

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

Please refer to the paragraph headed “Our strategies” in the section headed “Business” in this prospectus for a detailed description of our future plans.

PROPOSED USE OF NET PROCEEDS FROM THE NEW ISSUE

Our Directors intend to apply the net proceeds from the New Issue to finance our capital expenditure and business expansion, strengthen our capital base and improve our overall financial position. Assuming that the Over-allotment Option is not exercised and based on the Offer Price of HK\$5.33 per Offer Share (being the mid-point of the indicative Offer Price range between HK\$4.50 and HK\$6.15 per Offer Share), the net proceeds from the New Issue, after deduction of underwriting commission and estimated expenses payable by the Company, are estimated to be approximately HK\$1,246.6 million. Our Directors currently intend to apply such net proceeds from the New Issue as follows:

- as to approximately HK\$872.6 million (equivalent to approximately RMB765.5 million) or approximately 70% of the net proceeds from the New Issue, for the planned establishment of a new production base in Lianyungang, Jiangsu Province, the PRC in addition to our existing production facilities as disclosed under the paragraph headed “Production facilities” in the section headed “Business” in this prospectus, with a view to capturing business opportunities in Yangtze delta area, of which as to approximately HK\$262.0 million (equivalent to approximately RMB229.8 million) or 21% is expected to be used for the purchase of a parcel of land required, as to approximately HK\$87.3 million (equivalent to approximately RMB76.6 million) or 7% is expected to be used for the construction of the building structures to house the production facilities and as to approximately HK\$436.0 million (equivalent to approximately RMB382.5 million) or 35% is expected to be used for the purchase of the production equipment and machinery which includes a new JCOE production line to be used for the manufacture of LSAW steel pipes with an annual production capacity of approximately 300,000 tonnes of LSAW steel pipes and an ancillary steel plate processing line to provide the requisite processing service of steel plates for, among others, our production of steel pipes; and as to the remaining of approximately HK\$87.3 million (equivalent to approximately RMB76.6 million) or 7% for the acquisition of other ancillary production facilities such as a casing pipe production line for the above-mentioned new production base in Lianyungang, Jiangsu Province, the PRC;
- as to approximately HK\$124.7 million (equivalent to approximately RMB109.4 million) or approximately 10% of the net proceeds from the New Issue, among which 9.5% for the establishment of one new production line for LSAW steel pipes in relation to the formation of a joint venture at a strategic overseas location (no specific conclusion or legally binding conclusion was made as at the Latest Practicable Date), and the modification and technical enhancement of an ancillary production line in Panyu, Guangdong Province, the PRC into a completed LSAW steel pipes production line, the planned annual production capacity of each production line being 300,000 tonnes; and as to the remaining for the potential partnership with and potential acquisition of other steel pipes manufacturers and/or other complementary production facilities (no target had yet been identified as at the Latest Practicable Date);
- as to approximately HK\$62.3 million (equivalent to approximately RMB54.7 million) or approximately 5% of the net proceeds from the New Issue, for the repayment of certain bank loans, the details of which are set out below:

Name of bank	Drawdown date	Maturity date	Total principal amount RMB'000	Total amount to be repaid RMB'000	Total remaining balance RMB'000	Interest rate	Loan purpose
Industrial and Commercial Bank of China (Panyu Branch)	15 May 2009 to 26 October 2009	26 April 2010 to 18 May 2010	67,500	54,700	12,800	4.86% to 5.31%	Purchase of raw materials

FUTURE PLANS AND USE OF PROCEEDS

- as to approximately HK\$24.9 million (equivalent to approximately RMB21.8 million) or approximately 2% of the net proceeds from the New Issue, for the expansion of our overseas distribution network, such as applying approximately RMB17.0 million and RMB4.8 million respectively for the establishment of new marketing team and recruitment of sales and marketing personnel from overseas;
- as to approximately HK\$37.4 million (equivalent to approximately RMB32.8 million) or approximately 3% of the net proceeds from the New Issue, for the enhancement of our research and development capability, such as recruitment of additional research and development personnel and dedicate more resources to in-house training; and
- the remaining proceeds will be used as our general working capital.

We will not receive any of the proceeds from the sale of Sale Shares by the Selling Shareholder. Assuming an Offer Price of HK\$5.33 per Offer Share (being the mid-point of the indicative Offer Price range between HK\$4.50 to HK\$6.15 per Offer Share, and assuming that the Over-allotment Option is not exercised), the Selling Shareholder will receive approximately HK\$254.9 million after deduction of underwriting commission and estimated expenses payable by the Selling Shareholder.

In the event that the Over-allotment Option is exercised in full and the Offer Price is finally determined at the highest end of the indicative Offer Price range between HK\$4.50 to HK\$6.15 per Offer Share, the net proceeds of the New Issue will increase by approximately HK\$467.4 million to approximately HK\$1,714.0 million. Our Directors intend to apply such additional net proceeds for the above usages in the proportions as referred to above.

In the event that the Over-allotment Option is exercised in full and the Offer Price is finally determined at the mid-point of the indicative Offer Price range between HK\$4.50 and HK\$6.15 per Offer Share, the net proceeds of the New Issue will increase by approximately HK\$232.6 million to approximately HK\$1,479.2 million. Our Directors intend to apply such additional net proceeds for the above usages in the proportions as referred to above.

In the event that the Over-allotment Option is exercised in full and the Offer Price is finally determined at the lowest end of the indicative Offer Price range between HK\$4.50 and HK\$6.15 per Offer Share, the net proceeds of the New Issue will reduce by approximately HK\$5.0 million to approximately HK\$1,241.6 million. In such event, our Directors intend to reduce the intended use of proceeds for the above stated purposes on pro-rata basis and we will finance such shortfall by internal cash resources and/or additional bank borrowings, as and when appropriate.

In the event that the Over-allotment Option is not exercised and the Offer Price is finally determined at the highest end of the indicative Offer Price range between HK\$4.50 and HK\$6.15 per Offer Share, the net proceeds of the New Issue will increase by approximately HK\$198.9 million to approximately HK\$1,445.5 million. Our Directors intend to apply such additional net proceeds for the above usages in the proportions as referred to above.

In the event that the Over-allotment Option is not exercised and the Offer Price is finally determined at the lowest end of the indicative Offer Price range between HK\$4.50 and HK\$6.15 per Offer Share, the net proceeds of the New Issue will reduce by approximately HK\$201.4 million to approximately HK\$1,045.2 million. In such event, our Directors intend to reduce the intended use of proceeds for the above stated purposes on pro-rata basis and we will finance such shortfall by internal cash resources and/or additional bank borrowings, as and when appropriate.

To the extent that the net proceeds from the New Issue are not immediately required for the above purposes or if we are unable to effect any part of our future development plans as intended, we may hold such funds in short-term deposits with licensed banks and/or authorised financial institutions in Hong Kong and/or the PRC for so long as it is in our best interest. We will also disclose the same in the relevant annual report.