expect we will continue to enjoy preferential tax treatment with reduced enterprise income tax rates until then. Our effective tax rates for FY2019, FY2020, FY2021, 9M2021 and 9M2022 were approximately 14.0%, 13.7%, 14.7%, 14.7% and 17.1%, respectively. Our effective tax rate for 9M2022 was higher than the preferential tax rate mainly due to [REDACTED] expenses were not tax deductible.

However, preferential tax treatment granted to us is subject to renewal by the respective tax bureau in the PRC every three years and could be adjusted or terminated. The expiration and discontinuation of any preferential tax treatment currently available to us will cause our effective tax rate to increase, which could have a material adverse effect on our results of operations. For more information, please refer to the subsection headed “Risk Factors — Risks relating to our business and industry — Any discontinuation, reduction or delay of any preferential tax treatment or government grants available to us could materially and adversely affect our business, financial condition and results of operations” in this document.

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SIGNIFICANT ACCOUNTING POLICIES, CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

We have identified certain accounting policies related to the preparation of our combined financial information in accordance with IFRSs. The Accountants' Report in Appendix I to this document sets forth these significant accounting policies, which are important for understanding our financial condition and results of operations. The following paragraphs discuss, among others, certain significant accounting policies applied in preparing our Group's combined financial information:

Revenue recognition

Our Group is principally engaged in development and manufacture of biodegradable plastic products and non-biodegradable automobile plastic parts in the PRC. Revenue is recognised when (or as) our Group satisfies a performance obligation by transferring a promised good or service (i.e. an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset.

Our Group transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

- (a) the customer simultaneously receives and consumes the benefits provided by our Group's performance as our Group performs;
- (b) our Group's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced; or
- (c) our Group's performance does not create an asset with an alternative use to our Group and our Group has an enforceable right to payment for performance completed to date.

If a performance obligation is not satisfied over time, our Group satisfies the performance obligation at a point in time when the customer obtains control of the promised asset. In determining when the transfer of control occurs, our Group considers the concept of control and such indicators as legal title, physical possession, right to payment, significant risks and rewards of ownership of the asset, and customer acceptance.

Revenue from the development and manufacture of biodegradable plastic products and non-biodegradable automobile plastic parts is recognised at a point in time at which the customer obtains the control of the promised asset, which generally coincides with the time when the goods are delivered to customers and the title is passed.

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Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss on a systematic basis over the expected useful life of the relevant asset.

Intangible assets

Research and development costs

Research costs are expensed as incurred. Costs incurred on development activities, which involve the application of research findings to a plan or design for the production of new or substantially improved products and processes, are capitalised if the product or process is technically and commercially feasible and our Group has sufficient resources to complete the development. The expenditure for capitalisation includes the cost of materials, direct labour and an appropriate proportion of overheads and outsourcing costs. Other development expenditure is recognised in profit or loss as an expense as incurred. When the asset is available for use, the capitalised development costs are amortised on a straight-line basis over their estimated useful lives.

During the Track Record Period, no development cost was capitalised by our Group.

Leases

Our Group assesses whether a contract is, or contains, a lease at inception of the contract. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Our Group as lessee

Our Group applies the recognition exemption to short-term leases and low-value asset leases. Lease payments associated with these leases are recognised as an expense on a straight-line basis over the lease term.

Our Group recognises a right-of-use asset and a lease liability at the commencement date of the lease.

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The right-of-use asset is initially measured at cost, which comprises

- (a) the amount of the initial measurement of the lease liability;
- (b) any lease payments made at or before the commencement date, less any lease incentives received;
- (c) any initial direct costs incurred by our Group; and
- (d) an estimate of costs to be incurred by our Group in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

Subsequently, the right-of-use asset is measured at cost less any accumulated depreciation and any accumulated impairment losses and adjusted for any remeasurement of the lease liability. Depreciation is provided on a straight-line basis over the shorter of the lease term and the estimated useful lives of the right-of-use asset (unless the lease transfers ownership of the underlying asset to our Group by the end of the lease term or if the cost of the right-of-use asset reflects that our Group will exercise a purchase option — in which case depreciation is provided over the estimated useful life of the underlying asset).

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date of the contract.

The lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:

- (a) fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- (b) variable lease payments that depend on an index or a rate;
- (c) amounts expected to be payable under residual value guarantees;
- (d) exercise price of a purchase option if our Group is reasonably certain to exercise that option; and
- (e) payments of penalties for terminating the lease, if the lease term reflects our Group exercising an option to terminate the lease.

The lease payments are discounted using the interest rate implicit in the lease, or where it is not readily determinable, the incremental borrowing rate of the lessee.

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Subsequently, the lease liability is measured by increasing the carrying amount to reflect interest on the lease liability and by reducing the carrying amount to reflect the lease payments made.

KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of our Group’s significant accounting judgements and estimates, which are described in note 3 to the Accountants’ Report set out in Appendix I to this document, the preparation of our Group’s combined financial information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures. They are assessed on an on-going basis and are based on experience and relevant factors. Where appropriate, revision to accounting estimates are recognised in the period of revision and future periods, in case the revision also affects future periods.

Allowance for inventories

The management of our Group reviews the inventory ageing and subsequent sales/utilisation analysis periodically and where applicable, makes allowances for inventories that are identified as obsolete, slow-moving or no longer recoverable or suitable for use in production. Our Group carries out the inventory review on a product-by-product basis and makes allowances at the end of each reporting period by reference to management’s estimation of the net realisable value based on the latest market prices and current market conditions.

Loss allowance for expected credit loss

The management of the Group estimates the loss allowance for trade and other receivables by using various inputs and assumptions including risk of a default and expected loss rate. The estimation involves high degree of uncertainty which is based on the Group’s historical information, existing market conditions as well as forward-looking estimates at the end of each reporting period. Where the expectation is different from the original estimate, such difference will impact the carrying amount of trade and other receivables.

Income taxes

Significant estimates are required in determining the provision for income taxes and deferred taxation. There are transactions and calculations for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters may be different from the amounts that were initially recorded, such differences will affect the income tax and deferred tax provision in the period in which such determination is made.

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COMBINED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

The following table sets forth our combined statements of profit or loss and other comprehensive income for the Track Record Period.

	FY2019	FY2020	FY2021	9M2021	9M2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(unaudited)	
Revenue	102,700	166,722	256,740	190,262	214,111
Cost of sales	(61,091)	(96,585)	(143,608)	(105,276)	(128,126)
Gross profit	41,609	70,137	113,132	84,986	85,985
Other income	1,144	1,066	1,208	803	594
Selling and distribution expenses	(1,143)	(894)	(1,409)	(996)	(3,589)
Administrative and other operating expenses	(7,877)	(10,342)	(13,311)	(9,309)	(13,484)
Finance costs	(2,166)	(2,853)	(3,429)	(2,654)	(2,451)
[REDACTED] expenses	—	—	(4,214)	—	(12,152)
Profit before tax	31,567	57,114	91,977	72,830	54,903
Income tax expenses	(4,426)	(7,842)	(13,560)	(10,680)	(9,407)
Profit for the year/period	27,141	49,272	78,417	62,150	45,496
Other comprehensive loss	—	—	—	—	(397)
Total comprehensive income for the year/period	27,141	49,272	78,417	62,150	45,099

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PRINCIPAL COMPONENTS OF COMBINED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Revenue

During the Track Record Period, we generated revenue from the sales of our plastic products, which can be broadly classified into biodegradable plastic products and non-biodegradable automobile plastic parts.

Revenue, average selling price and sales volume

The following table sets forth the revenue, average selling prices and sales volume of our plastic products for the years/periods indicated:

	FY2019			FY2020			FY2021		
	Average		Sales volume	Average		Sales volume	Average		Sales volume
	Revenue	selling price		Revenue	selling price		Revenue	selling price	
	<i>RMB'000</i>	<i>RMB/kg</i>	<i>kg'000 (approximately)</i>	<i>RMB'000</i>	<i>RMB/kg</i>	<i>kg'000 (approximately)</i>	<i>RMB'000</i>	<i>RMB/kg</i>	<i>kg'000 (approximately)</i>
Biodegradable plastic products	97,200	34.8	2,791	150,068	34.9	4,303	238,773	33.5	7,136
Non-biodegradable automobile plastic parts	5,500	35.3	156	16,654	20.6	809	17,967	22.7	790
Total	102,700		2,947	166,722		5,112	256,740		7,926

	9M2021			9M2022		
	Average		Sales volume	Average		Sales volume
	Revenue	selling price		Revenue	selling price	
	<i>RMB'000</i>	<i>RMB/kg</i>	<i>kg'000 (approximately)</i>	<i>RMB'000</i>	<i>RMB/kg</i>	<i>kg'000 (approximately)</i>
Biodegradable plastic products	177,143	33.8	5,238	198,872	34.7	5,733
Non-biodegradable automobile plastic parts	13,119	22.3	588	15,239	23.0	664
Total	190,262		5,826	214,111		6,397

Since the implementation of policies which comprehensively prohibit the production, sales and use of non-biodegradable plastic products in Jilin province in 2015, the biodegradable plastic product market in Northeast China experienced a rapid growth from FY2016 to FY2021 with a CAGR higher than that of the PRC as a whole, according to the Frost & Sullivan Report.

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Our revenue increase from FY2019 to FY2021 was mainly driven by an increase in recurring orders from existing customers. Our Directors believe that such increase in demand was a result of growing public awareness of environmental protection and preservation and the implementation of favourable governmental policies to promote the application of biodegradable plastic products. In 2020, the Jilin provincial government further stated that they will prohibit the production, sale, and supply of plastic products that do not meet the regulations and will phase out non-degradable express plastic packaging by 2025. As a result, there was an increase in sales of biodegradable plastic products, in particular, our produce bag rolls. Our Directors believe the COVID-19 pandemic drove up the sales of perishable food and fruits in supermarket chains as a result of change in dining habit, from dining in to preparing meals at home and/or ordering takeaway, which, in turn, led to an increase in the use of produce bag rolls. We recorded a notable increase in the total revenue in FY2021 which was primarily due to an increase in sales of both biodegradable produce bag rolls and biodegradable shopping bags when there was a further emphasis on the prohibition of non-degradable plastic bags in Jilin province in 2020. For 9M2022, our total revenue increased by approximately 12.5% compared to 9M2021. The temporary lockdown of Changchun from March to May 2022 has slowed down demand for our biodegradable plastic products notably in March and April 2022 yet our business gradually picked up since May 2022.

Average selling price

From FY2019 to FY2021, the average selling price of our biodegradable plastic products exhibited a slight decrease from approximately RMB34.8 per kg for FY2019 to approximately RMB33.5 per kg in FY2021. To secure our market shares and promote our products, we offer strategic adjustment on the selling price to stimulate the demand of our products. However, in general, we strive to improve our profit margin by controlling our manufacturing costs, and the average selling price of biodegradable plastic products increased from RMB33.8 per kg in 9M2021 to RMB34.7 per kg in 9M2022, respectively. Due to the temporary lockdown of Changchun during March to May 2022, we were able to temporarily increase the selling price of our main biodegradable plastic products, namely shopping bags and produce bag rolls. For our pricing strategy, please refer to our “Pricing Strategy and Policy” set out in “Business” to this document. For our non-biodegradable automobile plastic part products, the average selling price decreased from RMB35.3 in FY2019 to RMB20.6 in FY2020 and RMB22.7 in FY2021, respectively. Such decrease was mainly due to a change in product mix. We introduced our new products (engine guard and side panel) by the two injection machines acquired in late FY2019. The new automobile parts with lower average selling price but with higher profit margin as these products required lean production technology. The sales volume of non-biodegradable automobile plastic parts products increased from 156,000 kg in FY2019 to 809,000 kg in FY2020 and 790,000 kg in FY2021, respectively. As a result, the average selling prices of our non-biodegradable plastic parts dropped in FY2020 and FY2021.

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Sales volume

There was an increase in the sales volume of our biodegradable plastic products from FY2019 to FY2021. The increase in the sales volume of our products was mainly due to an increase in demand from our major customers resulted from the combined effects of (i) increasing in sales of perishable food and fruit in supermarket chains during the COVID-19 pandemic, which required extensive use of biodegradable produce bag rolls and increase in consumption in supermarket chains resulted in the increase in usage of biodegradable shopping bags; and (ii) further emphasising on the environmental policy for the restriction on the use of non-degradable plastic products in the PRC as the demand of our products is policy-driven.

Since non-biodegradable automobile plastic parts constitute only approximately 5.4% to 10.0% of our total revenue during the Track Record Period, the fluctuation of their average selling prices and sales volume did not have significant impact on the overall sales pattern. The sales volume of our non-biodegradable automobile plastic parts notably increased in FY2020 and FY2021, mainly due to the introduction of our new products (engine guard and side panel) which have higher profit margin. These products are manufactured by the two injection machines acquired in late FY2019, with the application of lean manufacturing techniques. Hence, even though the average selling prices of all our non-biodegradable automobile plastic parts dropped in FY2020 and FY2021, our overall gross profit margin of this segment improved.

By products

The table below sets forth revenue by products in amount and as a percentage of our total revenue from our business segments for the years/periods indicated:

	FY2019		FY2020		FY2021		9M2021		9M2022	
	Revenue		Revenue		Revenue		Revenue		Revenue	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
(unaudited)										
Biodegradable plastic products										
— Produce bag rolls	56,673	55.2	94,862	56.9	124,942	48.7	92,271	48.5	96,514	45.1
— Shopping bags	40,320	39.3	54,349	32.6	108,154	42.1	82,645	43.4	96,515	45.1
— Stretch wraps	207	0.1	857	0.5	1,698	0.7	1,098	0.6	1,621	0.7
— Masterbatches	—	—	—	—	3,979	1.5	1,129	0.6	4,222	2.0
Sub-total	97,200	94.6	150,068	90.0	238,773	93.0	177,143	93.1	198,872	92.9
Non-biodegradable automobile plastic parts	5,500	5.4	16,654	10.0	17,967	7.0	13,119	6.9	15,239	7.1
Total	102,700	100.0	166,722	100.0	256,740	100.0	190,262	100.0	214,111	100.0

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From FY2019 to FY2021, the revenue growth of our biodegradable plastic products segment was mainly attributable to the growth in sales of both (i) biodegradable produce bag rolls; and (ii) biodegradable shopping bags.

In FY2020, our increase in sales was mainly driven by an increase in sales of our biodegradable plastic products, in particular, our biodegradable produce bag rolls. Our Directors believe the COVID-19 pandemic drove up the sales of perishable food and fruit in supermarket chains which required extensive use of produce bag rolls.

With the continuation of growing public awareness of environmental protection and preservation and favourable government policies to prohibit non-degradable plastic products and promote biodegradable plastic products, we recorded a notable increase in our revenue during FY2021.

We started to sell masterbatches in FY2021 to diversify our revenue sources. We target to sell them to manufacturers who lack the necessary production knowhow and capabilities to produce biodegradable masterbatches for manufacturing biodegradable plastic products. Through the selling of masterbatches to other biodegradable plastic product manufacturers, we can also keep ourselves in understanding the latest market development and manufacturing trend. Masterbatches are relatively easier and cheaper to transport than other products (such as biodegradable produce bag rolls or biodegradable shopping bags). We generally manufacture biodegradable masterbatches base on our customers' requirements. We are not involved with trading its raw materials. Our future footprint in Southeast China, whose planned principal activity is to manufacture biodegradable plastic products, will obtain biodegradable masterbatches from our Changchun Production Base. Our Huizhou Production Base will not manufacture biodegradable masterbatches but will instead concentrate on different product applications. With the [REDACTED] from the [REDACTED], we can further increase our production capacity to produce biodegradable masterbatches in our Changchun Production Base.

For 9M2022, our total revenue increased by 12.5% to approximately RMB214.1 million compared to approximately RMB190.3 million in 9M2021. The temporary lockdown of Changchun from March to May 2022 has slowed down demand for our biodegradable plastic products notably in March and April 2022 and yet our business gradually picked up since May 2022. For 9M2022, our non-biodegradable automobile plastic parts business exhibited slight growth in terms of sales revenue compared to 9M2021.

During the Track Record Period, the respective proportion of revenue from the biodegradable plastic products and non-biodegradable automobile plastic parts segments remained relatively stable with the former accounted for 90% or more of our total revenue. During FY2019, we primarily generated our revenue from the sales of biodegradable produce bag rolls and

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biodegradable shopping bags, which aggregately accounted for approximately 94.5% of our total revenue and accounted for approximately 99.8% in aggregate of our biodegradable plastic product segment, while in FY2020, biodegradable produce bag rolls and biodegradable shopping bags aggregately accounted for approximately 89.5% of our total revenue and accounted for approximately 99.4% in aggregate of our biodegradable plastic products segment. In FY2021, biodegradable produce bag rolls, biodegradable shopping bags and biodegradable masterbatches accounted for approximately 48.7%, 42.1% and 1.5% of our total revenue, respectively and accounted for approximately 99.3% in aggregate of our biodegradable plastic products segment. In 9M2022, biodegradable produce bag rolls, biodegradable shopping bags and biodegradable masterbatches accounted for approximately 45.1%, 45.1% and 2.0% of our total revenue, respectively and accounted for approximately 99.2% in aggregate of our biodegradable plastic products segment.

For the revenue contribution to our Group under the sales of non-biodegradable automobile plastic parts segment, such revenue exhibited an increase in terms of absolute dollar during the Track Record Period, which accounted for approximately 5.4%, 10.0%, 7.0%, 6.9% and 7.1% of our total revenue during FY2019, FY2020, FY2021, 9M2021 and 9M2022, respectively.

We benefit from an organic growth of spending on Disposable Biodegradable Shopping Bags in Northeast China. With our established position in Northeast China, we are gradually expanding our business footprint into other regions of the PRC.

Our production facilities are located in Changchun, Jilin province, and Jilin province has been one of the pioneer provinces that encourages the application of biodegradable plastic products in recent years. Hence, during the Track Record Period, we gradually expanded our operation coverage in different areas. For FY2019, FY2020, FY2021, 9M2021 and 9M2022, our revenue generated from customers in Northeast China accounted for approximately 78.0%, 79.3%, 78.3%, 79.2% and 77.4% of our total revenue, respectively.

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	FY2019		FY2020		FY2021		9M2021		9M2022	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Raw materials										
PLA/PBAT/PBS	35,932	58.8	63,323	65.6	91,977	64.0	67,891	64.5	87,649	68.4
Consumables	3,053	5.0	2,242	2.3	3,799	2.6	2,686	2.6	5,234	4.1
Other materials ⁽¹⁾	8,941	14.6	17,131	17.7	29,488	20.6	22,572	21.4	17,815	13.9
Sub-total ⁽²⁾	47,926	78.4	82,696	85.6	125,264	87.2	93,149	88.5	110,698	86.4
Staff costs	5,652	9.3	4,866	5.0	6,589	4.6	4,817	4.6	6,116	4.8
Utilities	3,782	6.2	4,733	5.0	4,554	3.2	3,266	3.1	3,822	3.0
Depreciation	2,316	3.8	2,701	2.8	3,335	2.3	2,430	2.3	4,930	3.8
Others	1,415	2.3	1,589	1.6	3,866	2.7	1,614	1.5	2,560	2.0
Total	61,091	100.0	96,585	100.0	143,608	100.0	105,276	100.0	128,126	100.0

Notes:

- (1) Other materials include raw materials for automobile plastic parts such as PP, PE etc..
- (2) During the Track Record Period, raw material costs as a percentage of total revenue were approximately 46.7%, 49.6%, 48.8%, 49.0% and 51.7%, respectively.

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Cost of raw materials by product

	FY2019			FY2020			FY2021			9M2021			9M2022		
	Cost of raw materials	Sales volume	Average unit costs	Cost of raw materials	Sales volume	Average unit costs	Cost of raw materials	Sales volume	Average unit costs	Cost of raw materials	Sales volume	Average unit costs	Cost of raw materials	Sales volume	Average unit costs
	RMB'000	kg'000	RMB/kg	RMB'000	kg'000	RMB/kg	RMB'000	kg'000	RMB/kg	RMB'000	kg'000	RMB/kg	RMB'000	kg'000	RMB/kg
	%	(approximately)	(approximately)	%	(approximately)	(approximately)	%	(approximately)	(approximately)	%	(approximately)	(approximately)	%	(approximately)	(approximately)
Biodegradable plastic products	46,401	2,791	16.6	76,224	4,303	17.7	118,628	7,136	16.6	88,223	5,238	16.8	104,361	5,733	18.2
Non-biodegradable automobile plastic parts	1,525	3.2	9.8	6,472	7.8	8.0	6,636	5.3	8.4	4,926	5.3	8.4	6,337	5.7	9.5
	47,926	2,947		82,696	5,112		125,264	7,926		93,149	5,826		110,698	6,397	
	100.0			100.0			100.0			100.0			100.0		

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During the Track Record Period, raw material constitutes the largest component of our total cost of sales which in general exhibited a rising trend during the Track Record Period. Such an increase was mainly due to (i) general increase in the demand for our biodegradable plastic products, in particular, our biodegradable produce bag rolls and biodegradable shopping bags, and (ii) an increase in the cost of our principal raw materials such as PBAT and PLA in 2020 as mentioned in the Frost & Sullivan Report. From 2019 to 2020, the price of PBAT and PLA were affected by the supply of BDO. The shortage of supply of BDO increased the price of PBAT and PLA. Also, the supply of PLA in China is limited by lactide purification technology. Lactide is the key raw material of PLA and is mainly imported from other countries. The supply of raw materials is not adequate to meet the market demand, thereby increased the price of PLA and PBAT in 2019 and 2020. Notwithstanding the cost of raw materials fluctuated, we managed to continually control our production costs. In addition, costs such as staff costs, utilities and depreciations are relatively flat and hence when our sales volume increases, the average unit cost of biodegradable plastic product exhibits an overall downward trend from FY2019 to FY2021. For example, the utilities cost absorbed by each sales volume in kg from FY2019 to FY2021 were approximately RMB1.28, RMB0.92 and RMB0.64 which shown a decrease trend over FY2019 to FY2021 and in terms of each sales volume in kg, such decrease in utilities cost would compensate the increase in material cost. For 9M2022, due to the increase in raw material costs, our average unit cost of biodegradable plastic products and non-biodegradable automobile plastic parts increased by 8.3% and 13.1% respectively. Coupled with fluctuation in prices of raw material, they were major factors in determining our total cost of sales/average unit costs.

Gross profit and gross profit margin

The table below sets forth our gross profit and gross profit margin for the years/periods indicated:

	FY2019		FY2020		FY2021		9M2021		9M2022	
							(unaudited)			
	Gross profit		Gross profit		Gross profit		Gross profit		Gross profit	
	Gross profit	margin	Gross profit	margin	Gross profit	margin	Gross profit	margin	Gross profit	margin
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Biodegradable plastic products										
— Produce bag rolls	24,690	43.6	37,637	39.7	51,828	41.5	38,266	41.5	34,960	36.2
— Shopping bags	15,212	37.7	24,321	44.7	51,432	47.6	39,465	47.8	43,735	45.3
— Stretch wraps	13	6.3	89	10.4	338	19.9	246	22.4	283	17.5
— Masterbatches	—	—	—	—	670	16.8	158	14.0	533	12.6
Sub-total/Overall	39,915	41.1	62,047	41.3	104,268	43.7	78,135	44.1	79,511	40.0
Non-biodegradable automobile plastic parts	1,694	30.8	8,090	48.6	8,864	49.3	6,851	52.2	6,474	42.5
Total/Overall	41,609	40.5	70,137	42.1	113,132	44.1	84,986	44.7	85,985	40.2

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Around the year-end of FY2019 we acquired two new injection machines to introduce new non-biodegradable plastic products (engine guard and side panel) with higher gross profit margin. Hence, the gross profit margin of our non-biodegradable automobile plastic parts segment improved and exhibited outweighed results on gross profit margin as compared to our biodegradable plastic products segment in FY2020 and FY2021.

During the Track Record Period (save for FY2019), among our biodegradable plastic products, the gross profit margin of biodegradable shopping bags was higher than biodegradable produce bag rolls, given the required production process of biodegradable shopping bags was more advanced. For instance, as additional specification are required for the properties of biodegradable shopping bags (such as thickness, tearing strength or impact resistance, holding capacity and handle options), we are required to have more sophisticated and intricate production procedure¹ during the blown-film extrusion process. In contrast, our customers have less specification requirements regarding the properties for biodegradable produce bag rolls, which are generally more standardises. Our customers are supermarket chains, department stores and outlets, meanwhile our end users are individual customers. Produce bag rolls are usually provided to end users (i.e., consumers in supermarkets) for free, whilst our customers (i.e., supermarket chains, department stores, and outlets) will charge the end users for the biodegradable shopping bags. Despite the fact that both products have similar major ingredients and composition, our customers are considered to be less sensitive to the increase of price in biodegradable shopping bags, as they will charge their customers for providing shopping bags. Owing to the government supports in the pace of development of biodegradable plastic product market in China and increasing demand, from our customers' point of view, even though the bag rolls are usually provided to end-users for free, there is still a strong demand for biodegradable produce bag rolls and biodegradable shopping bags as they were crucial for delivery of food and daily necessitates to their customers (i.e. the end-customers).

In any event, despite the fluctuation of gross profit margins between the two products, we strive to maintain the profitability of our products to achieve an overall desirable margin during the Track Record Period.

In terms of absolute dollar terms, biodegradable produce bag rolls exhibited steady growth in gross profit and recorded a more than approximately 100% increase from FY2019 to FY2021 while biodegradable shopping bags exhibited a more than approximately 200% increase over the same periods. Together with the change in revenue mix, it resulted in an increase in overall gross profit margin of our biodegradable plastic products segment.

¹ For example, re-calibrate the pressing die of the blown-film extrusion equipment to determine the final thickness of the bag.

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From FY2019 to FY2021, the Company has ability to control our average unit costs (FY2019: RMB20.5 per kg, FY2020: RMB20.5 per kg and FY2021: RMB18.8 per kg) which was benefited from the increase in production scale (FY2019: 2,653 thousand kg, FY2020: 4,520 thousand kg and FY2021: 6,394 thousand kg), as costs (such as staff cost, utility and depreciation and amortisation) were relatively flat.

Our gross profit slightly increased by approximately 1.2% from approximately RMB85.0 million for 9M2021 to approximately RMB86.0 million for 9M2022. For 9M2022, the decrease in gross profit margin of both biodegradable plastic products segment and non-biodegradable automobile plastic parts was mainly the combined results of (i) increase in raw material costs; and (ii) the temporary lockdown of Changchun, when we were temporarily able to increase the selling price of our main biodegradable plastic products, namely shopping bags and produce bag rolls. We managed to mitigate the fall in overall gross profit margin of biodegradable plastic products segment due to further increase in revenue from shopping bags which had a relatively higher gross profit margin than that of produce bag rolls. Hence, the overall gross profit margin fell to approximately 40.2% for 9M2022 (44.7% in 9M2021).

Other income

Our other income mainly comprises of bank interest income and government grants. The table below sets out a breakdown of our other income for the years/periods indicated:

	FY2019	FY2020	FY2021	9M2021	9M2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(unaudited)	
Bank interest income	70	144	193	151	225
Government grants	1,074	910	1,015	652	368
Gain on disposal of property, plant and equipment	—	—	—	—	1
Sundry income	—	12	—	—	—
Total	1,144	1,066	1,208	803	594

Bank interest income was mainly generated from bank deposits. Government grants represent various form of subsidies granted to the Group by the local government authorities in the PRC for compensation of expenses incurred by the Group. These grants are generally made for business support and awarded to the Group on a discretionary basis. The Group also received these government grants in respect of its investments in the PRC.

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Selling and distribution expenses

Our selling and distribution expenses comprise of logistic service fee, staff costs, depreciation and other miscellaneous expenses. For FY2019, FY2020, FY2021, 9M2021 and 9M2022, our selling and distribution expenses accounted for approximately 1.1%, 0.5%, 0.5%, 0.5% and 1.7% of our total revenue, respectively. The following table sets forth a breakdown of our selling and distribution expenses for the years/periods indicated:

	FY2019		FY2020		FY2021		9M2021		9M2022	
	(unaudited)									
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Logistic service fee.	447	39.1	450	50.3	743	52.8	549	55.1	1,802	50.2
Staff costs	572	50.1	373	41.7	578	41.0	410	41.1	573	16.0
Depreciation	22	1.9	30	3.4	82	5.8	31	3.2	128	3.6
Others ⁽¹⁾	102	8.9	41	4.6	6	0.4	6	0.6	1,086	30.2
Total	1,143	100.0	894	100.0	1,409	100.0	996	100.0	3,589	100.0

Note:

(1) Others mainly represent marketing and promotion expense, insurance fee, and travelling expense.

The logistic service fee represents amount paid to logistic companies whereas our staff costs represent salaries of our logistic staff which in aggregate contributed majority of our selling and distribution expenses. During the Track Record Period, we were normally responsible for the delivery of our products to the location designated by our customers. Subject to the quantity and availability of our logistic team, we will arrange our own transportation fleet for the delivery of our products to locations within Jilin province. As for the locations outside of Jilin province, we would engage third party logistic service providers to deliver our products from our production facilities to the location specified by our customers in the PRC. Hence, our logistic service fee and staff costs under selling and distribution expenses depend on the delivery volume and destination. We also incurred depreciation on our transportation fleets. The increase in such depreciation in FY2021 was mainly due to the acquisition of two new heavy trucks (with more handling capacity compared with the existing four trucks) in early FY2021 to cope with growing businesses. The temporary lockdown of Changchun from March to May 2022 increased our difficulties to deliver our products by ourselves, that we have to rely more frequently on logistics service providers for transportation, which led to an increase in logistic service fee, and hence our selling and distribution expenses increased from RMB1.0 million for 9M2021 to RMB3.6 million for 9M2022. For details, please refer to the section headed “Business — Our Sales and Customers — Delivery and Logistics”. For operation flexibility we maintained our self-delivery service but will also arrange logistics service providers to deliver our products.

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Administrative and other operating expenses

Our administrative and other operating expenses comprise of R&D expenses, staff costs, depreciation and amortisation, insurance, travelling and entertainment expenses, office expenses, and other miscellaneous expenses. For FY2019, FY2020, FY2021, 9M2021 and 9M2022, our administrative and other operating expenses accounted for approximately 7.7%, 6.2%, 5.2%, 4.9% and 6.3% of our total revenue, respectively. The following table sets forth a breakdown of our administrative and other operating expenses by nature for the years/periods indicated:

	FY2019		FY2020		FY2021		9M2021		9M2022	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(unaudited)									
R&D expenses ⁽¹⁾	4,540	57.6	7,568	73.2	9,707	72.9	7,207	77.4	7,163	53.2
Depreciation and amortisation	931	11.8	953	9.2	1,131	8.5	599	6.4	2,647	19.6
Insurance	49	0.6	157	1.5	139	1.0	89	1.0	38	0.3
Staff costs	1,410	17.9	991	9.6	1,439	10.8	953	10.3	1,481	11.0
Travelling and entertainment expenses	148	1.9	138	1.3	45	0.3	40	0.4	16	0.1
Office expenses	773	9.8	492	4.8	435	3.3	242	2.6	1,945	14.4
Others ⁽²⁾	26	0.4	43	0.4	415	3.2	179	1.9	194	1.4
Total	7,877	100.0	10,342	100.0	13,311	100.0	9,309	100.0	13,484	100.0

Notes:

- (1) Certain depreciation and staff costs are recognised as part of R&D costs during the Track Record Period. Please refer to note 7 of the “Accountants’ Report” in Appendix I to this document for details.
- (2) Others represent utility expenses, provision for loss allowances on trade receivables, loss on disposal of property, plant and equipment, repair and maintenance expenses and other miscellaneous expenses.

Our overall administrative and other operating expenses exhibited an increasing trend during the Track Record Period, mainly driven by the increase in R&D expenses. During the Track Record Period, R&D expenses, staff costs and depreciation and amortisation are the major components of administrative and other operating expenses, and they collectively accounted for approximately 87.3%, 92.0%, 92.2%, 94.1% and 83.8% of our total administrative and other operating expenses for FY2019, FY2020, FY2021, 9M2021 and 9M2022, respectively. During the Track Record Period, none of our R&D expenses was capitalised and all our R&D expenses had been recognised as expenses in the corresponding year/period. For 9M2022, the increase in office expenses was due to increase in repair and maintenance expenses to perform troubleshooting, maintenance and inspection of certain plant and equipment of our Group and accommodation expenses during the temporary lockdown of Changchun from March to May 2022.

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Finance costs

For FY2019, FY2020, FY2021, 9M2021 and 9M2022, our finance costs represent interests on interest-bearing borrowings and lease liabilities and were approximately RMB2.2 million, RMB2.9 million, RMB3.4 million, RMB2.7 million and RMB2.5 million, respectively. Our finance costs increased by 31.8% in FY2020 as compared to FY2019, which was mainly due to an increase in the overall loan portfolio. The increase in finance costs in FY2021 as compared to FY2020 was mainly due to a portion of loan as at 31 December 2020 was borrowed in late FY2020 for which the related interest expense was fully reflected in FY2021. For 9M2022, the interest expenses were lower than that of 9M2021 mainly due to a decrease in effective interest rate for our secured borrowings.

Taxation

We derived all of our revenue in the PRC, therefore, our Group was subject to the PRC enterprise income tax (the “**PRC EIT**”). Under the PRC EIT, the standard tax rate for an enterprise is 25%. Due to the PRC Government’s favourable policy on High and New Technology Enterprise, we have enjoyed a preferential tax rate of 15% since 2018. Such status has been renewed in 2021. Please refer to the section headed “Regulatory Overview” in this document for further details.

The effective tax rates of our Group for FY2019, FY2020, FY2021, 9M2021 and 9M2022 were approximately 14.0%, 13.7%, 14.7%, 14.7% and 17.1%, respectively. The effective tax rates of the indicated years were lower than the statutory tax rate of 25% mainly due to our preferential PRC EIT rate of 15% coupled with the effect of additional tax deduction on research and development expenses. For 9M2022, our effective tax rate was higher than the preferential PRC EIT rate because [REDACTED] expenses are non-deductible for tax purpose.

Our group entities established in the Cayman Islands and the BVI are exempted from corporate income tax therein.

Hong Kong profits tax has not been provided as our Group had no assessable profit arising in or derived from Hong Kong for the Track Record Period.

We confirm that as at the Latest Practicable Date: (i) our Group has made all required proper tax filings under the relevant tax laws and regulations in the PRC; and (ii) our Group was not subject to any dispute with the tax authorities in the PRC.

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Other comprehensive loss

We recorded other comprehensive loss of approximately RMB393,000 in 9M2022 attributable to foreign exchange differences arising from the translation of the Group’s entities that have functional currency different from the presentation currency for combinations/consolidation.

Total comprehensive income for the year/period

As a result of the foregoing, for FY2019, FY2020, FY2021, 9M2021 and 9M2022, our total comprehensive income for the years/periods amounted to approximately RMB27.1 million, RMB49.3 million, RMB78.4 million, RMB62.2 million and RMB45.1 million, respectively.

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

9M2022 compared to 9M2021

Revenue

For 9M2022, our total revenue increased by 12.5% to approximately RMB214.1 million compared to approximately RMB190.3 million in 9M2021. The temporary lockdown of Changchun from March to May 2022 has slowed down demand for our biodegradable plastic products notably in March and April 2022, yet our business gradually picked up since May 2022. In 9M2022, the increase of revenue was mainly due to the increase of revenue in biodegradable plastic products under the COVID-19 pandemic. The Directors believe that the COVID-19 pandemic drove up the sales of perishable food and fruits in supermarket chains as a result of changing in dining habits from dining in to preparing meals at home and/or ordering takeaway, which in turn, support the use of biodegradable shopping bags. For 9M2022, we were able to temporarily increase the average selling price of our biodegradable plastic products (from RMB33.8 per kg to RMB34.7 per kg). Our Directors considered that such increase in the average selling price was attributed to the biodegradable shopping bags in particular. Our Directors believe that due to the temporary lockdown, our customers were more willing to secure products at a relative higher price as quality and steady supply of biodegradable plastic products at the material time is crucial for our customers’ operation. For 9M2022, our non-biodegradable automobile plastic parts business exhibited slight growth in terms of sales revenue compared to 9M2021 owing to slight increase in average selling price from RMB22.3 per kg in 9M2021 to RMB23.0 per kg in 9M2022.

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Cost of sales

Our cost of sales slightly increased by approximately 21.7% from approximately RMB105.3 million for 9M2021 to approximately RMB128.1 million for 9M2022. Such increase was primarily due to (i) increase in staff costs as additional compensation was incurred when Changchun was temporarily locked down during the period from March to May 2022; (ii) increase in depreciation of right-of-use-assets as we built a new factory in Changchun in October 2021; and (iii) increase in raw material costs.

Gross profit and gross profit margin

Our gross profit increased slightly by approximately 1.2% from approximately RMB85.0 million for 9M2021 to approximately RMB86.0 million for 9M2022, mainly due to increase in average unit cost partially offset by increase in revenue from our biodegradable plastic products (in particular biodegradable shopping bags). The average unit cost of our biodegradable plastic products increased by approximately 10.1% from RMB18.9 per kg in 9M2021 to RMB20.8 per kg in 9M2022 while the average selling price increased by approximately 2.6% from RMB33.8 per kg in 9M2021 to RMB34.7 per kg in 9M2022. Since the percentage of increase in average unit cost is higher than that of average selling price, the gross profit margin decreased from 44.7% in 9M2021 to 40.2% in 9M2022. Together with an increase in sales volume from approximately 5.8 million to 6.4 million in terms of kg, the gross profit for 9M2022 decreased accordingly.

Other income

Our other income decreased from approximately RMB0.8 million for 9M2021 to approximately RMB0.6 million in 9M2022 due to a decrease in recognition of assets related government grants by approximately RMB0.3 million.

Selling and distribution expenses

Our selling and distribution expenses increased by approximately 260.0% from approximately RMB1.0 million for 9M2021 to approximately RMB3.6 million for 9M2022 mainly due to the increase in logistic service fee by approximately RMB1.3 million and other expenses by approximately RMB1.1 million.

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Administrative and other operating expenses

Our administrative and other operating expenses increased by approximately 44.8% from approximately RMB9.3 million for 9M2021 to approximately RMB13.5 million for 9M2022. Such increase was mainly due to (i) increase in depreciation and amortisation of approximately RMB2.0 million; (ii) increase in office expenses of approximately RMB1.7 million and (iii) increase in staff cost of approximately RMB0.5 million.

Finance costs

Our finance costs decreased by approximately 7.7% from RMB2.7 million for 9M2021 to RMB2.5 million for 9M2022 due to a decrease in effective interest rate for our secured borrowings as we had repaid certain borrowings with high interest rate.

[REDACTED] expenses

Our [REDACTED] expenses amounted to approximately RMB12.2 million for 9M2022 and we did not incur such expenses in 9M2021.

Taxation

Our income tax expenses decreased from approximately RMB10.7 million for 9M2021 to approximately RMB9.4 million for 9M2022. Such decrease was mainly due to our decrease in profit before tax.

Profit for the period

Our profit for the period decreased by approximately 26.8% from approximately RMB62.2 million in 9M2021 to approximately RMB45.5 million in 9M2022 due to the aforesaid reasons.

FY2021 compared to FY2020

Revenue

Our revenue increased by approximately 54.0% from approximately RMB166.7 million for FY2020 to approximately RMB256.7 million for FY2021. Such increase was mainly due to an approximately RMB88.7 million increase in sales of our biodegradable plastic products as a result of combined effects of (i) an increase in revenue derived from our major customers of biodegradable plastic products, in particular, biodegradable shopping bags with an increase amounted to approximately RMB53.8 million, representing a growth of approximately 99.0%

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compared to FY2020 given an increase in its sales volume; and (ii) decrease of approximately 4.0% in the average unit selling price of biodegradable plastic products from approximately RMB34.9 per kg in FY2020 to RMB33.5 per kg in FY2021, for which the average unit selling price for biodegradable shopping bags decreased by approximately 3.5% from approximately RMB37.2 per kg in FY2020 to RMB35.9 per kg in FY2021 whereas that of biodegradable produce bag rolls decreased by 3.8% from approximately RMB33.9 per kg in FY2020 to RMB32.6 per kg in FY2021. The decrease in the average unit selling price of our biodegradable plastic products is primarily driven by the increase in the corresponding sales volume, coupled with the decrease in cost of raw materials in FY2021.

The revenue from the non-biodegradable automobile plastic parts segment also increased from approximately RMB16.7 million in FY2020 to approximately RMB18.0 million in FY2021 due to (i) increase in orders from two new customers which amounted to approximately RMB5.2 million; and (ii) an increase in number of customers ordered from us, such increase was mainly attributable to the introduction of new products (engine guard and side panel) after our Group acquired two new injection machines in around year-end of FY2019, which was offset by the decrease in sales to Changchun Hengxing (長春恒興) which amounted to approximately RMB4.1 million in FY2021.

Cost of sales

Our cost of sales increased by approximately 48.7% from approximately RMB96.6 million for FY2020 to approximately RMB143.6 million for FY2021. Such increase in our cost of sales was primarily due to (i) increase in our sales volume by approximately 55.0% in FY2021, and (ii) decrease in average unit cost of raw materials.

Gross profit and gross profit margin

Our gross profit increased by approximately 61.3% from approximately RMB70.1 million for FY2020 to RMB113.1 million for FY2021, mainly due to the increase in revenue contributed by our biodegradable plastic products. The gross profit margin of the biodegradable plastic products segment increased due to the drop in our average unit selling price in biodegradable plastic products of approximately 4.0% offset by decrease in respective average unit cost of sales by 7.8% for the reason mentioned in above, resulting in overall gross profit margin improved from approximately 42.1% in FY2020 to approximately 44.1% in FY2021.

Other income

Our other income increased from approximately RMB1.1 million in FY2020 to approximately RMB1.2 million in FY2021 mainly due to an increase in government grants by RMB0.1 million.

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Selling and distribution expenses

Our selling and distribution expenses slightly increased from approximately RMB0.9 million for FY2020 to approximately RMB1.4 million for FY2021, mainly due to (i) an increase in our logistic service fee by approximately RMB0.3 million to cope with an increase in sales volume of goods delivered to locations outside of Jilin province and (ii) an increase in staff costs by RMB0.2 million which was primarily due to certain temporary reliefs imposed on certain amount of levies on the social security insurance under the COVID-19 pandemic in FY2020 being removed in FY2021, coupled with the increase in sales commission to staff in FY2021 along with the increase in sales in that year.

Administrative and other operating expenses

Our administrative and other operating expenses increased from approximately RMB10.3 million for FY2020 to approximately RMB13.3 million for FY2021. Such increase was mainly due to (i) an increase in R&D expenses of approximately RMB2.1 million as our Group commits to developing new materials and improving the quality of existing products; (ii) an increase in staff costs by RMB0.4 million which was primarily due to the combined effects of (1) certain temporary reliefs imposed on certain amount of levies on the social security insurance under the COVID-19 pandemic in FY2020 being removed in FY2021, and (2) the average number of headcounts increased in FY2021 in order to cope with the increase in business operation in that year; and (iii) an increase in other miscellaneous expenses by approximately RMB0.4 million in aggregate which are insignificant to the overall administrative and other operating expenses.

Finance costs

Our finance costs increased from approximately RMB2.9 million for FY2020 to RMB3.4 million for FY2021, mainly due to a portion of loan as at 31 December 2020 was borrowed in late FY2020 for which the related interest expense was fully reflected in FY2021.

[REDACTED] expenses

Our [REDACTED] expenses amounted to approximately RMB4.2 million for FY2021 and we did not incur such expenses in FY2020.

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Taxation

Our income tax expenses increased from approximately RMB7.8 million in FY2020 to approximately RMB13.6 million in FY2021 mainly due to the notable increase in our profit before tax. The effective tax rate increased from approximately 13.7% for FY2020 to approximately 14.7% for FY2021 mainly due to non-recurring [REDACTED] expenses incurred in FY2021, which was treated as non-deductible expenses.

Profit for the year

Our profit for the year increased by 59.0% from approximately RMB49.3 million in FY2020 to approximately RMB78.4 million in FY2021 due to the aforesaid reasons.

FY2020 compared to FY2019

Revenue

Our revenue increased by approximately 62.3% from approximately RMB102.7 million for FY2019 to approximately RMB166.7 million for FY2020. Such an increase was mainly due to further emphasising on prohibition of non-degradable plastic bags in 2020 which resulted in significant increase in sales of our biodegradable plastic products by approximately RMB52.9 million, which was primarily contributed by the increase in sales of biodegradable produce bag rolls of approximately RMB38.2 million, coupled with the increase in sales of our biodegradable shopping bags by approximately RMB14.0 million. Significant increase in our revenue from biodegradable produce bag rolls was mainly due to the sharp increase in the sales volume of this product by 78.5% in FY2020. Our Directors believe the COVID-19 pandemic drove up the sales of perishable food and fruits in supermarkets which required extensive use of produce bag rolls.

The revenue from the non-biodegradable automobile plastic parts segment also increased from approximately RMB5.5 million in FY2019 to approximately RMB16.7 million in FY2020 due to the introduction of new products (engine guard and side panel), with higher gross profit margin, after our Group acquired two new injection machines in around year-end of FY2019.

Cost of sales

Our cost of sales increased by approximately 58.1% from approximately RMB61.1 million for FY2019 to approximately RMB96.6 million for FY2020. The increase in our cost of sales was in line with our increase in revenue.

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Gross profit and gross profit margin

Our gross profit increased by approximately 68.5% from approximately RMB41.6 million for FY2019 to approximately RMB70.1 million for FY2020, mainly due to an increase in revenue contributed by biodegradable shopping bags. Our gross profit margin slightly improved from approximately 40.5% in FY2019 to approximately 42.1% in FY2020 due to the combined result of (i) an increase in proportion of gross profit contributed by biodegradable shopping bags partially net off by the impact of a fall in gross profit margin of biodegradable produce bag rolls; and (ii) a notable increase in gross profit margin of non-biodegradable automobile plastic parts segment and its proportion of revenue increased from approximately 5.4% in FY2019 to approximately 10.0% in FY2020.

Other income

Our other income remained stable at approximately RMB1.1 million in FY2019 and FY2020.

Selling and distribution expenses

Our selling and distribution expenses slightly decreased from approximately RMB1.1 million for FY2019 to approximately RMB0.9 million for FY2020, mainly due to a decrease in staff costs by approximately RMB0.2 million which was mainly due to certain temporary reliefs imposed on certain amount of levies on the social security insurance under the COVID-19 pandemic in FY2020.

Administrative and other operating expenses

Our administrative and other operating expenses increased by approximately 30.4% from approximately RMB7.9 million for FY2019 to approximately RMB10.3 million for FY2020. Such an increase was a result of an increase in R&D expenses by RMB3.0 million as our Group commits to developing new materials and improving the quality of existing products, which was partially offset by a reduction in staff costs in FY2020 by approximately RMB0.4 million which was mainly due to certain temporary reliefs imposed on certain amount of levies on the social security insurance under the COVID-19 pandemic in FY2020.

Finance costs

Our finance costs increased from approximately RMB2.2 million for FY2019 to approximately RMB2.9 million for FY2020, mainly due to an increase in the overall loan portfolio from approximately RMB30.0 million in FY2019 to approximately RMB45.1 million in FY2020.

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Taxation

Our income tax expenses increased from approximately RMB4.4 million for FY2019 to approximately RMB7.8 million for FY2020, which was in line with the increase in our profit before tax due to the aforesaid reasons. The effective tax rate remained stable from approximately 14.0% for FY2019 to approximately 13.7% for FY2020.

Profit for the year

Our profit for the year increased by 81.9% from approximately RMB27.1 million in FY2019 to approximately RMB49.3 million in FY2020 due to the aforesaid reasons.

LIQUIDITY AND CAPITAL RESOURCES

For FY2019, FY2020, FY2021 and 9M2022, our liquidity requirements primarily related to our working capital needs (mainly for procurement of raw materials from suppliers, staff costs and various operating expenses) and working capital shortfall arose due to differences in the trade receivable and trade payable turnover days. Our source of funds was mainly from the working capital generated internally from our operation. During the Track Record Period, we did not experience any material liquidity shortage.

Our future capital needs relate primarily to the purchase of new plant and machinery and office equipment to increase production volume and efficiency and expand our existing production facilities. Upon [REDACTED], we expect our liquidity requirement will be satisfied by our internal resources, [REDACTED] from the [REDACTED] and/or external financing.

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Cash flows

The table below sets forth a summary of our cash flows, as set out in the Accountants’ Report in Appendix I to this document, for the years/periods indicated:

	<u>FY2019</u>	<u>FY2020</u>	<u>FY2021</u>	<u>9M2021</u>	<u>9M2022</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	(unaudited) <i>RMB'000</i>	<i>RMB'000</i>
Net cash from operating activities	5,237	49,175	108,115	86,824	28,860
Net cash used in investing activities	(3,829)	(5,200)	(1,421)	(602)	(30,084)
Net cash from/(used in) financing activities	1,013	19,875	(114,161)	(142,004)	(2,282)
Net increase/(decrease) in cash and cash equivalents	2,421	63,850	(7,467)	(55,782)	(3,506)
Cash and cash equivalents at beginning of the reporting period	31,624	34,045	97,895	97,895	90,428
Cash and cash equivalents at end of the reporting period.	34,045	97,895	90,428	42,113	86,922

Net cash from operating activities

For 9M2022, we recorded net cash from operating activities of approximately RMB28.9 million, which was mainly attributable to (i) our operating cash inflows before the movements in working capital of approximately RMB64.8 million; and (ii) a net decrease in working capital of approximately RMB27.4 million, mainly due to the increase in inventories of approximately RMB19.6 million.

For FY2021, we recorded net cash from operating activities of approximately RMB108.1 million, which was mainly attributable to (i) our operating cash inflows before the movements in working capital of approximately RMB99.8 million; (ii) a net increase in working capital of approximately RMB21.1 million, mainly due to the decrease in inventories of approximately RMB17.7 million resulted from delivery of goods before year-end due to 2022 Chinese New Year was in early February and increase in trade and other payables of approximately RMB19.5 million due to increase of orders of raw materials before year-end to prepare for production before Chinese New Year which was partly offset by an increase in trade and other receivables of approximately RMB16.0 million for increase of order delivery towards the year-end; and (iii) approximately RMB12.8 million of income tax paid.

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For FY2020, we recorded net cash from operating activities of approximately RMB49.2 million, which was mainly attributable to (i) our operating cash inflows before the movements in working capital of approximately RMB63.1 million; (ii) a decrease in working capital of approximately RMB6.8 million, mainly due to approximately RMB5.1 million increase in trade and other receivables and approximately RMB0.9 million decrease in trade and other payables; and increase in inventories amounted to approximately RMB0.8 million; and (iii) approximately RMB7.2 million of income tax paid.

For FY2019, we recorded net cash from operating activities of approximately RMB5.2 million, which was mainly attributable to (i) our operating cash inflows before the movements in working capital of approximately RMB36.8 million; (ii) a decrease in working capital of approximately RMB27.3 million, mainly due to approximately RMB13.7 million increase in trade and other receivables and approximately RMB12.3 million decrease in trade and other payables; and increase in inventories amounted to approximately RMB1.4 million; and (iii) approximately RMB4.2 million of income tax paid.

Net cash used in investing activities

For 9M2022, we recorded net cash used in investing activities of approximately RMB30.1 million, which was mainly attributable to payment for the purchase of property, plant and equipment of approximately RMB30.2 million for enhancement of our production site to prepare for our expansion plan and in response to local policy that offers incentive to fixed assets investment.

For FY2021, we recorded net cash used in investing activities of approximately RMB1.4 million, which was mainly attributable to payment and deposit paid for the purchase of property, plant and equipment of approximately RMB1.7 million, offset by interest income received of approximately RMB0.2 million.

For FY2020, we recorded net cash used in investing activities of approximately RMB5.2 million, which was mainly attributable to payment and deposit paid for the purchase of property, plant and equipment of approximately RMB5.1 million.

For FY2019, we recorded net cash used in investing activities of approximately RMB3.8 million, which was mainly attributable to payment and deposit paid for the purchase of property, plant and equipment of approximately RMB3.8 million.

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Net cash from/(used in) financing activities

For 9M2022, we recorded net cash used in financing activities of approximately RMB2.3 million, which was attributable to inception of interest-bearing borrowings of approximately RMB41.9 million, capital contribution of approximately RMB3.6 million from the investors to Jilin Kaishun under the reorganisation and advances from Pre-[REDACTED] Investors of approximately RMB4.9 million net off by the repayment of interest-bearing borrowings of approximately RMB43.0 million, repayment of lease liabilities of approximately RMB4.0 million and interest payment of approximately RMB2.5 million.

For FY2021, we recorded net cash used in financing activities of approximately RMB114.2 million, which was mainly attributable to approximately RMB137.0 million of dividends paid to the shareholders, repayment of interest-bearing borrowings of approximately RMB46.6 million, interest expenses of approximately RMB3.3 million, partially offset by contribution from the issue of shares in a subsidiary from the investors in respect of Jilin Kaishun of approximately RMB31.1 million and inception of interest-bearing borrowings amounted to approximately RMB42.0 million.

For FY2020, we recorded net cash from financing activities of approximately RMB19.9 million, which was mainly attributable to the inception of interest-bearing borrowings amounted to approximately RMB47.1 million and contribution from the issue of shares in the subsidiaries from shareholders in respect of Jilin Kaishun and Yizheng Juxinyuan of approximately RMB8.1 million, offset by the repayment of interest-bearing borrowings of approximately RMB32.1 million, interest expenses of approximately RMB3.1 million, and the repayment of lease liabilities of approximately RMB0.2 million.

For FY2019, we recorded net cash from financing activities of approximately RMB1.0 million, which was mainly attributable to the inception of interest-bearing borrowings amounted to approximately RMB57.0 million, offset by the repayment of interest-bearing borrowings of approximately RMB54.0 million, and interest expenses of approximately RMB2.0 million.

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NET CURRENT ASSETS

Set forth below are our current assets and current liabilities as at the dates indicated:

	As at 31 December			As at 30 September	As at 31 January
	2019	2020	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> <i>(unaudited)</i>
Current assets					
Inventories	30,876	31,639	13,980	33,593	39,037
Trade and other receivables	48,139	53,241	73,582	79,628	97,730
Income tax recoverable	—	—	—	—	463
Bank balances and cash	34,045	97,895	90,428	86,922	91,080
	<u>113,060</u>	<u>182,775</u>	<u>177,990</u>	<u>200,143</u>	<u>228,310</u>
Current liabilities					
Trade and other payables	12,663	11,557	31,189	34,821	38,333
Interest-bearing borrowings	30,000	44,579	40,496	39,402	49,305
Lease liabilities	159	422	2,940	11,467	7,477
Deferred income	489	489	489	489	489
Income tax payables	561	1,178	1,792	2,482	—
	<u>43,872</u>	<u>58,225</u>	<u>76,906</u>	<u>88,661</u>	<u>95,604</u>
Net current assets	<u>69,188</u>	<u>124,550</u>	<u>101,084</u>	<u>111,482</u>	<u>132,706</u>

Our current assets comprise (i) inventories; (ii) trade and other receivables; (iii) income tax recoverable; and (iv) bank balances and cash. Our current liabilities comprise, among others, (i) trade and other payables; (ii) interest-bearing borrowings; (iii) lease liabilities; (iv) deferred income; and (v) income tax payables.

As at 31 December 2019, our Group recorded net current assets position amounting to approximately RMB69.2 million. Our net current assets improved to approximately RMB124.6 million as at 31 December 2020. Such change was mainly due to a notable increase in bank balances and cash of approximately RMB63.9 million which was mainly attributable to the increase in operating cash flow resulted from increase in net profit.

Our net current assets decreased to approximately RMB101.1 million as at 31 December 2021. Such a decrease was mainly due to the (i) decrease in bank balances and cash of approximately RMB7.5 million resulting from payment of dividends amounted to approximately RMB137.0 million during FY2021 which was net off by an increase in operating cash flow mainly

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resulted from increase in net profit; and (ii) increase in trade and other payables by approximately RMB19.6 million due to ordering of raw material before year-end to cope with Chinese New Year in early February.

Our net current assets increased slightly to approximately RMB111.5 million as at 30 September 2022. Such increase was mainly due to increase in period ending inventories by approximately RMB19.6 million partially net off by increase in lease liabilities of approximately RMB8.5 million for 9M2022.

Our net current assets as at 31 January 2023 amounted to approximately RMB132.7 million which represent increase in approximately RMB21.2 million compared with the amount as at 30 September 2022. Such increase was mainly due to increase in trade receivables by approximately RMB22.1 million.

SUFFICIENCY OF WORKING CAPITAL

After taking into consideration the financial resources available to our Group, including our internally generated cash, our available credit and financing facilities and the estimated [REDACTED] from the [REDACTED] (after a possible [REDACTED] setting the final [REDACTED] up to 10% below the bottom end of the indicative [REDACTED] Range), and in the absence of unforeseeable circumstances, our Directors confirm, and the Sole Sponsor concurs, that we have sufficient working capital for our present requirements for at least the next 12 months from the date of this document.

DESCRIPTION OF SELECTED ITEMS OF COMBINED STATEMENTS OF FINANCIAL POSITION

Property, plant and equipment

During the Track Record Period, our property, plant and equipment represented buildings, plant and machineries, furniture, fixtures and office equipment, motor vehicles and construction in progress. As at 31 December 2019, 2020 and 2021 and 30 September 2022, our net book value of property, plant and equipment amounted to approximately RMB43.8 million, RMB41.1 million, RMB38.4 million and RMB65.2 million, respectively. Our property, plant and equipment as at 31 December 2020 dropped by approximately RMB2.7 million. The decrease was primarily attributable to depreciation charges for the year of approximately RMB3.6 million net off against the addition of certain production facilities of approximately RMB0.8 million in FY2020. Our property, plant and equipment was further decreased by approximately RMB2.7 million as at 31 December 2021 which was mainly due to depreciation charges amounted to approximately RMB3.7 million for the year net off against addition of certain production facilities and two heavy

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trucks with total cost of approximately RMB1.3 million aggregately in FY2021. Our property, plant and equipment increased to approximately RMB65.2 million as at 30 September 2022 as we have invested approximately RMB30.2 million for enhancement of our production site to prepare for our expansion plan and in response to local policy that offers incentive to fixed assets investment.

Right-of-use assets

The right-of-use assets represent our leasehold land in Changchun, leased properties and motor vehicles under lease arrangements in the PRC. As at 31 December 2019, 2020 and 2021 and 30 September 2022, right-of-use assets with carrying amounts were approximately RMB1.4 million, RMB2.2 million, RMB8.0 million and RMB30.8 million, respectively. The increase of approximately RMB0.8 million in the right-of-use assets as at 31 December 2020 was mainly attributable to the acquisition of a new motor vehicle with a total cost of approximately RMB1.0 million in FY2020. The right-of-use assets increased notably in FY2021 as we leased additional premises to increase our production capacity in late 2021. The increase in leased properties amounted to approximately RMB6.7 million and the corresponding depreciation amounted to approximately RMB0.6 million in FY2021. The increase of approximately RMB30.8 million in the right-of-use assets as at 30 September 2022 was due to lease of a factory in Huizhou commenced from July 2022 increased during the period.

Deposits paid for acquisition of property, plant and equipment

As at 31 December 2019, 2020 and 2021 and 30 September 2022, our deposits paid for the acquisition of property, plant and equipment amounted to approximately RMB0.2 million, RMB4.5 million, RMB0.4 million and nil, respectively. Our deposits paid for acquisition of property, plant and equipment as at 31 December 2019 and 2020 represented the payment of purchasing certain production facilities for a contract signed in late 2019. The drop in deposits paid for acquisition of property, plant and equipment as at 31 December 2021 was mainly due to the fact that the aforesaid contract was terminated during 2021 with full refund from our supplier. The termination of contract was merely due to the supplied production facilities were below the required standard expected from our Group.

Inventories

Our inventories primarily comprise raw materials PLA, PBAT, PBS and other materials and finished goods. As the production lead time for our biodegradable plastic products and non-biodegradable automobile plastic parts can generally be completed within one day, we did not record work-in-progress. For masterbatches which we have improved their properties for production of biodegradable plastic products, they are recorded as raw materials.

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The following table sets out the summary of our inventories as at the dates indicated:

	As at 31 December						As at 30 September	
	2019		2020		2021		2022	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Raw materials	12,963	42.0	10,925	34.5	6,650	47.6	26,971	80.3
Finished goods	17,913	58.0	20,714	65.5	7,330	52.4	6,622	19.7
Total	30,876	100.0	31,639	100.0	13,980	100.0	33,593	100.0

Our balance of inventories remained stable at approximately RMB30.9 million as at 31 December 2019 and approximately RMB31.6 million as at 31 December 2020. Our inventories as at 31 December 2021 decreased by approximately RMB17.6 million to approximately RMB14.0 million, which was mainly due to (i) a decrease in raw materials by approximately RMB4.3 million due to an increase in usage for the production of biodegradable plastic products in order to cope with the increase in sales orders in the last quarter of FY2021 primarily due to the Chinese New Year in 2022 in early February and (ii) a decrease in finished goods of approximately RMB13.3 million for the same reason as indicated above. Our inventory balance as at 30 September 2022 increased by approximately RMB19.6 million due to increase in raw material level by approximately RMB20.3 million to cope with possible delay in delivery of raw material net off by decrease in finished goods of approximately RMB0.7 million due to fulfilment of orders before month end.

The following table sets out inventory ageing analysis at the end of each reporting year/period:

	As at 31 December			As at
	2019	2020	2021	30 September
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2022
1-90 days	18,063	25,051	13,980	33,050
91-180 days	3,122	235	—	543
181-270 days	1,135	123	—	—
Over 270 days but less than 1 year . . .	3,432	444	—	—
1 to 2 years	5,124	5,786	—	—
Total	30,876	31,639	13,980	33,593

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We periodically review our inventory levels to identify inventories that are slow-moving, obsolete or declining in market value. No provision was made for the Group's inventories during the Track Record Period or as at the end of the reporting period, primarily because (i) any production waste, scrap materials (such as edge trimmings and ends), substandard or obsolete products are returned to the biodegradable plastic masterbatches tank for re-use purpose; (ii) our biodegradable plastic products can be generally adopted in different aspects; and (iii) our Directors consider that the demand for biodegradable plastic products is policy driven and has been increasing in recent years with the increasing public awareness of environmental issues.

The following table sets out the average inventory turnover days for the Track Record Period:

	<u>FY2019</u>	<u>FY2020</u>	<u>FY2021</u>	<u>9M2022</u>
Average inventory turnover days	180	118	58	51

Note: Average inventory turnover days are calculated based on the average balance of inventories divided by costs of sales for the relevant years and multiplied by the number of days in the relevant years/periods. Average balance is calculated as the average of the beginning balance and ending balance of a given year/period.

Our average inventory turnover days were approximately 180 days, 118 days, 58 days and 51 days, respectively, for FY2019, FY2020, FY2021 and 9M2022. Our average inventories turnover days kept improving from FY2019 to 9M2022. Such improvement was mainly resulted from the increase in sales orders and better control of inventory level over the years/period during the Track Record Period. The reason for high turnover days in FY2019 was mainly due to increase in orders around End-2019 for biodegradable products, to fulfil these orders our level of inventory (finished goods) as at 31 December 2019 increased.

Up to the Latest Practicable Date, approximately 99.8% of our inventories as at 30 September 2022, were subsequently utilised.

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Trade and other receivables

The table below sets out a breakdown of our trade and other receivables as at the dates indicated and the average trade receivables turnover days for the years/periods indicated:

	As at 31 December			As at 30 September
	2019	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables				
From third parties	23,126	28,561	73,355	76,014
Less: Loss allowances	(116)	(144)	(364)	(385)
	23,010	28,417	72,991	75,629
Other receivables				
Prepayments ⁽¹⁾	—	—	—	3,610
Prepaid [REDACTED] expenses ⁽²⁾ . . .	—	—	257	185
Deposits paid to suppliers	100	—	—	—
Other deposits and receivables	300	216	334	186
Due from a related party	176	55	—	—
Due from Jiyuan Biotechnology	24,553	24,553	—	—
Value-added tax and other tax recoverable	—	—	—	18
	25,129	24,824	591	3,999
Total	48,139	53,241	73,582	79,628
	FY2019	FY2020	FY2021	9M2022
Average trade receivables turnover days ⁽³⁾	79	56	72	95

Notes:

(1) The amounts as at 30 September 2022 mainly represent prepaid research and development expenses and prepaid repair and maintenance expenses.

The prepaid research and development expenses of RMB2.5 million as at 9M2022 were made for an uncompleted R&D project in accordance with payment schedule agreed with CIAC and will be recognised as expenses according to stage of completion. There was no such prepayment as at 31 December 2019, 2020 and 2021 since all payments for research and development were recognised as expenses in accordance with the stage of completion during the relevant years. Up to the Latest Practicable Date, nil were already recognised as research and development expenses in profit or loss.

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The repair and maintenance expenses of approximately RMB1.9 million were prepaid in accordance with a contract entered into with a service provider during 9M2022 to perform troubleshooting, maintenance and inspection of certain plant and equipment of our Group. The prepaid amount will be amortised over the service period. Up to 31 January 2023, approximately RMB0.3 million were recognised as repair and maintenance expenses in profit or loss.

- (2) The amounts as at 31 December 2021 and 30 September 2022 represents prepaid [REDACTED] expenses for the [REDACTED].
- (3) Average trade receivables turnover days is equal to the average of the opening and closing balances of trade receivables of the relevant years/periods divided by total revenue of the relevant years/periods and multiplied by number of days for FY2019, FY2020, FY2021 and 9M2022.

Our net trade receivables increased from approximately RMB23.0 million as at 31 December 2019 to approximately RMB28.4 million as at 31 December 2020 and further increased to approximately RMB73.0 million as at 31 December 2021, which was mainly due to an increase in sales from FY2019 to FY2021, including last quarter of each year. Our net trade receivables increased to RMB75.6 million as at 30 September 2022 due to fulfilment of order in August and September 2022.

Our average trade receivables turnover days are approximately 79 days, 56 days, 72 days and 95 days for FY2019, FY2020, FY2021 and 9M2022, respectively. This is in line with our offered credit term of 90 days to our customers. Due to the temporary lockdown during March to May 2022, it took us longer time to collect trade receivables from customers and hence it rendered an increase in our average trade receivables turnover days to 95 days for 9M2022.

The following table sets forth a breakdown of ageing of our Group’s trade receivables, net of loss allowance, by invoice date as at 31 December 2019, 2020 and 2021 and 30 September 2022:

	As at 31 December			As at
	2019	2020	2021	30 September 2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 30 days	9,075	14,200	20,451	31,386
31 to 60 days	9,381	13,160	26,181	30,988
61 to 90 days	4,311	871	26,216	13,255
Over 90 days	243	186	143	—
	<u>23,010</u>	<u>28,417</u>	<u>72,991</u>	<u>75,629</u>

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Up to the Latest Practicable Date, 100% of our trade receivables as at 30 September 2022 were subsequently settled.

Our Group applies a simplified approach in calculating the expected credit losses (“ECL”). Our Group recognises a loss allowance based on lifetime ECL at each reporting date and has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. Considered that there is no significant default history and no forward-looking factors that give rise to significant default risk on trade receivables for both past due or not yet past due balances at 31 December 2019, 2020 and 2021 and 30 September 2022, and no material change in late payment and default risk as well as forward-looking factors throughout the Track Record Period, the management of the Group estimates that the ECL for those balances is insignificant and assign 0.5% as the expected loss rate, which represented a reasonable estimation of credit risk exposure, for the Track Record Period. As at 31 December 2019, 2020 and 2021 and 30 September 2022, trade receivables (net of allowance for ECL) of approximately RMB0.2 million, RMB0.2 million, RMB0.1 million and nil, respectively, were past due. In FY2019, FY2020 and FY2021, net increase in loss allowances were approximately RMB1,000, RMB28,000 and RMB0.2 million, respectively. The net increase in loss allowance for 9M2022 was approximately RMB21,000.

Our other receivables include prepayments, prepaid [REDACTED] expenses, deposits paid to suppliers, other deposits and receivables, amounts due from a related party, due from Jiyuan Biotechnology and value-added tax and other tax recoverable.

Our other receivables remained stable at approximately RMB25.1 million as at 31 December 2019 and approximately RMB24.8 million as at 31 December 2020. Our other receivables as at 31 December 2019 and 2020 mainly consist of the balances for amount due from Jiyuan Biotechnology (a company that was previously owned by the parents of Ms. Zhang and parents-in-laws of Mr. Shan, which was subsequently owned by Ms. Zhang and Mr. Shan and up to the disposal of Jiyuan Biotechnology to Independent Third Parties in September 2021). The amount due is non-trade in nature, unsecured, interest-free and repayable on demand.

Our other receivables further decreased to approximately RMB0.6 million as at 31 December 2021 mainly due to the amount due from Jiyuan Biotechnology of approximately RMB24.6 million was fully settled in FY2021.

Our other receivables increased by approximately RMB3.4 million to approximately RMB4.0 million as at 30 September 2022 mainly due to (i) increase in prepayment for R&D expenses and repair and maintenance expenses amounted to approximately RMB3.6 million; and (ii) decrease in other deposits and receivables amounted to approximately RMB0.2 million.

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Trade and other payables

The table below sets out a breakdown of our trade and other payables as at the dates indicated:

	As at 31 December			As at 30 September
	2019	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables				
To third parties	10,068	7,844	22,368	15,304
Other payables				
Contract liabilities — refundable				
receipts in advance	43	—	386	—
Salary payables	521	700	894	940
Value-added tax and other tax				
payables	4	1,150	1,466	2,159
Due to Pre-[REDACTED] Investors	—	—	—	4,905
Accruals and other payables ⁽¹⁾	2,027	1,863	6,075	11,513
	<u>2,595</u>	<u>3,713</u>	<u>8,821</u>	<u>19,517</u>
Total	<u>12,663</u>	<u>11,557</u>	<u>31,189</u>	<u>34,821</u>

Note:

(1) The amounts as at 31 December 2019, 2020 and 2021 and 30 September 2022 included accrued [REDACTED] expenses of nil, nil, approximately RMB3.6 million and RMB8.4 million, respectively.

Our trade payables decreased from approximately RMB10.1 million as at 31 December 2019 to approximately RMB7.8 million as at 31 December 2020 and increased to approximately RMB22.4 million as at 31 December 2021. The movements of balances of trade payable of our Group as at 31 December 2019, 2020 and 2021 merely represent the purchase made by our Group in last two months at the end of 2019, 2020 and 2021. There is no significant movement between the balances as at 31 December 2019 and 2020 which was approximately RMB2.2 million. The significant increase in balance by approximately RMB14.5 million as at 31 December 2021 as compared to that of 31 December 2020 was primarily due to a significant increase in the purchase of raw materials in the last two months of 2021, in particular, December 2021, which was mainly attributable to the fact that the Chinese New Year in 2022 was in early February, and hence, more sales orders were received from our customers in late 2021. Our trade payable decreased to approximately RMB15.3 million as at 30 September 2022. Our other payable increased to approximately RMB19.5 million as at 30 September 2022 mainly due to the increase in amounts due to Pre-[REDACTED] Investors and accrual of [REDACTED] expenses.

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We are generally granted by our suppliers a credit period of up to 60 days. The following table sets forth an ageing analysis of trade payables presented based on the invoice dates at the end of each reporting years/periods:

	As at 31 December			As at 30 September
	2019	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 30 days	4,771	4,253	12,743	12,970
31 to 60 days	4,917	3,186	9,625	2,334
61 to 90 days	224	405	—	—
Over 90 days.	156	—	—	—
Total	<u>10,068</u>	<u>7,844</u>	<u>22,368</u>	<u>15,304</u>

The following table sets forth the average trade payables turnover days for the years/periods indicated:

	FY2019	FY2020	FY2021	9M2022
Average trade payables turnover days .	70	34	38	40

Note: Average trade payables turnover days are calculated based on the average trade payables as at the respective year/period, divided by the cost of sales for the relevant years/period and multiplied by the number of days in the relevant years/period.

Our average trade payables turnover days decreased significantly from 70 days during 2019 to 34 days during 2020 and remained stable at 38 days during 2021. There had been an improvement in our average trade payables turnover days given we made early settlement of our balances with suppliers, which were supported by our improved operating cash flows in the respective years, in order to maintain a good relationship with our suppliers. For 9M2022, our average trade payables turnover days slightly increased to 40 days because we adopted a more prudent policy to control our cash flow to match with the settlement pattern of our customers during the lockdown period. The average trade receivables turnover days also increased from 72 days for FY2021 to 95 days for 9M2022.

Up to Latest Practicable Date, 100% of our trade payables as at 30 September 2022, were subsequently settled.

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INDEBTEDNESS

The following table sets out our indebtedness as at the dates indicated:

	As at 31 December			As at 30 September	As at 31 January
	2019	2020	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
					(unaudited)
Interest-bearing borrowings	30,000	45,076	40,496	39,402	49,305
Lease liabilities	365	976	7,281	30,284	22,725
Amount due to					
Pre-[REDACTED] Investors					
(included in “Trade and other					
payables”) ⁽¹⁾	—	—	—	4,905	—
Total	<u>30,365</u>	<u>46,052</u>	<u>47,777</u>	<u>74,591</u>	<u>72,030</u>

Note:

- (1) Please refer to the paragraph headed “Amount due to Pre-[REDACTED] Investors (included in “Trade and other payables”) below for further details.

As at 31 January 2023, our unaudited banking and other loan facilities amounted to approximately RMB18.0 million.

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Interest-bearing borrowings

Our interest-bearing borrowings comprise entrusted loans⁽¹⁾ and other loans which are repayable ranging from within one year to two years. As at 31 January 2023, being the latest practicable date for the indebtedness statement, our Group had total outstanding interest-bearing borrowings of approximately RMB49.3 million. The following table sets forth the components of our interest-bearing borrowings as at the dates indicated:

	As at 31 December			As at 30 September	As at 31 January
	2019	2020	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> (unaudited)
Secured borrowings					
— Entrusted loan	12,000	22,000	18,000	16,000	16,000
— Other loan	18,000	23,076	22,496	22,000	22,000
	30,000	45,076	40,496	38,000	38,000
Unsecured borrowings					
— Other loan	—	—	—	1,402	11,305
	30,000	45,076	40,496	39,402	49,305
Current portion	30,000	44,579	40,496	39,402	49,305
Non-current portion	—	497	—	—	—
	30,000	45,076	40,496	39,402	49,305
Carrying amounts of the above borrowings are repayable:					
Within one year					
— Entrusted loan	12,000	22,000	18,000	16,000	16,000
— Other loan	18,000	22,579	22,496	23,402	33,305
	30,000	44,579	40,496	39,402	49,305
More than one year, but not exceeding two years					
— Other loan	—	497	—	—	—
	30,000	45,076	40,496	39,402	49,305
Less: amounts shown under current liabilities	(30,000)	(44,579)	(40,496)	(39,402)	(49,305)
Amounts shown under non-current liabilities	—	497	—	—	—

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Note:

- (1) During the years ended 31 December 2019, 2020 and 2021 and the nine months ended 30 September 2022, Jilin Kaishun entered into entrusted loan agreements with 長春新投新興產業投資有限公司 (Changchun Xintou Emerging Industry Investment Co., Ltd.*), 長春新投工業發展投資中心(有限合夥) (Changchun Xintou Industrial Development Investment Centre (Limited Partnership)*), (together the “Xintou Group”) and 長春南關惠民村鎮銀行有限責任公司 (Changchun Nanguan Huimin Village Bank Co., Ltd.* (“Changchun Nanguan”)), whereby the Xintou Group agreed to provide loans through Changchun Nanguan to our Group.

According to publicly available information, these two companies are ultimately state-owned companies. Mr. Shan came across these two companies due to the introduction by Changchun Nanguan. Xintou Group is assigned by this bank. The principal business activities of these two companies are to provide financial assistance to domestic companies. Our Directors confirm that save for the transactions with these two companies as disclosed, we did not have any other relationships with these two companies that need to be disclosed.

As at 31 December 2019, 2020 and 2021, 30 September 2022 and 31 January 2023, our interest-bearing borrowings comprised entrusted loans and other loans amounting to approximately RMB30.0 million, RMB45.1 million, RMB40.5 million, RMB39.4 million and RMB49.3 million, respectively. The increase in interest-bearing borrowings as at 31 January 2023 as compared to that of 30 September 2022 is due to a new loan of approximately RMB9.9 million borrowed from an independent third party lender in Hong Kong for repayment of the amounts due to Pre-[REDACTED] Investors. Our interest-bearing borrowings were primarily denominated in RMB. The weighted average effective interest rates on the secured interest-bearing borrowings as at 31 December 2019, 2020 and 2021, 30 September 2022 and 31 January 2023 are set forth as below:

	As at 31 December			As at 30 September 2022	As at 31 January 2023
	2019	2020	2021		(unaudited)
Weighted average effective interest rates	6.7%	7.6%	7.2%	6.8%	6.92%

The unsecured borrowings as at 31 January 2023 carry effective interest rate of 12% per annum.

The movements of our interest-bearing borrowings as at the end of each reporting period was due to new loans acquired which were mainly for operating purpose net off against the repayment made by us by following the repayment schedules.

As at 31 December 2019, 2020 and 2021, 30 September 2022 and 31 January 2023, our interest-bearing borrowings were secured by:

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- (i) properties held by the Controlling Shareholders;
- (ii) leasehold land and buildings held by a related party, Jibei Technology, whose equity interests are 100% held by the Controlling Shareholders as at 31 December 2020 and also equity interest and corporate guarantee of Jibei Technology. The pledge of leasehold land and buildings held by Jibei Technology and corporate guarantee were released upon full repayment of the relevant loans under the revolving loan facility in November 2021 and the pledge for equity interest was released on 16 July 2021;
- (iii) a leasehold land of the Group with aggregate net carrying amounts of approximately RMB888,000, RMB864,000, RMB840,000, RMB822,000 and RMB812,000 as at 31 December 2019, 2020 and 2021, 30 September 2022 and 31 January 2023, respectively;
- (iv) buildings of the Group with aggregate net carrying amounts of approximately RMB26,669,000, RMB25,142,000, RMB23,615,000, RMB22,470,000 and RMB21,961,000 as at 31 December 2019, 2020 and 2021, 30 September 2022 and 31 January 2023, respectively; and
- (v) plant and machineries of the Group with an aggregate net carrying amount of approximately RMB4,332,000 as at 31 December 2020.

In addition, the secured borrowings are guaranteed by Yizheng Juxinyuan, the Controlling Shareholders and Mr. Shan Bingqi (單柄淇), the son of the Controlling Shareholders (collectively referred to as the “**Guarantees**”).

All facilities obtained from banks and other financial institutions are subject to the fulfilment of covenants, as is commonly found in lending arrangements with financial institutions. If our Group breached the covenants, the drawn down facilities would become repayable on demand. As at 31 December 2019, 2020 and 2021, 30 September 2022 and 31 January 2023, none of the covenants relating to drawn down facilities had been breached.

The Guarantees and the pledged assets provided by the Controlling Shareholders and Mr. Shan Bingqi are expected to be released and replaced by a corporate guarantee to be given by the Company upon [REDACTED] and the banks, the lenders of the entrusted loans, and other financial institutions have provided their consent in this regard.

As at 31 January 2023, our unutilised banking and other loan facilities amounted to approximately RMB18.0 million.

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Lease liabilities

Lease liabilities represent the aggregate lease payment obligations not yet fulfilled under the lease agreements primarily for leasing properties and motor vehicles. Under IFRS 16, “Lease”, leases are recognised as a right-of-use asset and a corresponding liability at the date on which the leased asset is available for use by our Group. The following table sets forth the details of lease liabilities in terms of current and non-current:

	As at 31 December			As at 30 September	As at 31 January
	2019	2020	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> (unaudited)
Current portion	159	422	2,940	11,467	7,477
Non-current portion . . .	206	554	4,341	18,817	15,248
Total	365	976	7,281	30,284	22,725

As at 31 December 2019, 2020 and 2021, 30 September 2022 and 31 January 2023, we had outstanding lease liabilities of approximately RMB0.4 million, RMB1.0 million, RMB7.3 million, RMB30.3 million and RMB22.7 million, respectively. The increase in our lease liabilities as at 31 December 2020 as compared to that of 31 December 2019 was primarily due to an addition in motor cars amounted to approximately RMB1.0 million in 2020 whereas the increase in lease liabilities by approximately RMB6.3 million as at 31 December 2021 as compared to that of 31 December 2020 was mainly due to a new lease agreement signed by our Group in late 2021 for leasing properties in Changchun as our new factories. Our lease liabilities increased to approximately RMB30.3 million as at 30 September 2022. The increase in balance was due to the lease of a new factory located in Huizhou for three years commenced from July 2022. During the Track Record Period and up to 31 January 2023, we did not breach any covenants of the lease agreements.

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Amount due to Pre-[REDACTED] Investors (included in “Trade and other payables”)

Details of the amount due to Pre-[REDACTED] Investors are as follow:

Name of Pre-[REDACTED] Investor	As at 31 December			As at	As at
	2019	2020	2021	30 September	31 January
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
					(unaudited)
Mr. Chen Guobin	—	—	—	4,399	—
Mr. Zhang Zhifang	—	—	—	506	—
	—	—	—	4,905	—
	<u>—</u>	<u>—</u>	<u>—</u>	<u>4,905</u>	<u>—</u>

As at 31 December 2019, 2020 and 2021, 30 September 2022 and 31 January 2023, we had amount due to Pre-[REDACTED] Investors of nil, nil, nil, approximately RMB4.9 million and nil respectively, the amount due was non-trade in nature, unsecured, interest-bearing at 3% per annum and repayable on demand.

The amount due to Pre-[REDACTED] Investors was incurred due to payment of certain professional fees to professional parties in respect of the [REDACTED] by Mr. Chen Guobin and Mr. Zhang Zhifang, the Pre-[REDACTED] Investors, as the Company did not have sufficient foreign exchanges (i.e., Hong Kong Dollars) during the material time.

On 30 September 2022, the Company and Mr. Shan had entered into a formal loan agreement with each of the Pre-[REDACTED] Investors (Mr. Chen Guobin and Mr. Zhang Zhifang) whereby Mr. Shan was a guarantor and our Company was a borrower in respect of the respective amount due to Mr. Chen Guobin and Mr. Zhang Zhifang (totalling approximately RMB4.9 million as at the contract date). Each of the loan principals will be repaid before the [REDACTED] and carries an interest rate of 3.0% per annum. The said loan agreements did not contravene the relevant laws and regulations. Mr. Shan has deposited an equivalent amount of RMB to Mr. Chen Guobin and Mr. Zhang Zhifang, respectively, as security in respect of such guarantee. As at the Latest Practicable Date, the loans were fully repaid by our Company to Mr. Chen Guobin and Mr. Zhang Zhifang, and the guarantee was subsequently released.

As at 30 September 2022, the amount due to such Pre-[REDACTED] Investors with carrying amount of RMB4.9 million were classified as other payables under current liabilities.

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Contingent liabilities

As at 31 December 2019, 2020 and 2021 and 31 January 2023, we had no contingent liabilities. We are currently not a party to any litigation that is likely to have a material adverse effect on our business, results of operations or financial condition taken as a whole. We have confirmed that there was no material change in our contingent liabilities since 31 January 2023 and up to the Latest Practicable Date.

Statement of Indebtedness

Save as above, as at 31 January 2023, the latest practicable date of indebtedness, we did not have any other outstanding mortgages, charges, pledges, debentures, loan capital, bank loans and overdrafts, debt securities or other similar indebtedness, leases liabilities or leases commitments, liabilities under acceptances (other than normal trade bills) or acceptance credits, guarantees or any material contingent liabilities. We have confirmed that there were no material changes in the indebtedness of our Group since 31 January 2023 and up to the Latest Practicable Date.

CAPITAL EXPENDITURE

During the Track Record Period, our capital expenditures principally consisted of expenditures on property, plant and equipment, right-of-use assets and intangible assets. We incurred addition on capital expenditures for the acquisition of property, plant and equipment, right-of-use assets and intangible assets which in aggregate were approximately RMB4.0 million, RMB1.8 million, RMB8.0 million and RMB57.7 million, respectively, for FY2019, FY2020, FY2021 and 9M2022.

Please also refer to the paragraphs headed “Business — Our Production Facilities” for further information regarding our machinery and equipment.

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COMMITMENTS

Capital expenditures commitments

During the Track Record Period, the Group has certain capital expenditures commitments in connection with machinery suppliers. As at 31 December 2019, 2020 and 2021 and 30 September 2022, our capital commitments were as follows:

	As at 31 December			As at 30 September
	2019	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Contracted but not provided net of deposits paid for acquisition of property, plant and equipment	4,680	232	900	—
	4,680	232	900	—

In October 2022, the Group entered into purchase agreements with other two independent third party machinery suppliers to purchase machineries for the establishment of the new plant and production lines at Huizhou production base at a total consideration of approximately RMB3.4 million, of which a deposit of RMB336,000 was made to the machinery suppliers in November 2022 and the balance of approximately RMB3.0 million will be paid upon the delivery of the machineries to the Group and the completion of installation and testing works. As the aforesaid agreements were entered into by the Group subsequent to 30 September 2022, no capital expenditure commitment was recorded at 30 September 2022 in this respect.

Commitments under leases

The Group as lessee

The Company leases office premises under operating leases with initial lease period of one year. None of the leases includes contingent rentals.

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At the end of each reporting period, the Company had total future minimum lease payments in respect of office premises under non-cancellable operating leases, which are payable as follows:

	As at 31 December			As at 30 September
	2019	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within one year.	—	—	62	6
	—	—	62	6

SUBSEQUENT EVENTS

For significant events that took place subsequent to 30 September 2022, please refer to “— Recent developments and no material adverse change” in this section and note 32 of the Accountants’ Report in Appendix I in this document.

PROPERTY INTERESTS

Please refer to the subsection headed “Business — Properties” in this document for details of our property interests. As at the Latest Practicable Date, our property interests do not form part of our property activities and no single property interest that forms part of our non-property activities has a carrying amount of 15% or more of our total assets.

MATERIAL RELATED PARTY TRANSACTIONS

With respect to the related party transactions set out in note 26 to the Accountants’ Report in Appendix I in this document, our Directors confirm that the related party transactions were conducted on normal commercial terms and/or that such terms were no less favourable to us than terms available from Independent Third Parties and were fair and reasonable and in the interest of the Shareholders as a whole. Save for the transactions between our Group with our connected parties, none of the related party transactions set out in note 26 to the Accountants’ Report in Appendix I to this document will continue after the [REDACTED].

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENT

As at the Latest Practicable Date, our Group had not entered into any material off-balance sheet commitments and arrangement.

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KEY FINANCIAL RATIOS

The table below sets forth our selected key financial ratios during the Track Record Period:

	As at 31 December 2019/FY2019	As at 31 December 2020/FY2020	As at 31 December 2021/FY2021	As at 30 September 2022/9M2022
Net profit margin ⁽¹⁾ (%)	26.4	29.6	30.5	21.2
Current ratio ⁽²⁾ (times)	2.6	3.1	2.3	2.3
Quick ratio ⁽³⁾ (times)	1.9	2.6	2.1	1.9
Gearing ratio ⁽⁴⁾ (%)	27.3	27.4	33.9	37.4
Return on total assets ⁽⁵⁾ (%)	17.0	21.3	34.8	N/A
Return on equity ⁽⁶⁾ (%)	24.4	29.3	55.6	N/A
Interest coverage ratio ⁽⁷⁾ (times)	15.6	21.0	27.8	23.4

Notes:

1. Net profit margin equals to net profit for the year/period divided by total revenue for the year/period.
2. Current ratio equals to total current assets divided by total current liabilities as at the year/period end.
3. Quick ratio equals to total current assets less inventories divided by total current liabilities as at the year/period end.
4. Gearing ratio equals to total debts divided by total equity as at the year/period end. Total debts include interest-bearing borrowings and lease liabilities.
5. Return on total assets equals to net profit for the year divided by the closing balance of total assets as at the year-end.
6. Return on equity equals to net profit for the year divided by the closing balance of total equity as at the year-end.
7. Interest coverage ratio equals to the profit before finance costs and income tax expenses divided by the finance costs for the year/period.

Net profit margin

Our net profit margin increased from approximately 26.4% for FY2019 to approximately 29.6% for FY2020. Such increase was mainly due to the improvement in gross profit margin in FY2020 as a result of the improvement in gross profit margin of non-biodegradable automobile plastic parts and the respective segment revenue contribution of which increased from 5.4% to 10.0%. Our net profit margin further increased to approximately 30.5% for FY2021 mainly because of the improvement in the gross profit margin of our biodegradable plastic products from approximately 41.3% in FY2020 to approximately 43.7% in FY2021 partially offset by the [REDACTED] expenses of RMB4.2 million incurred during the year. Our net profit margin decreased to 21.2% for 9M2022 owing to decrease in gross profit margin from 44.1% in FY2021 to 40.2% in 9M2022 and recognition of [REDACTED] expenses of approximately RMB12.2 million in 9M2022.

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Current ratio and quick ratio

Our current ratio and quick ratio increased from approximately 2.6 times and approximately 1.9 times, respectively, as at 31 December 2019 to approximately 3.1 times and approximately 2.6 times, respectively, as at 31 December 2020. Such increases were mainly due to an increase in bank balances and cash resulting from the higher net profit generated during 2020. Our current ratio and quick ratio decreased to approximately 2.3 times and approximately 2.1 times respectively, as at 31 December 2021, which was mainly due to an increase in current liabilities from trade and other payables as we placed more orders towards the year-end to prepare for delivery before the Chinese New Year in early February 2022. Our current ratio remained stable as at 30 September 2022, while quick ratio experienced a slight decrease to approximately 1.9 times, which was mainly due to an increase in inventory as we have ordered more raw material for production in fourth quarter.

Gearing ratio

Our gearing ratio remained stable at approximately 27.3% as at 31 December 2019 and approximately 27.4% as at 31 December 2020. Our gearing ratio increased to approximately 33.9% as at 31 December 2021, which mainly due to the payment of dividend amounted to RMB137.0 million during FY2021. Our gearing ratio further increased to approximately 37.4% at 30 September 2022 was mainly due to an expanding of lease liabilities by approximately RMB11.1 million under current liabilities in 9M2022. We maintained our net cash position for FY2019, FY2020, FY2021 and 9M2022.

Return on total assets

Our return on total assets increased from approximately 17.0% in FY2019 to approximately 21.3% in FY2020. The increase in the return on total assets was mainly due to the increase in the net profits for the year, which was partially offset by the increase in total assets resulting from the increase in bank balances and cash. Our return on total assets then further increased to approximately 34.8% for FY2021, which was mainly attributable to the increase in net profit while the total assets decreased as a result of dividend payment amounted to RMB137.0 million in FY2021.

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Return on equity

Our return on equity increased from approximately 24.4% in FY2019 to approximately 29.3% in FY2020. Such increase was mainly attributable to the increase in our net profit for FY2020. Our return on equity further increased to approximately 55.6% for FY2021, because net profit continuously increased in FY2021, coupled with approximately RMB137.0 million of dividends paid.

Interest coverage ratio

Our interest coverage ratio was approximately 15.6 times, 21.0 times and 27.8 times for FY2019, FY2020 and FY2021, respectively. The increase in interest coverage ratio was mainly due to our increase in gross profits during the Track Record Period. Our interest coverage ratio was approximately 23.4 times for 9M2022 mainly attributable to decrease in net profit due to aforesaid reason while overall loan portfolio unchanged.

FINANCIAL RISK MANAGEMENT

During our conduct of business, we are exposed to various types of market risks including interest rate risk, credit risk and liquidity risk.

Details of the risks which we are exposed to are set out in note 28 to the Accountants’ Report set out in Appendix I to this document.

DISTRIBUTABLE RESERVES

As at the Latest Practicable Date, our Company had no distributable reserves available for distribution to our Shareholders.

DIVIDENDS

For FY2021 and prior to the Pre-[REDACTED] Investments from the Pre-[REDACTED] Investors, we declared and distributed total dividends of approximately RMB137.0 million to the then shareholders of Jilin Kaishun, which were Ms. Zhang, Mr. Shan, Jilin Technology Fund (吉林科投) and Jilin Innovative Investment (吉林創投). All dividends declared were fully paid in FY2021. Our historical dividend distribution record may not be used as a reference or basis to determine the level of dividends that may be declared or paid by us in the future. To the extent that profits are distributed as dividends, such portion of profits will not be available to be reinvested in our Group’s operation.

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The declaration, payment and the amount of any dividends, if paid, are subject to the discretion of our Directors and depend on the results of operations, cash flows, financial position, statutory and regulatory restrictions on the payment of dividends by us, future prospects and other factors that we may consider relevant. Subject to the factors described above, we expect that in the future, interim and final dividends will be paid from time and time in an aggregate amount of approximately 30% of profits attributable to the equity holders of our Company. Holders of the Shares will be entitled to receive such dividends pro rata according to the amount paid up or credited as paid up on the Shares. After the [REDACTED], declaration of dividends will be subject to the recommendation of our Board and other factors as described above. Subject to the above, our Board intends to recommend dividends of approximately 30% of our profit and total comprehensive income after tax available for distribution to the Shareholders in a financial year.

[REDACTED] EXPENSES

Our estimated [REDACTED] expenses primarily consist of [REDACTED] as well as legal and professional fees in relation to the [REDACTED]. Assuming an [REDACTED] of HK\$[REDACTED] per Share, being the mid-point of the [REDACTED] range stated in this document, the [REDACTED] expenses to be borne by our Company are estimated to be approximately HK\$[REDACTED] million (representing approximately [REDACTED]% of the total gross [REDACTED] from the [REDACTED]), of which approximately HK\$[REDACTED] million (RMB[REDACTED] million) is directly attributable to the issue of new Shares and is to be accounted for as deduction from equity. The Selling Shareholder will bear the proportionate [REDACTED] which will be approximately HK\$[REDACTED] million. For the remaining amount of approximately HK\$[REDACTED] million (RMB[REDACTED] million), (i) approximately HK\$4.6 million (RMB4.2 million) and HK\$13.5 million (RMB12.2 million) were recognised in our combined statements of profit and loss and other comprehensive income for FY2021 and 9M2022; and (ii) approximately HK\$[REDACTED] million (RMB[REDACTED] million) is expected to be recognised in our combined statements of profit or loss and other comprehensive income for the three months ended 31 December 2022; and (iii) approximately HK\$[REDACTED] million (RMB[REDACTED] million) is expected to be recognised in our combined statements of profit or loss and other comprehensive income for the year-end 31 December 2023. The aforementioned total estimated [REDACTED] expenses (based on the mid-point of the [REDACTED] range stated in this document and assuming that the [REDACTED] is not exercised) in relation to the [REDACTED] includes (i) [REDACTED] expenses (including but not limited to [REDACTED]) of approximately HK\$[REDACTED] million (equivalent to RMB[REDACTED] million); and (ii) non-[REDACTED] expenses of approximately HK\$[REDACTED] million (equivalent to RMB[REDACTED] million), which can be further categorised into (a) fees and expenses of legal advisers and reporting accountants of approximately HK\$[REDACTED] million (equivalent to RMB[REDACTED] million); and (b) other fees and expenses of approximately HK\$[REDACTED] million (equivalent to RMB[REDACTED] million). The estimated [REDACTED] expenses are subject to adjustments based on the actual amount incurred or to be incurred.

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[REDACTED]

For details of our [REDACTED] adjusted combined net tangible assets, please refer to the section headed “[REDACTED] financial information” in Appendix II to this document.

RECENT DEVELOPMENTS AND NO MATERIAL ADVERSE CHANGE

Our Directors confirm that since 30 September 2022, being the date of the latest combined financial information of our Group, and up to the date of this document, there has been no material adverse change in our business model, financial or trading position and prospects of the overall biodegradable plastic products industry. We also confirm that there have been no events since 30 September 2022 which would materially affect the financial information shown in the Accountants’ Report, the text of which is set out in Appendix I to this document.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

As at the Latest Practicable Date, our Directors confirm that there were no circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.