

## FUTURE PLANS AND USE OF PROCEEDS

### Future plans

With a view to maintaining its leading position as a HSS cutting tools manufacturer and the HSS manufacturer in China, the Group will adopt a strategy along the following lines:

*1. Upgrading existing production facilities and products offering to enhance margin*

The Group has designated part of the proceeds from the Global Offering for use in acquiring or upgrading production facilities. Upon Listing, the Company intends to upgrade its existing HSS production facilities such that the Company could achieve a higher capacity of up to 50,000 tonnes per year. Details regarding use of proceeds are set out in the paragraph headed “Use of proceeds” below. Such move will allow the Group to produce more complex varieties of HSS and HSS cutting tools, which have higher profit margin than less complex HSS cutting tools.

*2. Further penetrating and developing the die steel and other high alloy steel markets*

In anticipation of a strong domestic demand for the die steel and other high alloy steel markets, particularly, in the downstream automotive, machinery and 3C industries, the Group will ramp up its production capability and equip itself with appropriate facilities for expanding into die steel and other HSS and die steel market.

### Use of proceeds

The Directors believe that the net proceeds of the Global Offering will finance the Group’s capital expenditures and business expansion, strengthen the Group’s capital base and improve its financial position.

The net proceeds of the Global Offering to be received by the Group (excluding proceeds from the sale of the Sale Shares offered by the Selling Shareholders) after the deduction of underwriting commission and estimated expenses payable by the Group, and assuming an Offer Price of HK\$5.88 per Share (being the mid-point of the stated range of the Offer Price of between HK\$5.40 and HK\$6.36 per Share) and that the Over-allotment Option is not exercised in whole or in part, are estimated to amount to approximately HK\$528.6 million (approximately RMB515.1 million). To effect the Group’s future plans, the Group intends to apply the net proceeds as follows:

1. approximately HK\$350.0 million (approximately RMB341.0 million) for the purchase, installation and implementation of various production equipment to produce HSS cutting tools and die steel products of larger specification and higher grade. These include:
  - large 1,300-tonne precision forging machines which are capable of enhancing production yield rate and achieving higher efficiency and quality consistency;
  - 850 Model rolling machines which are capable of producing larger diameter metal rods and can therefore expand production capacity and reduce overall production costs; and
  - 6-axle automatically numeric controlled cutting tool production equipment (六軸數控全自動成型設備)

This additional production equipment is intended to be housed on existing premises.

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2. approximately HK\$150.0 million (approximately RMB146.2 million) for repayment of a portion of the Group's bank loans, the details of which are set out below:

Name of Bank	Drawdown Date	Maturity Date	Loaned Principal Amount	Principal Amount*	Amount to be repaid*	Outstanding principal*	Interest rate	Loan purpose
			'000	HK\$'000	HK\$'000	HK\$'000		
China Construction Bank	9 May 2006 6 June 2006	8 May 2008 5 June 2008	RMB35,000 RMB40,000	35,920 41,051	35,920 41,051	— —	6.03% 6.03%	working capital working capital
Industrial and Commercial Bank of China	20 March 2007	10 March 2009	RMB150,000	153,941	8,029	145,912	6.57%	working capital
BNP Paribas, Hong Kong Branch	15 March 2007	14 March 2008	US\$10,000	78,184	65,000	13,184	LIBOR+1%	bridging loan for acquisition of TG Aihe
Total				<u>309,096</u>	<u>150,000</u>	<u>159,096</u>		

\* using the exchange rates of HK\$1 = RMB0.9744 and US\$1 = HK\$7.8184 for illustration purpose only

3. the remaining balance of approximately HK\$28.6 million (approximately RMB27.9 million) as the Group's general working capital.

In the event that the Offer Price is set at the high-end of the proposed Offer Price range, the Company will receive additional net proceeds of approximately HK\$46.3 million (approximately RMB45.1 million) when compared to the net proceeds for the Company with the Offer Price being determined at the mid-point of the stated range, which will be allocated for the settlement of the Industrial and Commercial Bank of China bank loan.

In the event that the Offer Price is set at the low-end of the proposed Offer Price range, the net proceeds of the Global Offering will decrease by approximately HK\$46.3 million (approximately RMB45.1 million) when compared to the net proceeds received by the Company with the Offer Price being determined at the mid-point of the stated range. Under such circumstances, the Company intends to reduce its repayment of the Industrial and Commercial Bank of China bank loan by approximately HK\$8.0 million (approximately RMB7.8 million) and the China Construction Bank bank loan that matures on 5 June 2008 by HK\$38.3 million (approximately RMB37.3 million).

In the event that the Over-allotment Option is exercised in full and taking into account the effect of the Over-allotment Option only, assuming an offer price of HK\$5.88 per Share (being the mid-point of the proposed Offer Price range), the Company will receive additional net proceeds of approximately HK\$110.6 million (RMB107.8 million); assuming an Offer Price of HK\$6.36 (being the highest point of the proposed offer price range), the Company will receive additional net proceeds of approximately HK\$119.7 million (approximately RMB116.6 million); assuming an Offer Price of HK\$5.40 per Share (being the lowest point of the proposed Offer Price range), the Company will receive additional net proceeds of approximately HK\$101.6 million (approximately RMB99.0 million). In all these cases (being the mid-point, highest point and the lowest point of the proposed Offer Price range), the additional net proceeds will be used for the repayment of the outstanding Industrial and Commercial Bank of China bank loan. The remaining portion, if any, will be used for working capital requirements and general corporate purposes.

To the extent that the net proceeds of the Global Offering (excluding the International Placing in relation to the Sale Shares) are not immediately required for the above purposes and assuming that the Over-allotment Option is not exercised, the Directors intend to place such proceeds on short-term deposits with licensed banks or financial institutions in Hong Kong.

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The net proceeds from the sale of the Sale Shares by the Selling Shareholders in the Global Offering after deducting the related expenses, and assuming an Offer Price of HK\$5.88 per Offer Share (being the mid-point of the stated range of the Offer Price of between HK\$5.40 and HK\$6.36 per Offer Share) are estimated to amount to approximately HK\$158.6 million (approximately RMB154.5 million). The Company will not receive any proceeds from the sale of the Sale Shares by the Selling Shareholders in the Global Offering. All of the net proceeds from the sale of the Sale Shares by the Selling Shareholders in the Global Offering will be for the account of the Selling Shareholders.