

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

See the section headed “Business — Business Strategies” for a detailed description of the Group’s future plans.

USE OF PROCEEDS

The Group intends to use the net proceeds from the Global Offering to finance its future plans, strengthen its capital base and improve its financial position. The net proceeds of the Global Offering, after deducting underwriting fees and related expenses payable by the Company in relation to the Global Offering, are estimated to be approximately HK\$1,401 million if the Offer Price as finally determined is HK\$4.18 per Share and HK\$1,792 million if the Offer Price as finally determined is HK\$5.30 per Share, assuming the Over-allotment Option is not exercised. Assuming the Over-allotment Option is not exercised and based on an Offer Price of HK\$4.74 per Share, being the midpoint of the indicative Offer Price range of HK\$4.18 to HK\$5.30 per Share, the net proceeds of the Global Offering are estimated to be approximately HK\$1,596 million, which the Company presently intends to use as follows:

- (i) Approximately HK\$665 million (representing approximately 41.6% of the net proceeds) will be used in relation to train power converter, auxiliary power supply equipment and control systems as follows:
 - approximately HK\$557 million will be used on commercialising AC propulsion technologies, of which approximately HK\$102 million will be used to develop and commercialise AC train power converter technologies, approximately HK\$260 million will be used on upgrading and expanding the Group’s production base, and approximately HK\$195 million will be used to build a new testing system;
 - approximately HK\$40 million will be used to invest in establishing a subsidiary in Shanghai focusing on developing and commercialising train-borne electrical systems for rail vehicles for urban rail trains systems; and
 - approximately HK\$68 million will be used on research, development and commercialisation of electrical products for railway passenger cars.
- (ii) Approximately HK\$174 million (representing approximately 10.9% of the net proceeds) will be used in relation to train operation safety equipment as follows:
 - approximately HK\$50 million will be used to develop and commercialise ATP technologies; and
 - approximately HK\$124 million will be used to invest in establishing a subsidiary in Beijing focusing on developing and commercialising new train operation safety equipment and railway information network projects.

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- (iii) Approximately HK\$35 million (representing approximately 2.2% of the net proceeds) will be used on a technology import and commercialisation project for developing a new generation of large railway maintenance vehicles.
- (iv) Approximately HK\$361 million (representing approximately 22.6% of the net proceeds) will be used in relation to large size power semiconductor devices as follows:
- approximately HK\$32 million will be used on research and development of large size power semiconductor devices;
 - approximately HK\$94 million will be used on construction of new factory buildings; and
 - approximately HK\$235 million will be used to procure equipment.
- (v) Approximately HK\$118 million (representing approximately 7.4% of the net proceeds) will be used in relation to sensors and related products as follows:
- approximately HK\$88 million will be used to expand the production capacity of sensor products; and
 - approximately HK\$30 million will be used to build a production line for vacuum sanitary units.
- (vi) Approximately HK\$175 million (representing approximately 11.0% of the net proceeds) will be used in relation to other areas:
- approximately HK\$40 million will be used to invest in establishing an export and overseas sales network;
 - approximately HK\$63 million will be used to establish the Group's information systems including implementing the ERP system;
 - approximately HK\$60 million will be used to acquire a 50% equity interest in Shiling; and
 - approximately HK\$12 million will be used to acquire a 17% equity interest in Siemens Zhuzhou.
- (vii) Approximately HK\$68 million (representing approximately 4.3% of the net proceeds) will be used as working capital to strengthen the Company's Capital Structure

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In the event that the Over-allotment Option is exercised in full, the Directors intend to increase its investment in (i) development and commercialisation of AC train power converter technologies, (ii) research and development of large size power semiconductor devices and (iii) procurement of equipment for the production of power semiconductor devices in the proportions of 39%, 10% and 51% of the additional net proceeds of HK\$249 million, respectively.

In the event that the Offer Price is fixed at HK\$4.18 per Share, being the lowest price of the indicative Offer Price range, the net proceeds will be reduced by approximately HK\$196 million. In such circumstances, the Directors presently intend to fund the difference with cash generated from operations or bank loans.

In the event that the Offer Price is fixed at HK\$5.30 per Share, being the highest price of the indicative Offer Price range, the net proceeds will increase by approximately HK\$196 million. In such circumstances, the Directors presently intend to increase its investment in (i) development and commercialisation of AC train power converter technologies, (ii) research and development of large size power semiconductor devices and (iii) procurement of equipment for the production of power semiconductor devices in the proportions of 39%, 10% and 51% of the additional net proceeds of HK\$196 million, respectively.

Any remaining balance of the net proceeds of the Global Offering and to the extent that the net proceeds of the Global Offering are not immediately used for the above purposes and to the extent permitted by the PRC law, the Company presently intends to deposit them into interest-bearing bank accounts or invest in short-term investment-grade debt securities.

In the event there is to be a material modification to the use of proceeds as described above, the Company will issue an announcement of the change.