As investment of the Placing Shares involves a high degree of risk and is speculative, prospective investors in the Placing Shares should carefully consider all the information set out in this prospectus and, in particular, should evaluate the following risks in connection with any investment in the Company, certain of which may not be typically associated with investing in equity securities of companies in Hong Kong or other economically advanced jurisdictions, before making any investment decision in relation to the Company.

RISKS RELATING TO THE GROUP

Reliance on the PRC market

During each of the two years ended 30th June, 2000 and the five months ended 30th November, 2000, sales of the Group's products in the PRC accounted for approximately 95 per cent., 76 per cent. and 73 per cent. of the total turnover of the Group respectively. The Directors anticipate that sales of the Group's products in the PRC will continue to represent a significant portion of the Group's total turnover in the near future. In this connection, the Group is exposed to changes in economic, political and social conditions in the PRC as well as changes in the domestic demands for the Group's products in the PRC. There is no assurance that such changes will not adversely affect the performance and the profitability of the Group.

Limited profit history

The Group has a limited profit history for prospective investors to evaluate its business and prospects. The Group recorded net profits attributable to shareholders of approximately HK$1.8 million, HK$8.6 million and HK$22.5 million respectively for each of the two years ended 30th June, 2000 and the five months ended 30th November, 2000. In addition, the Group also forecasts a combined profit after taxation and minority interests before extraordinary items of approximately HK$52 million for the year ending 30th June, 2001. The Directors considered that such substantial increase in the Group's forecasted profit is attributable to the Group's successful EMS strategies and strong demand for the Group's products and services in the forecasted financial year. However, the Directors cannot be certain that the Group will achieve its business objectives or that the Group will be able to maintain its existing level of operations or manage a sufficient level of growth in its business, in particular, the Group is in its development stage and is operating in the new and rapidly changing high technology sector of the electronics industry. Should the Group fail to materialise its business objectives or continue to implement its EMS strategies in the future or should demand for the Group's products fail to sustain in the future, the Group's future profitability may be adversely affected.

Expansion may strain management and resources of the Group

The Group is currently experiencing a period of significant growth in terms of sales volume and profits. The Directors anticipate that further expansion will be required in order to capitalise on the growth potential of the Group's businesses. Due to the capital intensive nature of the Group's businesses, such expansion may place a strain on the Group's management and financial resources.

To manage the expected growth of its operations, the Group may be required to further recruit key personnel in the future. In addition, the Group will be required to improve its existing and adopt new management, operational and financial systems, procedures and controls, and to expand, train and manage its growing employee base. All these measures will incur additional costs which will place a burden on the Group's financial condition.

Furthermore, the Group may enter into relationships with various parties including customers, suppliers, industry players and other third parties in order to expand its business. There can be no assurance that the Group's current and planned personnel, systems, procedures and controls will be adequate to support the Group's future operations, that the Group will be able to recruit, retain and motivate personnel or that the Group will be able to identify, manage and exploit existing and new relationships with various parties and market opportunities. Failure of the Group to manage growth effectively could have a material adverse effect on the Group's business, results of operations and financial condition.

Intellectual property rights

From time to time, the Group develops intellectual property rights over its electronic manufacturing services and products. Some of the Group's intellectual property rights are capable of being protected from exploitation by third parties by way of registration. The Group has registered its trademark and logo as referred to in the section headed "Business" and the paragraph headed "Intellectual property" in Appendix VI to this prospectus. The Group's designs are also protected by copyrights by virtue of first publication in the PRC, which is a member of the Berne Convention and Universal Copyright Convention. The Group, however, has not filed any patent application in respect of any of its new inventions. The Group relies on confidentiality products and contractual restrictions as set out in its internal employment guidelines, to protect its proprietary rights. The Group is not aware of any unauthorised use of its production know-how. The risk of dissemination of information of the Group's intellectual property rights, by way of any such unauthorised use or unauthorised disclosure of confidential information relating to the Group's production know-how cannot be entirely protected. The measure currently taken by the Group may not be adequate for other misappropriation of the proprietary technology of the Group. When necessary, the Group may have to expend a significant amount of financial resources to assert, safeguard and/or maintain its intellectual property rights over such services, products and new inventions. In that event, the Group's resources may be significantly drained for such purposes which may adversely affect the Group's ability to materialise its business objectives.

Reliance on key personnel

The Group's future success depends to a large extent upon the continued services of key managerial and technical employees such as Mr. Xiang Song, Mr. Wang Song Qing, Mr. Edgar Xiong, Mr. Cai Hua and Mr. Tong Yiu On. Each of these key managerial and technical employees has entered into a service contract with Fuqiang for a term of one year and each of the executive directors of the Company has entered into a service contract with the Company for a term of three years, effective from the date on which Board approval is obtained, which is expected to be shortly before listing of the Company. The loss of services of any of the Group's key employees could have a material adverse effect on the Group.

The Group believes that its future success depends on its continuing ability to attract and retain highly qualified technical, managerial and marketing personnel. Competition for such personnel is intense, especially for engineering personnel, and there can be no assurance that the Group will be able to attract, assimilate or retain such personnel. If the Group is unable to hire and retain key personnel, the Group's business, financial condition and results of operations may be adversely affected.

Liquidity of the Group

The Group is heavily capitalised as evidenced by the fact that the amounts of its non-current assets are relatively substantial. The Group has financed its operations and capital expenditure requirements primarily through significant borrowings from financial institutions. To the extent that the net proceeds from the Placing and cash flows from operations shall not be sufficient to finance its operations and capital expenditure requirements, the Group may need to raise additional funds from financial institutions. In the event that high interest rates are required to be paid or that the Group cannot obtain such financings, this may have a negative impact on the Group's working capital and the implementation of its business plan and its profitability may be adversely affected.

Financing risks

Furi Electronics, a minority shareholder of Fuqiang, has provided a loan of HK$8,543,000 to Fuqiang (the "Loan") on 30th May, 2000. The loan is unsecured and bears interest at 0.531 per cent. per month. Such interest is payable on the 20th day of the last month of every quarter. The principal is repayable in May 2002 and the Directors anticipate that the loan will not be repaid within the next twelve months from the Listing Date. The Directors intend to repay the Loan upon maturity by either internal resources or by bank borrowings. However, there is no assurance that the Group will have sufficient internal resources to repay the Loan in full and there is a risk that the Group will not be able to source additional funding from financial institutions to finance such repayment. Terms of the Loan are also set out in the paragraph headed "Related party transactions" under the section headed "Financial Information" in this prospectus.

The Group's banking facilities are guaranteed by Furi Electronics and Mr. Lin, as the case may be. The relevant banks have agreed, in principle, to release the corporate guarantees provided by Furi Electronics and the personal guarantee provided by Mr. Lin upon listing of the Shares on GEM and for replacement of them by corporate guarantees of the Company and/or other security provided by members of the Group. However, if Furi Electronics or Mr. Lin withdraws any or all such guarantees and if the Group fails to procure the completion of the aforesaid arrangements and if the Group is not able to substitute new guarantor(s) acceptable to the relevant banks, the relevant banks may terminate such loan agreements and demand repayments from the Group prior to the due dates, which may adversely affect the working capital and the operations of the Group.

Potential product liability

If products developed and distributed by the Group contain defects or errors which adversely affect the performance of such products, the Group may incur additional costs in correcting the defects or defending any legal proceedings and/or claims brought by its customers against the Group for damages. Although no legal claims were made by any of its customers relating to the products and services provided by the Group throughout the history of the Group, there can be no assurance that there will not be any product liability claims against the Group in the future. The Group does not maintain any insurance against product liabilities and seeks to limit its liability by incorporating limited warranty provisions in the contracts with its customers. Accordingly, the Group will not be covered or compensated by insurance in respect of losses, damages, claims and/or liabilities arising from or in connection with product liability or third party liability. These events could adversely affect the business of the Group.

PRC export/domestic sales ratio

According to the "Approval in relation to the establishment of a Sino-foreign joint venture", Fujian Fuqiang Delicate Circuit Plate Co., Ltd.# (關於成立中外合資福建福強精密印刷線路板有限公司的批覆) issued by Fuqing City Foreign Economic and Trade Commission# (福清市對外經濟貿易委員會) in 1996 with respect to the establishment of Fuqiang, Fuqiang was subject to an export/domestic sales ratio of 40/60. However, Fuqiang did not comply with the export/domestic sales ratio during the Track Record Period.

Fuqiang has not been penalised by any PRC government authorities for such non-compliance with respect to its export/domestic sales ratio. According to the legal opinion issued by the PRC legal advisers to the Company, the relevant government authorities in the PRC do not normally penalise non-compliance with such export/domestic sales ratio, and that there are no relevant provision in the PRC laws/regulations in relation to the penalty(ies) imposed for such non-compliance. However, there is no assurance that Fuqiang will not be penalised by the relevant PRC government authorities for such non-compliance in the future. Possible sanctions could include the imposition of fines or restrictions which could affect the operations, hence the profitability, of the Group.

Reliance on the Group's major customers

For each of the two years ended 30th June, 2000 and the five months ended 30th November, 2000, the Group's five largest customers in aggregate accounted for approximately 79 per cent., 88 per cent. and 65 per cent. respectively of the Group's total turnover. The largest customer accounted for approximately 64 per cent., 34 per cent. and 22 per cent. respectively of the Group's turnover for each of the two years ended 30th June, 2000 and the five months ended 30th November, 2000. If this major customer significantly reduces the orders it places with the Group, there could be a material adverse impact on the Group's turnover if the Group is not able to replace such lost business on a timely basis. In addition, no long-term commitments or volume guarantees are usually procured from the Group's customers. As a result, the Group's customers may cancel, delay or reduce orders without any penalty.

Possible competing business by Furi Electronics

Furi Electronics, a minority shareholder of Fuqiang, is mainly engaged in the manufacture of televisions, computers and peripheral products, electronics products and communication equipment, household appliances, electronics equipment and spare parts, which are not competing businesses with the Group. However, there is no guarantee that Furi Electronics will not conduct any businesses which may directly or indirectly compete with those of the Group in the future. In the event that Furi Electronic engages in competing businesses with the Group and the Group fails to maintain its competitive edge over Furi Electronics in those areas, the profitability of the Group may be adversely affected.

Risks relating to the Group's strategies, future operations and resources

The Directors believe that the success of the Group in the future will substantially depend on, among other things, its ability to implement its future strategies. The success of such strategies depends upon a number of factors. The implementation of future strategies involves numerous risks including failure to react and adapt to new technologies, difficulties in integrating different technologies, product-level knowledge and customers' needs, and inability to attract or retain qualified personnel. In the event that the Group cannot implement its strategies, the Group's business and financial condition in the future may be adversely affected.

Potential investors should also note that the net proceeds from the Placing will not be sufficient to finance all of the Group's business objectives. As indicated in the paragraph headed "Specific business objectives prior to the year ending 30th June, 2003" under the section headed "Statement of business objectives" in this prospectus, based on an Issue Price of HK$0.90 per Share, internal resources of approximately HK$27.4 million are expected to be utilised in financing the Group's planned business objectives. Accordingly, the Group may require further financing in pursuit of its future business expansions. There can be no assurance that additional financing will be available on terms favourable to the Group. If no adequate funds are available or are available on acceptable terms, the Group may not be able to fund its expansion to pursue its strategies, develop or enhance services or products or respond to competitive pressures. Such inability could have a material adverse effect on the Group's business, operating results and financial condition.

RISKS RELATING TO THE ELECTRONICS INDUSTRY

The demands and uncertainties of the electronics industry

The Group's business depends on the development of the electronics industry, which is subject to rapid technological changes, short product life cycles, intense competition and pricing and margin pressure. In addition, the electronics industry has historically been cyclical and subject to significant economic downturns characterised by diminished product demand, rapid declines in average selling prices and over-capacity. When these factors adversely affect the Group's customers, demand for the Group's products may also be adversely affected.

Moreover, the level and timing of orders placed by the Group's customers vary due to a number of factors, including customer attempts to manage inventory, changes in customers' manufacturing strategies and variations in demand for customers' products due to, among other things, technological changes, new product introductions, product life-cycles, competitive conditions or general economic conditions. Since the Group has not secured long-term purchase orders or commitments from its customers, estimates of future volume of orders will be based on discussions with its customers. The Group relies on its estimate of anticipated future volumes when making commitments regarding the level of business that it will seek and accept the mix of products that it intends to manufacture, the timing of production schedules and the levels and utilisation of personnel and other resources. A variety of conditions, both specific to the individual customer and generally affecting the customer's industry, may cause customers to cancel, reduce or delay orders that were previously made or anticipated. A significant portion of the Group's released backlog at any time may be subject to cancellation or postponement without penalty. The Group cannot assure timely replacement of cancelled, delayed or reduced orders. Significant or numerous cancellations, delays or reductions in orders by a customer or group of customers could adversely affect the Group's business, financial condition and results of operations.

Reliance on suppliers and availability of raw materials and components

The Group has to order from outside suppliers some of the raw materials and components to complete its customers' purchase orders. Although the Group works with its customers and suppliers to minimise the impact of shortages in materials, it may experience short-term adverse effects due to price fluctuations and delayed shipments. Although the Group does not have guaranteed sources of raw materials and components, it does have supply agreements with most of its key suppliers with terms including quality requirements and scheduling of deliveries, and it routinely purchases raw materials and components from several suppliers. Further, although alternative suppliers are currently available, a significant unplanned event with a major supplier, such as unforeseen disruption in production schedules and serious delay in shipments, could have a material adverse effect on the Group's operations. The Group believes that the potential existence of shortages of materials in the printed circuit and electronic assembly industries could have a material adverse effect on the Group's manufacturing operations and future unit costs. Product changes and the overall demand for electronic interconnect products could increase the industry's use of new laminate materials, standard laminate materials, multilayer blanks and other materials, and such materials therefore may not be readily available to the Group in the future. There can be no assurance that shortages of certain types of electronic components will not occur in the future. If a significant shortage of raw materials or components were to occur, the Group's operating results would be materially adversely affected.

Competition

The electronic interconnect industry is highly fragmented and characterised by intense competition. The Directors believe that the Group's major competitors in the EMS business are domestic producers of multilayer PCBs, domestic PCB design houses and international EMS providers. Some of these competitors have significantly greater financial, technical and marketing resources, greater name recognition and a larger installed customer base than the Group. In the view of the Directors, these competitors may have the ability to respond more quickly to new or emerging technologies, may adapt more quickly to changes in customer requirements and may devote greater resources to the development, promotion and sale of their products than the Group. The demand for PCBs has continued to be affected by the development of smaller, more powerful electronic components requiring less printed circuit area. Expansion of the Group's existing products or services could expose the Group to new competition. Moreover, new developments in the electronics industry could render existing technology obsolete or less competitive and could potentially introduce new competition into the industry. There can be no assurance that the Group will continue to compete successfully against present and future competitors or that competitive pressures faced by the Group will not have a material adverse effect on the Group's business, financial condition and results of operations.

Environmental matters

The Group is subject to a variety of local and central government environmental laws and regulations relating to the storage, use, discharge and disposal of chemicals, solid waste and other hazardous materials used during its manufacturing process, as well as air quality regulations and restrictions on water use. When violations of environmental laws occur, the Group can be held liable for damages and the costs of remedial actions and can also be subject to revocation of permits necessary to conduct its business. Any such revocations could require the Group to cease or limit production, which could have a material adverse effect on the Group's business, financial condition and results of operations. Moreover, the Group's failure to comply with present or future regulations could restrict the Group's ability to expand its facilities or could require the Group to acquire costly equipment or incur other significant expenses to comply with environmental regulations. Environmental laws could become more stringent over time, imposing greater compliance costs and increasing risks and penalties associated with violation of such laws. Changes or restrictions on discharge limits, emissions levels, or material storage or handling might require a high level of unplanned capital investment and/or relocation. There can be no assurance that compliance with new or existing regulations will not have a material adverse effect on the Group's business, financial condition and results of operations.

Industry information

Certain industry information in the sections headed "Glossary of Technical Terms", "Risk factors", "Industry overview" and "Business" in this prospectus relating to PRC electronics industry is derived from various publications. When making investment decisions, the investors should be aware that such information has not been verified by or on behalf of the Group, and that the Group makes no representation as to the correctness or accuracy of such information.

RISKS RELATING TO THE PRC

Currently, substantially all of the Group's assets and operations are in the PRC and the Group derives all of its revenue from its operations in the PRC. Hence, the Group's financial condition and results of operations are, to a significant degree, subject to economic, political and legal developments in the PRC.

Political and social considerations

Since 1978, the PRC government has been undergoing a series of reforms, with emphasis on its political systems. Such reforms have resulted in significant economic growth and social progress and many of the reforms are expected to be refined and improved. Other political and social factors may also lead to further readjustment and refinement of the reform measures. There is no assurance that such reform measures introduced by the PRC government will have a favourable effect on the operations of the Group. The Group's operations and performance may be adversely affected by changes in the PRC political and social conditions resulting from changes in the policies adopted by the PRC government.

Currency conversion and foreign exchange risks

The Group is exposed to the risks associated with the currency conversion and exchange rate system in the PRC as the Group's income are primarily denominated in RMB which is currently not freely exchangeable whereas dividends are to be paid in Hong Kong dollars.

The PRC government imposes control over the convertibility of RMB into foreign currencies. Upon the execution of the unitary managed-floating-rate system in 1994, the RMB was devaluated by 50 per cent. against the US dollars. Since then, the exchange rate between the RMB and US dollar has been generally stable. However, there can be no assurance that the RMB will not become volatile against other currencies. In the event of a major devaluation of the RMB, the Group may incur capital depreciation on its investments in the PRC as well as a material adverse effect on the Group's operations and financial condition, in view of the Group's significant PRC presence at the moment.

Although new policies were introduced by the PRC government in 1996 to allow greater convertibility of the RMB, significant restrictions still remain. In accordance with the "Foreign Exchange Control Regulations" and the "Regulations on the Administration on Settlement, Sale and Payment of Foreign Exchange", foreign exchange required for a payment of dividends that are payable in foreign currencies can be purchased from designated foreign exchange banks upon presentation of the relevant documents including, but not limited to, board resolutions authorising the conversion of its RMB earnings into foreign currency for the purpose of dividends distribution, there is no guarantee that the PRC government will not introduce more restrictive foreign exchange measures that could adversely affect the Group's ability to convert its RMB earnings into foreign currencies.

Since the unification of the exchange rate system, a number of rules, regulations and notices (the "Policies") which are designed to provide greater exchangeability of the RMB have been issued by the PRC government. Under the Policies, a foreign investment enterprise ("FIE") must now establish a "current account" and a "capital account" with a designated foreign exchange bank. In addition, under the Policies, the State Administration of Foreign Exchange ("SAFE") has the authority to determine the maximum amount of foreign currency an FIE may maintain in its current account in accordance with the paid-up capital of the FIE and its need for working capital in foreign currency. Any foreign currency balance in the current account in excess of the maximum limit determined by SAFE is required to be sold either to a designated foreign exchange bank or, prior to 1st December, 1998, through a foreign exchange swap centre. With effect from 1st July, 1996, FIEs may exchange amounts in RMB for amounts in foreign currencies at authorised banks without any need for prior approval from SAFE if such funds are in respect of current account items. However, there can be no assurance that the current authorisations for FIEs to retain or purchase foreign exchange to satisfy exchange liabilities under current account transactions will not be limited or eliminated. Furthermore, there can be no assurance that Fuqiang will be able to obtain sufficient foreign exchange to pay dividends or satisfy its foreign exchange requirements in the future since Fuqiang's revenue, profits and dividends, are expressed in RMB. Foreign exchange transactions under the "capital account" continue to be subject to limitations and require approvals from SAFE, which could affect the receipt and payments of foreign exchange by Fuqiang for loans, capital contributions, purchase of fixed assets and other capital account transactions.

As from 1st December, 1998, the swap centres became restricted to conducting foreign exchange transactions between authorised banks and inter-bank lending between PRC banks and are no longer available to FIEs to exchange their RMB into foreign currencies. Instead, FIEs are required to conduct all their foreign exchange transactions through authorised banks. Apart from the change of function of the swap centres, the procedures and requirements for exchanging RMB amounts into foreign currencies remain unchanged.

Although the exchange rate between RMB and the Hong Kong dollar has been relatively stable in the past few years and PRC government has reiterated its intention to support the value of RMB, there is no assurance that RMB will not be subject to devaluation or depreciation due to administrative or legislative intervention by PRC government or adverse market movements. As all of the sales of the Group's products are settled in RMB and RMB is still not a freely convertible currency, a devaluation of RMB may adversely affect the value of the profits generated by the Group when they are converted into US dollars or Hong Kong dollars.

WTO

The PRC is currently seeking membership of the WTO. Notwithstanding that the PCB industry in the PRC is currently accessable by foreign investors, the Directors consider that as the PCB industry requires high level of technical and industry specific knowledge and involves complicated production management, direct establishment of PCB factories by foreign investors as a result of the PRC's accession into the WTO may not be significant. The Directors also anticipate that such foreign investments are more likely to take the form of acquisitions of PRC local PCB factories with large scale, low mix production capacities which, in the opinion of the Directors, do not share the same market sub-segments with the Group. Furthermore, the Group has devoted significant efforts in the development of long-term strategic co-operative relationships with its customers, which would lessen the competition from other PCB manufacturers. However, the admission of the PRC into the WTO is nonetheless likely to result in increased indirect competition from overseas business undertakings who engage in the production of similar products manufactured by the Group, which may have an adverse effect on the profitability of the Group.

Economic, legal and other regulatory considerations

The economy of the PRC has gradually been transformed from a planned economy to a market economy with socialist characteristics. There is no certainty that the PRC government's pursuit of economic reforms will not slow down.

Since an open-door policy was adopted by the PRC in 1978, the trend of PRC's legislation has, on the whole, significantly enhanced the protection afforded to foreign investors in the PRC. However, as the PRC legal system matures, there is no assurance that changes in its legislation or the related interpretation will not have an adverse effect on the business and prospects of the Group.

RISKS RELATING TO THE PLACING

No prior public market for the Placing Shares

Before the Placing, there was no public market for any of the Shares. There can be no guarantee that an active trading market for the Shares will develop, or if it does develop, that it will be sustained following completion of the Placing or that the market price of the Shares will not decline below the Issue price.

RISKS RELATING TO STATEMENTS MADE IN THIS PROSPECTUS

Forward-looking statements contained in this prospectus may differ materially from those discussed in this prospectus

The "Statement of business objectives" section of this prospectus contains certain forward-looking statements relating to the Group's plans, objectives, expectations and intentions. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Group, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on assumptions set out under the paragraph headed "Bases and assumptions" in the "Statement of business objectives" section below regarding the Group's present and future business strategies and the environment in which the Group will operate in the future. The Group's actual results, performance or achievements may differ materially from those discussed in this prospectus. These forward-looking statements speak only as of the Latest Practicable Date.