

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

The PRC textile industry remains fragmented with no dominant market leader. The Group is recognised as one of the 20 largest cotton textile manufacturers in the PRC in 2003 by the China National Textile Industry Council. The Directors believe that the Group is one of the leading manufacturers of spandex stretch yarn and spandex stretch grey fabrics in the PRC. As a result of the continuing growth in the PRC economy and the improvement in PRC living standard, the Directors are optimistic about the future growth of the domestic demand in high quality textile products.

During the eight months period ended 31 August 2004, the Group has experienced keen demand for its spandex stretch yarn. Accordingly, the Directors are confident that the Group can achieve a remarkable growth in 2004.

Following the access of the PRC into the WTO, the quota system imposed on the PRC will be abolished on 1 January 2005, although exports of certain textile products by PRC manufacturers will still be subject to certain restrictions. The Directors believe that such abolishment of quota system will benefit the PRC textile industry. Besides, application of stretch products to garment products will be further broadened and hence demand for such products will increase. Furthermore, as the Group has successfully developed new textile products with new textile materials, such as Viloft, Lyocell and soybean protein fibre, in co-operation with its suppliers and customers, the Group is well positioned to meet the future demand of the market for these new products.

In anticipation of the growing domestic demand and increasing export potential, the Group will continue to expand its production capacity.

The Directors plan to apply for the establishment of a PRC investment holding company. The Directors believe that such company will facilitate the expansion of the Group's business in the PRC through the establishment of an identity and the financing and acquisition advantages pertaining to a PRC investment holding company.

The Group intends to implement the following strategies for its future development:

Expansion of production capacity

The Group has experience in acquiring and restructuring assets from state-owned enterprises. The Group plans to acquire other textile companies or existing manufacturing facilities in the PRC. The Directors believe there are plenty of acquisition opportunities in the PRC, and the Directors have identified some targets for consideration. The Group has recently, in response to an announcement ("the Tender Announcement") made by Nantong Asset Exchange in relation a proposed sale of 100% interest in SOE textile companies in Nantong, made an application to Nantong Asset Exchange for it to consider the Group's eligibility to make a tender and received an invitation to make a tender for the 100% interest in SOE textile companies in Nantong on or before 11 December 2004. If the Group does not make the tender before the deadline imposed by Nantong Asset Exchange, the Group would be considered as having withdrawn the application for the tender.

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According to the Tender Announcement, such SOE companies produced about 9,000 tonnes of yarn, 26 million metres of grey fabric, 800 tonnes of wool yarn and 800,000 metres of woollen cloth annually. As at the Latest Practicable Date, the Group had received certain information on such company and is currently reviewing such information and assessing this possible acquisition. There is no assurance that the Group will submit a bid and, if a bid is submitted, there is no assurance that the Group's bid will be accepted. The Directors are of the opinion that such acquisition, if materialised, will not have any material adverse impact on the working capital position of the Group. Should the Group eventually tender a bid for the SOE textile companies and be elected for further negotiation to acquire the SOE textile companies, the Directors will use internally generated funds to finance the acquisition of the SOE textile companies. The Directors are still assessing the suitability of other targets for acquisition and for tendering a bid. The Group may or may not proceed with the acquisition of any targeted company.

The Group also plans to expand through the establishment of new production facilities, particularly yarn spinning mill. To this end, the Group is in the process of identifying a suitable site in Xuzhou for building a production facilities with 100,000 spindles. The Group estimated that the total cost for building such new production plant facility to be approximately RMB220 million and the construction will be financed by net proceeds from the New Issue and bank borrowings. The Group intends to complete such capacity expansion in 2005. The Group has not yet made any commitment to acquire land or machinery in this respect and there is no guarantee that the establishment of such new production facilities will proceed.

As at the Latest Practicable Date, the Group had not entered into any agreement or memorandum of understanding in respect of its expansion plan.

Strengthen product development capability

To maintain the Group's market position as one of the leading manufacturers of high quality textile materials and to cope with changing customer requirements, the Group will continue to develop new textile products. In cooperation with its suppliers and/or customers, the Group has developed certain new types of yarn using new fibres. The Group aims to expand its product range through the development of new yarn and fabric.

Market expansion

The Group will continue to expand its market in the PRC as well as in overseas market such as European countries, North America, Hong Kong and South Korea. In the past few years, the Group has gradually expanded its sales network outside of Zhejiang Province and Jiangsu Province to Guangdong Province and Shandong Province. The Group has also made progress in other parts of the PRC and the percentage of the Group's sales to areas outside Zhejiang Province and Jiangsu Province had increased from approximately 10.5% in year 2001 to approximately 22.5% for the five months ended 31 May 2004. The Directors believe demand for high quality yarn and fabrics in the PRC outside the Zhejiang and Jiangsu Provinces will increase, therefore the Group will increase its sales effort to promote its products in these areas. Following the cancellation of quota

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system on 1 January 2005, although there will still be restrictions on the PRC export of textile products, the Directors believe the liberalisation of the textile market will provide an opportunity for the Group to expand its overseas market.

Apart from geographical expansion, the Group will also expand the scope of its target customers. The Group's current customers for its yarn and grey fabrics include fabric weaving mills, printing and dyeing factories, garment manufacturers and trading agents. Going forward, the Group plans to expand its customer base to include domestic and foreign brandname fashion companies and distributors which have begun to source directly from fabric weaving mills to control cost and to capture the latest development in fabrics rather than through agents or garment manufacturers. With the Group's product development capability and expertise in grey fabric production, the Directors believe it is able to serve these types of customers better than garment and apparel manufacturers. The Group currently has a team of 27 staff who are responsible for the sale and marketing of garment fabrics and will continue to put more resources for promotion in this market segment. The Group's market expansion plan will be funded by internally generated cash.

Upgrading of information system

The Group has expanded its scale of the operation significantly in the past few years. To improve its operating efficiency and hence enhances its competitiveness, the Group will install a management information system which improves its information flow and administration in the management, operation and accounting aspects.

USE OF PROCEEDS

The net proceeds from the New Issue, after deducting related expenses, (on the basis that the Over-allotment Option is not exercised) are estimated to be approximately HK\$183.3 million (equivalent to approximately RMB194.3 million). The Directors intend to apply the net proceeds from the New Issue as follows:

- as to approximately HK\$146.2 million (equivalent to approximately RMB155.0 million) for the expansion of the Group's yarn production operations;
- as to approximately HK16.8 million (equivalent to approximately RMB17.8 million) for installation of a management information system;
- as to approximately HK\$2.0 million (equivalent to approximately RMB2.1 million for enhancing the Group's product development capability, primarily through the addition of new equipment and the hiring of additional product development staff; and
- as to the balance of approximately HK\$18.3 million (equivalent to approximately RMB19.4 million) for the general working capital of the Group.

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To the extent that the net proceeds from the New Issue are not immediately used for the above purposes, it is the present intention of the Directors to place such proceeds on short-term deposits with authorised financial institutions and/or licensed banks in Hong Kong.

In the event that the Over-allotment Option is exercised in full, the additional net proceeds of approximately HK\$36.7 million (equivalent to approximately RMB38.9 million) will be used for the expansion of the Group's yarn production operations.

In the event that there are any material changes or modifications to the use of proceeds, an appropriate announcement will be made by the Company.