
FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS AND PROSPECTS

Our Group aims to become one of the top ten manufacturers of chicken meat products in the PRC. In order to achieve this objective, our Group intends to implement the following plans:

Increase our production capacity

As at the Latest Practicable Date, our Group had one slaughtering and processing facility in the PRC. To meet the increasing market demand, our Group is planning to construct a new slaughtering and processing plant in Longyan adjacent to the existing one. The new slaughtering and processing plant is expected to have a production capacity of approximately 36,000,000 broilers per year.

Our Group is now in the course of preparing for the application of all the necessary approvals and permits. Our Group has already obtained the land use rights of a parcel of land adjacent to our existing production base where our new slaughtering and processing plant will be erected (the “Land”). Save for the aforesaid, we have no other major milestones achieved as far as the new slaughtering and processing plant is concerned.

The new slaughtering and processing plant is expected to be completed by the end of 2011 and the estimated total acquisition and construction cost is approximately RMB250.67 million, which will be financed from internal resources of our Group and debt financing. Given that the cost of the Land in the sum of RMB60 million has already been fully paid and our Group has cash and bank balances of approximately RMB151.70 million as at 30 June 2010, it is our current intention that approximately 60% of the total construction cost (i.e. equivalent to approximately RMB150.4 million) will be financed through project financing from bank(s) or financial institution(s) and the remaining balance of RMB40.27 million will be financed by internal resources of our Group. However, no commitment has been obtained from any bank(s) or financial institution(s) so far, since the approval of such project financing by the bank(s) or financial institution(s) will be subject to our receipt of all the necessary governmental approvals and permits.

We believe that the investments in the construction of another slaughtering and processing plant will enable us to capture more market opportunities and achieve economies of scale.

In order to utilize the increased production capacity of our new slaughtering and processing facilities, we will also have to establish new breeders farms, hatching facilities and broiler breeding farms. Our Group plans to construct 10 new breeder farms, 1 new hatching facility and 10 new broiler breeding farms. The construction of the new hatching facility and the 3 new breeder farms is expected to be completed within the first half of 2011, whilst 5 new broiler breeding farms are expected to be completed by the end of 2011, and the remaining 7 new breeder farms and 5 new broiler breeding farms are expected to be completed by end of 2012. The estimated costs of establishing such new breeders farms, hatching facilities and broiler breeding farms are approximately RMB98 million, RMB17 million and RMB140 million respectively, which will be financed as to RMB227.04 million, assuming that the Over-allotment Option is not exercised and based on the Offer Price of

FUTURE PLANS AND USE OF PROCEEDS

HK\$0.70 per share (being the mid-point of the stated range of the Offer Price of between HK\$0.60 per share and HK\$0.80 per Share) from the proceeds from the Share Offer and as to RMB27.96 million from the internal resources of our Group and debt financing.

The new hatching facility is expected to have a hatching capacity of approximately 38.9 million chicken breeds per year. The 10 new broiler breeding farms are expected to take in 5.5 batches of broilers per year, each batch consisting of approximately 200,000 broilers. The total breeding capacity of 10 new broiler breeding farms is expected to reach approximately 10,000,000 broilers per year, taking into account the number of dead broilers and those broilers with unsatisfactory quality. The 10 new breeder farms are expected to breed approximately 405,000 sets of breeders per year, laying approximately 45,700,000 broiler eggs per year.

The table below sets out our total production capacities before and after the construction of new facilities, the sources of fund for the construction of the new facilities and other relevant information:

Existing facilities	Production capacity of existing facilities per year (approximate)	Utilization rate as at 30 June 2010	New facilities	Total production capacity per year after expansion (including existing facilities) (approximate)	Expected completion date	Estimated capital expenditure (RMB million) (approximate)	Sources of fund (approximate)
1 slaughtering and processing plant	18,000,000 broilers	93.4%	1 new slaughtering and processing plant	54,000,000 broilers	End of 2011	250.67	Internal resources and debt financing
3 breeder farms	210,000 sets <i>(Note)</i>	80.3%	10 new breeder farms	615,000 sets	First half of 2011 (3 breeder farms) By 2012 (7 breeder farms)	98	Proceeds from the Share Offer
1 hatching facility	20,000,000 chicken breeds	91.2%	1 new hatching facility	58,900,000 chicken breeds	First half of 2011	17	Proceeds from the Share Offer
5 broiler breeding farms	5,500,000 broilers	100%	10 new broiler breeding farms	15,500,000 broilers	End of 2011 (5 broiler breeding farms) End of 2012 (5 broiler breeding farms)	140	Proceeds from the Share Offer (as to RMB112 million); Internal resources and debt financing (as to RMB28 million)

FUTURE PLANS AND USE OF PROCEEDS

Note:

Each female breeder that has been matched with a male breeder for fertilization constitutes one set of breeders. Hence, the number of female breeders is equal to the number of the sets of breeders. For the year ended 31 December 2009, the overall proportion of male breeders and female breeders was approximately 1:8.67.

Enhance the quality of our products and increase our product varieties

We plan to adjust and improve the technologies and technical know-how of our existing production facilities in order to fully utilize our production capacity and improve the quality of our products.

During the Track Record Period, most of our products are frozen chicken meat products. In order to increase the varieties of our chicken meat products, we plan to enhance our capability in making seasoned chicken meat products, which requires certain technical know-how, by introducing new equipment and ingredients for the production of seasoned chicken meat products. The revenue derived from the sales of such seasoned chicken meat products represents an insignificant portion of our total revenue and is included in the revenue of our chicken meat products. By doing so, we believe that we will be able to attract other potential customers who/which demand for seasoned chicken meat products to purchase such products from us, which will in turn increase our market coverage.

REASONS FOR THE SHARE OFFER AND USE OF PROCEEDS

The net proceeds from the Share Offer will strengthen our capital base and will provide funding for achieving our business strategy and carrying out its future plans as set out in this section.

Assuming that the Over-allotment Option is not exercised and based on the Offer Price of HK\$0.70 per Offer Share (being the mid-point of the stated range of the Offer Price of between HK\$0.60 per Offer Share and HK\$0.80 per Offer Share), the net proceeds of the Share Offer, after deducting related expenses payable by us, are estimated to be approximately HK\$258 million (equivalent to approximately RMB227.04 million). The Directors presently intend to apply such net proceeds of the Share Offer as follows:

- as to approximately HK\$111.36 million (equivalent to approximately RMB98.00 million) will be used to finance the costs of establishing our new breeders farms;
- as to approximately HK\$19.32 million (equivalent to approximately RMB17.00 million) will be used to finance the costs of establishing our new hatching facilities; and
- as to the balance of approximately HK\$127.32 million (equivalent to approximately RMB112.04 million) will be used to finance the costs of establishing our new broiler breeding farms.

FUTURE PLANS AND USE OF PROCEEDS

In the event that the Offer Price is set at HK\$0.80 per Offer Share, being the high-end of the proposed Offer Price range, our Company will receive additional net proceeds of the Share Offer of approximately HK\$39.00 million (equivalent to approximately RMB34.32 million) when compared to the net proceeds receivable by our Company with the Offer Price being determined at the mid-point of the range as stated in this prospectus, RMB27.96 million of which will be used to finance the cost of establishing our new broiler breeding farms and the remaining sum of RMB6.36 million will be used as working capital of the Group.

In the event that the Offer Price is set at HK\$0.60 per Offer Share, being the low-end of the proposed Offer Price range, the net proceeds of the Share Offer will be decreased by approximately HK\$39.00 million (equivalent to approximately RMB34.32 million) when compared to the net proceeds receivable by our Company with the Offer Price being determined at the mid-point of the range as stated in this prospectus. Under such circumstances, our Company intends to reduce its allocation of the net proceeds to finance the cost of establishing our new broiler breeding farms.

In the event that the Over-allotment Option is exercised in full, and assuming an Offer Price of HK\$0.80 per Offer Share (being the high-end of proposed Offer Price range), the Group will receive additional net proceeds of approximately HK\$46.80 million (equivalent to approximately RMB41.18 million), RMB27.96 million of which will be allocated to finance the cost of establishing our new broiler breeding farms and the remaining sum of RMB13.22 million will be used as working capital of the Group.

In the event that the Over-allotment Option is exercised in full, and assuming an Offer Price of HK\$0.70 per Offer Share (being the mid-point of the stated Offer Price range between HK\$0.60 per Offer Share and HK\$0.80 per Offer Share), the Group will receive additional net proceeds of approximately HK\$40.95 million (equivalent to approximately RMB36.04 million), RMB27.96 million of which will be allocated to finance the cost of establishing our new broiler breeding farms and the remaining sum of RMB8.08 million will be used as working capital of the Group.

In the event that the Over-allotment Option is exercised in full, and assuming an Offer Price of HK\$0.60 per Offer Share (being the low-end of proposed Offer Price range), the Group will receive additional net proceeds of approximately HK\$35.10 million (equivalent to approximately RMB30.89 million), RMB27.96 million of which will be allocated to finance the cost of establishing our new broiler breeding farms and the remaining sum of RMB2.93 million will be used as working capital of the Group.

To the extent that the net proceeds of the Share Offer and the issue of new Shares under the Over-allotment Option are not immediately applied for the above purposes, it is the present intention of the Directors that such net proceeds will be placed on short-term deposits with financial institutions.

The Directors consider that the net proceeds from the Share Offer, together with internally generated funds and the banking facilities available to our Group, will be sufficient to finance the future business development of our Group as described in this prospectus.