

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

It is our goal to further expand in the collagen sausage casing market in the PRC. While leveraging on our leading position in the collagen sausage casing market in the PRC, we will continue to devote our resources to expanding production capacity and improving our production technologies to achieve production efficiency. In addition, we also plan to purchase new land sites to further expand our operations. In view of the above, our Directors have formulated a series of development plans, a summary of which is set out below:

Increasing the production capacity and improving the production equipment and machinery

Our existing production facilities are currently operating at or near their full capacity. We expect the number of our production lines will increase from 106 (being the number of production lines as at the Latest Practicable Date) to 116 by the end of 2009. In view of the increasing demand for our collagen sausage casing products, we intend to install new production lines at our new production sites, and hire, train and manage additional production personnel to increase our production capacity. The installation of new production lines will commence in the first half of 2010, and is expected to be completed in the second half of 2010. It is planned that 50 new production lines will be installed, which will increase our total production capacity by approximately 40% at the end of 2010, as compared with that at the end of 2009. Using our proprietary technologies, all the production lines will be suitable for producing Western-style sausage casings as well as Chinese-style sausage casings.

We plan to install new equipment and machinery to fulfil more diversified requirements of our customers. Our Directors believe that the continuous investments in production facilities and technology at the new production site at Wuzhou Industrial Park (梧州市工業園區) and other places will be instrumental to our business growth in the years to come.

To achieve the above plans, we plan to deploy approximately RMB198.8 million and RMB438.5 million in 2009 and 2010, respectively.

Purchasing of new land site

To address the rising demand for our products, strengthen our competitive edges and achieve economies of scales, we intend to purchase new land sites in Wuzhou for the expansion of our production capacity. On 15 April 2009, Wuzhou Shenguan entered into a project investment agreement with The People's Government of Wanxiu District of Wuzhou (梧州市萬秀區人民政府), pursuant to which Wuzhou Shenguan agreed to establish a project company (Shensheng Jiaoyuan) for the proposed investment, construction and operation of a new project of a site area of approximately 556 mu located at Wanxiu Sifuchong, Chengdong Town, Wanxiu District, Wuzhou (梧州市萬秀區城東鎮思扶沖) with a total investment of RMB380 million. As at the Latest Practicable Date, our Group has not entered into any formal sale and purchase agreement in respect of the proposed acquisition of the land use rights of the new land site. We plan to deploy approximately RMB48 million and RMB30 million in 2009 and 2010, respectively, on land acquisition and will make proper disclosure and/or obtain proper approval in compliance with the Listing Rules whenever the relevant opportunity arises.

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Developing research and development capabilities and new products

We will continue to devote resources to our research and development capabilities and to develop our comprehensive range of collagen sausage casing products. In order to capitalize on our leadership in collagen casing production technologies, we plan to continuously launch new products with specific features and advantages into the market, which may include new types of Western-style collagen sausage casings, including sausage casings used for sausages to be sold to the Middle-East countries.

Repayment of bank loans and shareholders' loans

Our Group had the following outstanding bank loans and amounts due to the then shareholders of our subsidiaries which we intend to settle by using part of the proceeds from the Global Offering:

- (i) a long-term secured bank loan of our Group with an outstanding principal amount of RMB13,000,000 as at 31 August 2009 bearing interest at a basis rate set by the People's Bank of China plus 10% per annum. The long-term secured bank loan, which is used to finance our Group's construction of new production lines, is due in February 2010;
- (ii) five short-term unsecured bank loans of our Group with an aggregate outstanding principal amount of RMB120,000,000 as at 31 August 2009 bearing interest rates ranging from approximately 4.78% to 5.31% per annum. The short-term loans were incurred within one year prior to the Listing Date are used to finance our Group's general working capital. Two loans are due in March 2010 and three loans are due in April 2010; and
- (iii) amount due to Hong Kong Shenguan, C.T. Company and Exceltech, in a total outstanding principal amount of approximately HK\$18.8 million as at the Latest Practicable Date, which is unsecured, interest-free and repayable on demand.

In order to reduce our gearing ratio and to improve our financial position, we intend to apply part of the proceeds from the Global Offering to repay part of our outstanding bank loans and the amount due to the then shareholders of our subsidiaries as stated above. The reason for using part of the proceeds from the Global Offering to repay the above shareholders' loan is to reduce interest costs, although we are able to replace all our outstanding shareholders' loans with bank loans before the Listing. We shall make an irrevocable instruction to the Underwriters to apply part of the proceeds from the Global Offering to repay the amount due to the then shareholders of our subsidiaries as stated above.

To achieve our goal, we plan to leverage our commercial strengths and adopt our strategies as set out in the section headed "Business" in this prospectus.

USE OF PROCEEDS

We estimate that we will receive net proceeds from the Global Offering of approximately HK\$773 million (assuming an Offer Price of HK\$2.10 per Share, being the low end of the indicative Offer Price range) to HK\$1,147 million (assuming an Offer Price of HK\$3.10 per Share, being the high end of the indicative Offer Price range), after deducting the underwriting commission and estimated expenses payable by us for the Global Offering and assuming that the Over-allotment Option is not exercised.

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Assuming the Over-allotment Option is not exercised and assuming an Offer Price of HK\$2.60 per Share, being the midpoint of the indicative Offer Price range of HK\$2.10 to HK\$3.10 per Offer Share, the net proceeds of the Global Offering would be approximately HK\$966.4 million, which we presently intend to use as follows:

- (i) approximately HK\$586.7 million for the development and expansion of our production facilities in Wuzhou, which will include approximately HK\$146.7 million for the construction of new production facilities; and approximately HK\$440.0 million for the purchase of machines and equipment;
- (ii) approximately HK\$34.1 million for the expansion of our research and development capabilities and development of new products;
- (iii) approximately HK\$79.6 million for the acquisition of new land sites;
- (iv) approximately HK\$151.2 million for the repayment of bank loans;
- (v) approximately HK\$18.2 million will be used for the repayment of the outstanding amount due to Hong Kong Shenguan, C.T. Company and Exceltech; and
- (vi) the remaining approximately HK\$96.6 million towards working capital purposes.

In the event that the Offer Price is set at HK\$2.10 or HK\$3.10 or at any price in between, we will apply the net proceeds to items (iv), (v) and (vi) as shown above and to items (i), (ii) and (iii) on a pro rata basis.

The additional net proceeds that we would receive if the Over-allotment Option were exercised in full would be approximately HK\$150.5 million (assuming the midpoint of the indicative Offer Price range of HK\$2.60 per Offer Share). The additional net proceeds to be received from the exercise of the Over-allotment Option will be applied pro rata for items (i), (ii) and (iii) above, but will not be applied for items (iv), (v) and (vi). As advised by C&F, we are not subject to a notice issued jointly by the MOFCOM and the SAFE in May 2007 and a notice issued by the SAFE on 10 July 2007, which restrict the remittance of the proceeds from the Global Offering into the PRC but are only applicable to foreign invested real estate enterprises.

Any deficiency in funding for the above-mentioned projects will be financed by internal funds and/or bank borrowings. To the extent that the net proceeds of the Global Offering are not immediately used for the purposes described above, they will be placed on deposit with banks or other financial institutions.