
FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

See the section headed “Business – Strategies” for a detailed description of our future plans.

USE OF PROCEEDS

We estimate the net proceeds from the [REDACTED] which we will receive, assuming an [REDACTED] of HK\$[REDACTED] per [REDACTED], being the mid-point of the [REDACTED] from HK\$[REDACTED] to HK\$[REDACTED] per [REDACTED], and that the [REDACTED] is not exercised, will be approximately HK\$[REDACTED], after deduction of [REDACTED] fees and commissions and other estimated expenses paid and payable by us in relation to the [REDACTED]. We intend to use the net proceeds from the [REDACTED] for the purposes and in the amounts set forth below:

- approximately [REDACTED]%, or HK\$[REDACTED], is expected to be used for our research and development efforts to maintain our technical edge. In particular:
 - (i) approximately [REDACTED]%, or HK\$[REDACTED], will be used for the research and development of new and upgraded products as well as technologies. We plan to offer IoT-enabled vehicles to enhance user convenience and experience. We intend to launch products with new materials and new structural design to improve overall quality and durability of our products while reducing weight. We also plan to optimize and improve technologies currently in use and develop new technologies that will improve consumer convenience and meet evolving market trends. Overall, we plan to develop 45 and 50 new or upgraded product models in 2023 and 2024, respectively;
 - (ii) approximately [REDACTED]%, or HK\$[REDACTED], will be used to recruit additional research and development personnel, including high caliber talents specializing in areas including battery swapping, IoT technologies, intelligent system structuring, software programing, circuit design and structural simulation. We expect to newly recruit approximately 30 research and development personnel in 2023 and 2024 and their expected salary per year per person is expected to range between RMB0.2 million to RMB1.0 million matching the market rate; and
 - (iii) approximately [REDACTED]%, or HK\$[REDACTED], will be used for other research and development costs, such as purchasing and upgrading research and development equipment to enhance our research and development infrastructure and support our research and development personnel. Such equipment may include high-speed electric motorcycle testing machine, high-power motor dynamometer, motor controller power analyzer, intelligent vehicle EMC testing room, electronic circuit laboratory equipment and intelligent data monitoring equipment.

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Our total spending in this connection will depend on, among other things, our business development and revenue growth, in the event that the actual amount of net proceeds available for these plans is insufficient to cover our total spending, the shortfall will be met by our internal resources and/or bank borrowings. For further details, see “Business – Strategies – Further enhance our research and development capabilities to solidify our position in product and technology” and “Continue to attract, train and motivate talented professionals”.

- approximately [REDACTED]%, or HK\$[REDACTED], is expected to be used to strengthen our sales and distribution channels and for branding and marketing activities to raise our brand awareness. In particular:
 - (i) approximately [REDACTED]%, or HK\$[REDACTED], will be used for the expansion of our distributor retail outlets across China. We will continue to optimize our sales and distribution network by implementing tailored strategies for each tier (strategic, key and general). For example, for the strategic tier, such as Jinan and Hangzhou, we plan to attract more high-quality distributors and open larger retail outlets to boost our brand influence. We also plan to enhance our management over our network of distributors in mainland China, mainly through enhancing distributor and retail outlet support and management capacities as well as optimizing our distribution network by closely monitoring the performance of our distributors; For further details, see “Business – Strategies – Further upgrade, expand and optimize the layout of our sales and distribution network”.

In line with our growth strategies to expand and optimize the layout of our sales and distribution network, we plan to further develop 6,000 and 5,000 new retail outlets in 2023 and 2024, respectively. Set forth below is a breakdown of the approximate proportion of new retail outlets expected to be developed by region for the years ended December 31, 2023 and 2024:

Region	Years ended December 31, 2023 and 2024
Eastern China	55%
Central and Southern China	28%
Northern China	8%
Southwestern China	5%
Other regions	4%

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- (ii) approximately [REDACTED]%, or HK\$[REDACTED], will be used for branding and marketing activities. We plan to invest in branding and marketing campaigns such as text and video content marketing on social media platforms and engage internet celebrities to promote our products to their audiences. We expect to sponsor variety shows and dramas to attract consumers, especially those of younger generations; For further details, see “Business – Strategies – Further enhance brand awareness and increase market share in mainland China”.
- (iii) approximately [REDACTED]%, or HK\$[REDACTED], will be used to enhance our online channels and further integrate our offline and online channels, which we believe will enhance the visibility of our brand and products and make our products more accessible to potential consumers. Our plan to achieve such such effects primarily include (i) coordinate with offline retail outlets to establish a private domain e-commerce system to allow offline retail outlets to reach more consumers; (ii) establish a user operation platform which will cover a user rewards points system, value-added services and a community engagement platform; and (iii) establish a standardized and integrated logistic and service system for consumers, comprised of logistics and storage, product delivery and installation and after-sales service, that will be able to cover end consumers nationwide and better serve online consumers. Specifically, we plan to further expand our online sales on e-commerce platforms and explore other emerging online channels such as social media platforms and live streaming platforms. We also plan to develop online systems through which we will be able to direct orders received by our online stores to offline retail outlets, thereby combining the large online traffic with the convenient offline services of retail outlets, and provide more value-added services to online customers. For further details, see “Business – Sales and Distribution – Online Channels”.
- (iv) approximately [REDACTED]%, or HK\$[REDACTED], will be used to expand our sales in international markets, with a focus on the markets in Europe, the U.S. and Southeast Asia, and take advantage of favorable policies globally, including carbon neutral strategies and green mobility policies. To this end, (i) we have formulated detailed expansion plans tailored to different overseas markets based on comprehensive analysis on various aspects including market size, market conditions and regulatory requirements, (ii) we expect to actively seek for cooperative partners in targeted overseas market which shall also advise us on the localization of our products in their respective regional markets. We also intend to develop corporate and institutional customers. For further details, see “Business – Strategies – Steadily expand our business in international markets”.

Our total spending in this connection will depend on, among other things, our business development and revenue growth, in the event that the actual amount of net proceeds available for these plans is insufficient to cover our total spending, the shortfall will be met by our internal resources and/or bank borrowings.

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- approximately [REDACTED]%, or HK\$[REDACTED], is expected to be used to strengthen our production capabilities, mainly involving the construction of new production facilities and upgrading of production equipment and machinery. In particular:
 - (i) approximately [REDACTED]%, or HK\$[REDACTED], will be used for acquisition of land use rights and production infrastructure construction in relation to the construction of a new production facility in an eastern China city with mature supply chains and supporting resources. Among which, [REDACTED]% or HK\$[REDACTED] will be used for land use right acquisition and [REDACTED]% or HK\$[REDACTED] will be used for the construction of production infrastructure. We expect this new production facility to commence operation in 2026 and the production capacity of this new production facility to reach 2.5 million units annually by the end of 2026;
 - (ii) approximately [REDACTED]%, or HK\$[REDACTED], will be used for the capacity expansion plan of our Shandong Plant. Among which (i) [REDACTED]%, or HK\$[REDACTED], will be used for procurement and installation of eight assembly lines with ancillary equipment for vehicle assembly, seven welding lines including three welding robots and ancillary equipment for vehicle frames, nine robotic welding lines for vehicle frames and two motor assembly lines with ancillary equipment by the end of 2024 as part of our three phase production plan for our Shandong Plant. Upon completion of the third phase, which is expected to be by 2026, our Shandong Plant is expected to have twelve production lines and its production capacity is expected to increase to approximately 3.5 million units annually, (ii) [REDACTED]%, or HK\$[REDACTED], will be used for expanding warehouses for turnover of work-in-progress such as vehicle frames and coated plastic parts with an aim to shorten delivery time and reduce production cost of work-in-progress, and (iii) [REDACTED]%, or HK\$[REDACTED], will be used for construction of a new warehouse; and
 - (iii) approximately [REDACTED]%, or HK\$[REDACTED], will be used for the capacity expansion plan of our Guangxi Plant. Among which (i) [REDACTED]%, or HK\$[REDACTED], will be used for construction of a new warehouse adopting three-dimensional racks to increase storage capacity, (ii) [REDACTED]%, or HK\$[REDACTED], will be used for procurement and installation of production machinery and equipment before the end of 2024 to facilitate capacity expansion, including five tire retreading machines, three assembly lines, one automated assembly line, six automatic coil winding machines, one laser cutting machine and other ancillary equipment, and (iii) [REDACTED]%, or HK\$[REDACTED], will be used for expanding warehouses for turnover of work-in-progress such as vehicle frames and coated plastic parts with an aim to shorten delivery time and reduce production cost of work-in-progress.

Our total spending in this connection will depend on, among other things, our business development and revenue growth, in the event that the actual amount of net proceeds available for these plans is insufficient to cover our total spending, the shortfall will be met by our internal resources and/or bank borrowings. For further details, see “Business – Strategies – Further enhance production capacity to support rapid business growth.”

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Our expansion plan is determined based on a number of strategic considerations, including market demands and price for the relevant products, utilization of the existing production facilities, competitive landscape for the target market, estimated development cost, availability and cost of capital resources, our historical results of operations and growth potential as well as our ongoing communications with our customers and consumers. We decided to expand our production capacity in anticipation of our business needs not only to meet the immediate demand in the current year or the coming year but to sustain our business operations in the long-term.

We believe that there will be sufficient demand to support our production expansion plans as well as our distribution network expansion plans based on several reasons including:

- (i) The market size and expected growth of mainland China’s electric two-wheeled vehicles coupled with demands generated from industry consolidation, replacement needs and industry upgrade:

According to Frost & Sullivan, mainly driven by stricter emission reduction policies and the advancement of e-motor and battery technologies, sales of electric two-wheeled vehicles in mainland China are expected to reach 53.9 million in 2027, representing a CAGR of 4.6% from 2023 to 2027. As a well-known brand in the mainland China’s electric two-wheeled vehicle industry that has continuously contributed to industry development, our sales volume increased at a CAGR of 28.4% from 2020 to 2022, far exceeding the industry average of 12.9% of mainland China’s electric two-wheeled vehicle market during the same period, according to Frost & Sullivan. As a result, our market share in terms of total revenue in mainland China increased from 3.8% in 2020 to 4.2% 2022, according to Frost & Sullivan. In view of our track record as well as our competitive strengths, we aim to implement our expansion plans and expect to grow at a target CAGR above the projected growth rate of mainland China’s electric two-wheeled vehicles, according to Frost & Sullivan.

According to Frost & Sullivan, with the promulgation of the New National Standards and other policies, the electric two-wheeled vehicle industry has entered a stage of industry consolidation, where 2,000 electric two-wheeled vehicles manufacturers operated in mainland China at its peak, but only around 100 of the manufacturers as of 2021 could meet the requirements of the New National Standards. The implementation of the New National Standards has and will continue to eliminate unqualified manufacturers, which are expect to create substantial underserved market demand. Manufacturers with robust technological strength, sufficient production capacity and a wide distribution network, such as our Group, are expected to benefit from such industry consolidation process, seize new opportunities and capture market share. In addition, our strong growth in terms of sales volume and revenue during the Track Record Period was primarily driven by the significant increase in the number of our retail outlets within our distribution network at a CAGR of 34.2% from over 5,400 as of December 31, 2020 to over 9,800 as of December 31, 2022. As such, we believe our management has accumulated significant experience in distribution network expansion which will help us further increase market share in existing regions and replicate our success in new geographic regions and thereby capture demands generated under the industry consolidation process.

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According to Frost & Sullivan, the electric two-wheeled vehicle industry enjoyed a transition period characterized by an increase in market demands due to consumers’ replacement needs since the implementation of the New National Standards in 2019 and is expected to enjoy strong replacement needs until 2025. Many cities, such as Wuxi, Tianjin, and Nanning, offered a 5-year transitional period, aiming to avoid unnecessary waste of resources caused by early retirement of electric two-wheeled vehicles that do not meet the requirement of the New National Standards. Going forward, we plan to capture replacement demands with the following measures (i) develop popular models that satisfy the New National Standards and the specific requirements of customers in different regions; (ii) deepen our distribution network, such as increasing retail outlets at local communities where there is more likely to have replacement demand; (iii) further train sales personnel to facilitate and increase sales, (iv) enhance communication with relevant authorities of implementing the New National Standards with an aim to simplify the licensing process for our customers; and (v) further invest in branding and marketing activities to boost our brand image and increase brand visibility.

According to Frost & Sullivan, the implementation of the New National Standards also generated new needs from consumers by promoting standardized production and safe riding. Since the implementation of the New National Standards, there has been increased acceptance among consumers and the public for electric two-wheeled vehicles as a safe, reliable and efficient way of transportation. According to a survey* conducted by Frost & Sullivan in 2021, 80% of the interviewees expressed their interests in electric two-wheeled vehicles if the implementation of the New National Standards improves the life of batteries used by electric two-wheeled vehicles, and 65% of the interviewees expressed their interests in electric two-wheeled vehicles if the implementation of the New National Standards increases the security level of batteries used by electric two-wheeled vehicles. We have a track record of launching new and popular mid-to-high end products such as Model COLA3, FBZ3 (樂騎05), FBQ (卡樂05), MKK-Ji Ying (極影), MODA2, S10, INNO9, the sales volume of which has exceeded 246.6 thousand units in 2022. We plan to leverage our strong research and development capabilities and continue to develop products well accepted by customers and leverage our expanded distribution network as well as marketing and branding activities to extend the reach of such products.

Overall, leveraging our competitive strengths that laid the foundation of our historical strong growth during the Track Record Period and through the implementation of our strategies, including further enhancing our brand awareness, production capacity, research and development capabilities and expanding our sales domestically, we plan to seize the trend of industry consolidation, replacement needs and industry upgrade in mainland China, continue to achieve above-average growth and further capture market share.

* Frost & Sullivan interviewed 1,000 potential consumers of electric two-wheeled vehicles to understand their willingness to purchase electric two-wheeled vehicles after the implementation of the New National Standards.

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(ii) The market size and expected growth of the rest of the world

According to Frost & Sullivan, According to Frost & Sullivan, mainly driven by stricter emission reduction policies and the advancement of e-motor and battery technologies, sales of electric two-wheeled vehicles in the rest of the world is expected to reach 77.2 million in 2027, representing a CAGR of 19.4% from 2023 to 2027. Leveraging our strong production and customization capabilities, and the ideal location of our Guangxi Plant, we believe we are well-positioned to capture the potential market demand in international markets. For details, see “Business – Strategies – Steadily expand our business in international markets.”

We expect the utilization rates of our production plants to increase along with the growth of our business. Other than our Zhejiang Plant which was in its ramp-up period after the establishment of the intelligent factory in April 2022, utilization rates of 88.2% and 85.5% of our Shandong Plant and Guangxi Plant in 2022, respectively, far exceeded the industry average level of 65% according to Frost & Sullivan. In addition, historically, the utilization rates of our production plants during peak seasons were even higher. As our overall utilization rates during the Track Record Period already substantially exceeds the industry average level, if we do not expand our production capacity, we expect to lose the capability and flexibility to meet demand during peak season. Assuming that we continue to grow at a rate substantially in line with our historical growth rates, demand for our products in 2023 is expected to exceed the aggregated maximum production capacity of our production plants of our three production plants as of December 31, 2022. As such, we expect to be able to fulfil customer demand and the needs of our rapid business growth with the expanded production capacity of our production plants.

- approximately [REDACTED]%, or HK\$[REDACTED], is expected to be used for working capital and other general corporate purposes.

RANGE OF NET PROCEEDS

If the [REDACTED] is fixed at HK\$[REDACTED] per [REDACTED] (being the high end of the [REDACTED] stated in this document), we will receive additional net proceeds of approximately HK\$[REDACTED], assuming the [REDACTED] is not exercised. If the [REDACTED] is fixed at HK\$[REDACTED] per [REDACTED] (being the low end of the [REDACTED] stated in this document), the net proceeds we receive will be reduced by approximately HK\$[REDACTED], assuming the [REDACTED] is not exercised. The above allocation of the proceeds will be adjusted on a pro rata basis in the event that the [REDACTED] is fixed at a higher or lower level compared to the midpoint of the estimated [REDACTED].

In the event that the [REDACTED] is exercised in full, the additional net proceeds that we would receive would be HK\$[REDACTED] (assuming an [REDACTED] of HK\$[REDACTED] per Share, being the mid-point of the [REDACTED] stated in this document). Additional net proceeds received due to the exercise of any [REDACTED] will be used for the above purposes accordingly on a pro rata basis if the [REDACTED] is exercised.

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If the net proceeds of the [REDACTED] are not immediately applied to the above purposes and to the extent permitted by applicable law and regulations, we will deposit the net proceeds into short-term interest-bearing accounts at licensed banks and/or other authorized financial institutions as defined under the Securities and Futures Ordinance or relevant PRC laws and regulations, so long as it is deemed to be in the best interests of our Company. In such event, we will comply with the appropriate disclosure requirements under the Listing Rules.

[REDACTED]

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[REDACTED]