

## FUTURE PLANS AND USE OF PROCEEDS

### FUTURE PLANS

See “Business — Business Strategies” for a detailed description of our future plans.

### USE OF PROCEEDS

Assuming an Offer Price of HK\$4.21 per H Share (being the mid-point of the stated range of the Offer Price of between HK\$3.33 and HK\$5.10 per H Share), we estimate that we will receive net proceeds of approximately HK\$1,395.1 million from the Global Offering after deducting the underwriting commissions and other estimated expenses in connection with the Global Offering payable by the Company. We intend to use the net proceeds from the Global Offering for the following purposes and in the amounts set out below, subject to changes in light of our evolving business needs and changing market conditions:

- approximately 45.0%, or HK\$627.8 million, will be invested in the expansion of our breeding and production capacities of white-feathered broilers through the procurement of facilities necessary for the broiler farms with battery cage systems, slaughtering and processing plant, breeder farms, hatchery, feedmill and organic fertiliser plant. Upon completion of the above expansion of production capacities, we expect that the designed annual production capacity of our production facilities will realise an increase of approximately 63.6% as compared with our production capacity as at 31 December 2019;
- approximately 42.5%, or HK\$592.9 million, will be used to repay existing borrowings. The Group will apply this part of the net proceeds to form part of the settlement to repay, (a) first, loans that will fall due shortly after the Listing Date in the approximate amount of HK\$533.1 million (or RMB486.0 million), and (b) second, settle a finance lease that has a higher interest rate of 6.65% per annum in the approximate amount of HK\$116.7 million (or RMB106.4 million);

**Outstanding amount of the abovementioned loans  
as at 30 April 2020**

	Interest rate	Maturity period	Use of loan facilities
<b>Bank loans guaranteed by connected persons</b>			
RMB286.0 million .....	4.35% to 5.10%	July 2020 to January 2021	To finance the Group's daily operations
<b>Other bank loans</b>			
RMB200.0 million .....	4.96%	September 2020 to November 2020	To finance the Group's daily operations, including raw materials procurement
<b>Finance lease on production equipment, which is guaranteed by connected persons</b>			
RMB106.4 million .....	6.65%	November 2021 to December 2022	To purchase production equipment

- approximately 10.0%, or HK\$139.5 million, will be invested in the brand development and penetration of our existing B2C processed chicken meat products sales channels (both online and offline) through targeted sales and marketing campaigns, in particular:
  - approximately HK\$85.1 million, representing approximately 6.1% of the net proceeds from the Global Offering, will be used to engage sport athletes to

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participate in the Group's promotion activities through the Training Department of the General Administration of Sport of China (國家體育總局訓練局) and to engage celebrities and promoting our products and increase our brand awareness through sponsoring different activities, advertising on the TV, shopping malls, building exterior and/or cooperating with our brands for marketing activities.;

- approximately HK\$26.5 million, representing approximately 1.9% of the net proceeds from the Global Offering, will be used to cooperate with the operators of our sales channels to organise marketing activities such as free tasting and collaborating with key opinion leaders to promote our sales channels; and
- approximately HK\$27.9 million, representing approximately 2.0% of the net proceeds from the Global Offering, will be used to place advertisement on social media platforms and third party websites to increase our brand awareness.

See “Business — Business Strategies — Continue to expand our sales and distribution network and tap into new markets” and “Business — Sales and Marketing” for further details; and

- approximately 2.5%, or HK\$34.9 million, will be invested in strengthening our research and development capabilities to (i) diversify our product portfolio of processed chicken meat products and ready-to-eat chicken meat products to capture more business opportunities both domestically and overseas; and (ii) to improve our expertise and technical knowhow in relation to our product quality, production techniques and efficiency to strengthen our competitiveness in the market. See “Business — Research and Development” and “Business — Business Strategies — Strengthen our research and development capacities to diversify our product portfolio and to improve our expertise and technical knowhow”.

In the event that the Offer Price is set at HK\$3.33 per H Share (being the bottom end of the indicative Offer Price range), the estimated net proceeds we will receive will be reduced by approximately HK\$304.6 million, assuming the Over-allotment Option is not exercised. In the event that the Offer Price is set at HK\$5.10 per H Share (being the top end of the indicative Offer Price range), the estimated net proceeds we will receive will be increased by approximately HK\$308.0 million, assuming the Over-allotment Option is not exercised. In such event, we will increase or decrease the allocation of the net proceeds to the above purposes on a pro-rata basis and we will consider internal resources or external financing for the relevant purposes in the case net proceeds allocated are not sufficient for the specific purpose.

In the event that the Over-allotment Option is exercised in full, we estimate that we will receive higher total net proceeds ranging from approximately HK\$1,263.4 million (assuming an Offer Price of HK\$3.33, being the bottom end of the proposed Offer Price range) to HK\$1,967.9 million (assuming an Offer Price of HK\$5.10, being the top end of the proposed Offer Price range), after deducting the underwriting commissions and other estimated offering expenses payable by us and assuming the same initial public Offer Price as stated above. We intend to apply the additional net proceeds to the above uses on a pro rata basis.

To the extent that the net proceeds are not immediately applied to the above purposes and to the extent permitted by applicable law and regulations, we intend to deposit the net proceeds into short-term demand deposits and/or money market instruments with licenced banks or financial institutions in Hong Kong or in the PRC (including GMK Finance). We will make an appropriate announcement if there is any change to the above proposed use of proceeds.

**REASONS FOR THE LISTING**

The Directors believe that the Listing is beneficial to the Company and its Shareholders as a whole for the following reasons:

- The Listing would provide a fund-raising platform for the Company, enabling us to raise the capital required to finance our future growth and expansion without reliance on financial support from the Controlling Shareholders to do so. Such platform would allow the Company to gain direct access to the capital market for equity and/or debt financing to fund its existing operations and future expansions, which could be instrumental to the expansion and improving our operating and financial performance for maximum Shareholder return.
- The Directors are of the view that the Listing will further enhance our business profile and thus ability to attract new customers, business partners and strategic investors as well as to recruit, motivate and retain key management personnel for the Group's business.
- The Directors believe that the Listing would enhance market reputation and brand awareness of the Group. The Directors believe that having a listing status is complimentary advertising for the Group to potential investors and customers and can enhance its corporate profile and credibility with the public and potential business partners.
- For the four years ended 31 December 2016, 2017, 2018 and 2019, the Group had (i) an interest coverage ratio of approximately 2.7 times, 1.5 times, 2.4 times and 10.4 times, respectively; (ii) a net debt to equity ratio of approximately 89.9%, 117.0%, 87.0% and 35.7%, respectively; and (iii) a gearing ratio of approximately 111.0%, 127.9%, 104.2% and 60.4%, respectively, which the Directors believe limits the ability of the Group to obtain additional debt financing to fund its future expansion plans. In addition, as at 31 December 2019, the Company had a net current liabilities position of approximately RMB118.2 million.
- The Directors believe that Listing would provide the Company with access to equity funding by means of issuance of new H Shares. Despite the cost of equity funding by way of the Global Offering after taking into account the listing expenses might not be lower than debt financing, the Directors consider that the net proceeds from Listing would immediately improve our liquidity position, which allows us to (i) reduce our interest expenses by repaying some of our loans, which as at the Latest Practicable Date had interest rates ranging from 2.70% to 6.65%; (ii) immediately improve our net debt to equity ratio, which may allow us to obtain bank loans on more favourable terms that are currently available to the Group; (iii) increase our production capacity without incurring additional loans and interest expenses, thus improving the profitability of the Group quicker to expand in the competitive market that the Group operates in; and (iv) maintain a lower level of gearing ratio as compared to the gearing ratio of approximately 60.4% as at 31 December 2019.
- The Listing would diversify the risk of ownership among a larger group of shareholders which is important as the Group continues to expand our business. The Controlling Shareholders are not selling any Shares as part of the Global Offering and intend to enjoy the growth of the Group alongside our investors in the long run.