FUTURE PLANS

Please refer to the paragraph headed "Business — Our business strategies" in this prospectus for a detailed description of our Group's strategies and future plans.

USE OF PROCEEDS

Assuming the Over-allotment Option is not exercised, we estimate that we will receive net proceeds of approximately HK$147.6 million (equivalent to approximately RMB129.7 million) from the Global Offering, after deducting the underwriting commissions and other estimated expenses payable by us in connection with the Global Offering, assuming an Offer Price of HK$2.56 per Share, being the mid-point of the Offer Price range stated in this prospectus.

We intend to use such net proceeds from the Global Offering for the following purposes:

- approximately 68.8% (equivalent to approximately HK$101.5 million or RMB89.2 million) would be used to extend our production to downstream products, such as tantalum powder and tantalum bars:
    - among which approximately 28.9% (equivalent to approximately HK$42.7 million or RMB37.5 million) would be used on the construction of the new production facilities to produce tantalum powder and tantalum bars;
    - among which approximately 36.0% (equivalent to approximately HK$53.1 million or RMB46.7 million) would be used on acquiring and installing the relevant machinery and equipment to be used to produce tantalum powder and tantalum bars;
    - among which approximately 3.9% (equivalent to approximately HK$5.7 million or RMB5.0 million) would be used for other expenses in connection with the setting up of our new production facilities, including survey and design fee;
- approximately 17.9% (equivalent to approximately HK$26.5 million or RMB23.3 million) would be used to finance the expected cost for purchasing the raw materials, chemicals and utilities needed for five of our upcoming research and development projects, which are expected to commence in 2020, with a term of one to two years. For details of these research and development projects, please refer to the paragraph headed "Business — Our business strategies — Continue to devote resources on research and development projects on new products and innovative production methods";
- approximately 3.5% (equivalent to approximately HK$5.2 million or RMB4.5 million) would be used for strengthening our sales network in Europe and our sourcing channels in Brazil:
    - among which approximately 2.8% (equivalent to approximately HK$4.2 million or RMB3.6 million) would be used for setting up an office in the United Kingdom for strengthening our sales network, developing our relationship with customers and expanding our customer base in Europe and hiring one supervisor and four sales representatives to focus on the European market;

  - among which approximately 0.7% (equivalent to approximately HK$1.0 million or RMB0.9 million) would be used for setting up an office in Brazil to secure stable supplies of raw materials from small and medium size mining companies or suppliers and to hire three employees to liaise with suppliers in Brazil; and

- approximately 9.8% (equivalent to approximately HK$14.4 million or RMB12.7 million) would be used as our working capital and for general corporate purposes.

If the Over-allotment Option is exercised in full, we estimate that the additional net proceeds from the offering of these additional Shares will be approximately HK$26.8 million, after deducting the underwriting commissions and other estimated expenses payable by us in connection with the Global Offering, assuming an Offer Price of HK$2.56 per Share, being the mid-point of the Offer Price range stated in this prospectus. We intend to apply such additional net proceeds to the purposes stated above in the same proportions.

If the Offer Price is set at the high-end or low-end of the indicative Offer Price range, the net proceeds of the Global Offering, assuming the Over-allotment Option is not exercised, will increase by approximately HK$23.0 million or decrease by approximately HK$23.0 million, respectively. In such event, we will increase or decrease the allocation of the net proceeds to the above purposes on a pro-rata basis.

To the extent that the net proceeds from the Global Offering are not immediately applied to the purposes stated above, and to the extent permitted by applicable laws and regulations, we intend to deposit the proceeds into accounts with licenced financial institutions. We will make a formal announcement in the event that there is any change in our use of net proceeds from the purposes stated above or in our allocation of the net proceeds in the proportions stated above.

REASONS FOR LISTING

Our Company is seeking Listing in order to (i) satisfy our genuine funding needs to expand our business; (ii) enhance our corporate profile and assist in reinforcing our market reputation; (iii) provide liquidity in the trading of Shares and enable us to raise funds for future business development more easily; (iv) increase the confidence of our customers and suppliers in our Group's internal control and operating systems; and (v) attract and retain talents.

As stated in our business strategies, we aim to extend our production and sales to downstream products, which will enable us to offer a more comprehensive range of products for our customers, and to further enhance our research and development for new products and innovative production methods. The net proceeds from the Global Offering will strengthen our capital base and provide funding for achieving our business strategies and carrying out our future plans as set out in the paragraph headed "Business — Our business strategies" in this prospectus.

Our Group was established in 2006. According to the CIC Report, we were one of the 15 major market players in the PRC tantalum and niobium metallurgy industry were the largest producer of tantalum- and niobium-based hydrometallurgical products in China for FY2016, FY2017 and FY2018 in terms of total annual production volume for external sales. Our Directors believe that Listing would consolidate our leading position by expediting the implementation of our Group's future plans and strategies, strengthening our Group's financial position and corporate profile, and enabling us to better tackle future challenges.

Satisfy our genuine funding needs in order to expand our business

Business opportunities and growth drivers

The market for the downstream tantalum- and niobium-based metallurgical products is expected to grow. According to the CIC Report, the production volume of tantalum powder in the global market is expected to grow from approximately 1,456.3 tonnes in 2018 to approximately 1,826.2 tonnes in 2023, representing a CAGR of approximately 4.6%, in particular the production volume of metallurgical grade tantalum powder in the global market is expected to grow from approximately 837.1 tonnes in 2018 to approximately 1,126.1 tonnes in 2023, representing a CAGR of approximately 6.1%. The production volume of tantalum powder in the PRC is also expected to grow from approximately 485.5 tonnes in 2018 to approximately 609.1 tonnes in 2023, representing a CAGR of approximately 4.6%. At the same time, according to the CIC Report, the production volume of tantalum bars in the PRC is expected to grow from approximately 221.6 tonnes in 2018 to approximately 337.6 tonnes in 2023, representing a CAGR of approximately 8.8%.

According to the CIC Report, it is an industry trend for market players in tantalum and niobium metallurgy industry to achieve supply chain integration to expand their production and satisfy the demand of their potential customers. As the largest producer of tantalum- and niobium-based hydrometallurgical products in China for FY2016, FY2017 and FY2018 in terms of total annual production volume for external sales, according to the CIC Report, and to capture the expected growth in the market for downstream products, our Directors believe that we could broaden our customer base, capture more business opportunities and increase our market share through extending our production and sales to downstream products.

Our available cash and unutilised banking facilities are only sufficient for maintaining the scale of our existing business operations

Historically, our principal source of funds was cash generated from operating activities and bank borrowings. For FY2017 and 8M2018, we had net cash used in operating activities of approximately RMB19.6 million and RMB54.6 million, respectively, and thus we also needed to rely on our financing activities to generate net cash inflow. For FY2016, FY2017, FY2018 and 8M2018, we recorded net cash generated from financing activities through obtaining new bank borrowings. As at 31 December 2018, we had interest-bearing borrowings of approximately RMB148.1 million with interest rate of 3.0% to 5.4%, compared with approximately RMB102.2 million as at 31 December 2017 with interest rate of 2.1% to 5.9%, to facilitate our business expansion. As at 31 December 2019, we had interest-bearing borrowings of approximately RMB143.3 million with interest rate of 2.5% to 5.4%. As at 31 December 2019, we had banking facilities in the total sum of approximately RMB253.9 million, of which approximately RMB110.6 million was unutilised. Financial institutions would usually require borrowers to provide assets as securities for loans. As at the Latest Practicable Date, all of our self-used land had been or has to be mortgaged to a bank to secure our banking borrowings that were used to finance our expansion in 2017. Therefore, it is unlikely that we would have sufficient assets for providing securities for loans to finance the implementation of our business strategies as set out in the paragraph headed "Business — Our business strategies" in this prospectus. Also, according to the loan agreements of our unutilised banking facilities, such banking facilities are short-term loans or their uses are restricted, and could not be used for implementation of our business strategies as set out in the paragraph headed "Business — Business strategies" in this prospectus. In addition, there are differences between the credit limit and the amount that we could utilise under two of our banking facilities. As at the Latest Practicable Date, for one of our banking facilities with a credit limit of RMB50.0 million, we were only allowed to utilise up to RMB30.0 million and the remaining credit limit of RMB20.0 million could only be utilised after the Listing. At the same time, for another banking facilities with a credit limit of RMB50.0 million, we were only allowed to utilise up to RMB20.0 million and the remaining credit limit could be utilised upon obtaining additional approval from the bank. Given (1) it is unlikely that we would have additional unpledged assets available as securities for additional loans; (2) the usage of our unutilised banking facilities is restricted; and (3) the difference between the credit limit and the amount that we could utilise, our Directors consider that we could not implement our business strategies by solely relying on our available cash and debt financing. At the same time, our Directors are of the view that Listing will be beneficial to our Company and our long term business development, as Listing will not only bring the net proceeds from the Global Offering to fund the implementation of our business strategies, but will enhance our funding capabilities by providing us better access to the capital markets and enabling us to seek banking facilities with more favourable terms. As a result, our Group would be able to obtain more funding under both streams to fuel our long-term needs.

Provide our Group with a sustainable fundraising platform for future business development

During the Track Record Period, our capital structure consisted of debts (being bank borrowings) and equity attributable to our owners (comprising issued share capital and retained profits). Our Directors consider that the net proceeds from the Global Offering can provide us with the necessary additional financial resources, without exposing us to the high gearing ratio which would subject us to the inherent risks of higher interest rate and finance costs. Our Group's financial performance and liquidity may be negatively affected due to principal and interest payments if we proceed to fund our business expansion through debt financing. As at 31 August 2019, our gearing ratio was approximately 15.3%. However, as at the Latest Practicable Date, all of our self-used land had been or has to be mortgaged to a bank to secure our banking borrowings that was used to finance our expansion in 2017, it is unlikely that we would have sufficient assets for providing securities for additional loans until full repayment of such banking facilities.

After Listing, we intend to maintain our current capital structure with a mix of debt and equity financing. In determining the target capital structure after Listing, our Directors are of the view that equity financing is a more appropriate source since funds raised from the issue of equity are a committed source of fund and do not entail a maturity date; while debt financing can allow our Group to obtain the necessary funding for our future expansion on a more timely basis than equity financing. Going forward, we will continuously monitor our capital structure and adjust it when necessary.

Enhance our corporate profile and reinforce our market reputation

We consider our corporate profile and market reputation to be important factors for securing sustainable and reliable suppliers and they help broadening our customer base. A listing status generally shows that our Company is adhering to higher standards of compliance and corporate governance, thus enhancing our corporate image and credibility with the public and potential business partners.

We also believe Listing could attract potential customers and suppliers which are more willing to establish business relationships with listed companies. It may also generate reassurance among our existing customers and suppliers.

Provide liquidity in the trading of Shares and enable us to raise funds for future business development more easily

Listing will provide us a broader shareholder base and a market for the trading of our Shares. It will also allow institutional, professional and other investors in Hong Kong to easily invest in our Company. In addition, our Directors are of the view that Listing will enable our Group to conduct secondary fundraising in the Hong Kong stock market, if necessary, for our further expansion in future. On the contrary, debt financing does not offer such similar advantages.

Our Directors consider that the net proceeds from the Global Offering will also facilitate our future debt financing, if necessary. Our Directors consider that, being a private company without a public listing status, our Company faced difficulties in obtaining debt financing without guarantees or other collateral to be provided by our Controlling Shareholders. As at 31 December 2016, 31 December 2017, 31 December 2018 and 31 August 2019, our Group's shareholders and their related parties had jointly guaranteed certain of our Group's bank borrowings up to approximately RMB515.0 million, RMB612.0 million, RMB575.0 million and RMB487.0 million, respectively. As there will be more stringent financial reporting requirements under the Listing Rules for companies with a public listing status, the banks will be able to evaluate our financial position more effectively, and hence, the approval process for any future borrowings is expected to be smoothened. Thus we may be able to lower our bank financing costs for our long-term needs through Listing. We may enjoy more flexibility in the management of our cash flow as a result of the better access to the banking facilities.

Increase the confidence of our customers and suppliers in our Group

A listed company is generally subject to more stringent compliance requirements as compared to a private company. After Listing, generally we will also increase the transparency in our operations and financial reporting. As such, our Directors consider that a public listing status will increase our customers' and suppliers' confidence in our Group's internal control and operation systems, which may further enhance our business relationship with them.

Attract and retain talents

Our Directors believe that human resources are valuable assets for the long-term growth of our business and consider that experienced and talented personnel may be more willing to work at listed companies. We believe that a listing status would help attract more experienced staff and talented people to join our management team in the future, as well as retaining our existing staff. Our Directors are of the view that a listing status will also improve our existing staff's work morale, thereby improving the quality of our products/research results which is beneficial to our long-term development.