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HISTORY AND DEVELOPMENT

The origin of the Group dated back to 20th March, 1996 when Fuqiang was established in Fuqing City, Fujian Province, the PRC. The Group was the first company to be engaged in the manufacture of high precision PCBs in Fujian Province, the PRC.

The initial registered capital of Fuqiang was RMB21,000,000, and its initial shareholders were as follows:

Entity	Descriptions	Approximate % shareholdings
Qiangwang (Note 1)	a collective enterprise established in the PRC	30%
Lam Ping Tung (林秉通)	a resident of Hong Kong and an independent third party not related to Mr. Lin	25%
Furi Group	a state-owned enterprise established in the PRC	10%
Minxiang	a state-owned enterprise established in the PRC	35%

Note 1:

Qiangwang, an enterprise established in the PRC and wholly beneficially owned by Mr. Lin, was established under an arrangement entered into on 13th January, 1994 between Mr. Lin and the Fuqing City Suburban Enterprise Bureau (福清市鄉鎮企業局) (the "Bureau"), an entity used by the Fuqing City Government* (福清市人民政府) to administer collective enterprises in Fuqing City, Fujian Province, the PRC. Under this arrangement, Qiangwang was registered as a collective enterprise* (集體所有制企業) under the Bureau. The directors of Qiangwang believed that under this arrangement, Qiangwang would be able to enjoy the recognition and certain administrative and/or operational expedience generally enjoyed by state-owned and collective enterprises in the PRC. Such arrangement was derived from an administrative concept and encouraged by the local government in the PRC, during the transitional period when the PRC economy was gradually transforming from a planned economy to a more market-oriented economy, as a way to aid the development of local economies in the PRC.*

The PRC legal advisers to the Company has advised that Qiangwang is subject to《中華人民共和國鄉鎮企業法》as regards to its ownership and transfer of assets. According to《中華人民共和國鄉鎮企業法》, Mr. Lin is the beneficial owner of Qiangwang, who has the right to deal with the properties and assets of Qiangwang (e.g. the right to transfer equity interest owned by Qiangwang). All transfer of Qiangwang's equity interest in Fuqiang was completed in accordance with《中華人民共和國鄉鎮企業法》.

Mr. Lin has entered into a deed of indemnity in favour of the Company (for itself and as trustee for its subsidiaries) whereby Mr. Lin will fully indemnify and at all times keep the Group and any member of the Group fully indemnified on demand without set off or counter claim against any depletion in value and assets, costs, fees, expenses, claims, losses, and liabilities of any nature whatsoever which might be incurred or suffered by any member of the Group relating to or arising out of or as a result of (whether direct or indirect) the ownership arrangement of Qiangwang as described above being declared or determined by any PRC court or relevant government authority to be illegal, invalid or unenforceable in any respect and including, but not limited to, any costs or expenses incurred by the Group in proceedings or inquiries leading to such declaration or determination. Details of the deed of indemnity are set out in the paragraph headed "Other indemnities" under the section headed "Other information" in Appendix VI to this prospectus.

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The Group commenced the construction of its PCB fabrication plant in Fuqing City, Fujian Province, the PRC in September 1996. Trial production of double-sided PCBs commenced in April 1997 while volume production commenced in October 1997. On 20th October, 1997, Fuqiang increased its registered capital from RMB21,000,000 to RMB46,000,000, and its total investment, which comprises both registered capital and shareholders' loan, from RMB30,000,000 to RMB70,000,000. The initial shareholders of Fuqiang, being Qiangwang, Lam Ping Tung (林秉通), Furi Group and Minxiang, subscribed for the increase in the registered capital of Fuqiang in proportion to their then equity interests. On the same date, for a consideration of RMB2,300,000, Qiangwang transferred 5 per cent. of its equity interests in Fuqiang to Furi Group. In addition, for nil consideration (which was subsequently amended to a consideration of RMB16,100,000, as the relevant government authority indicated that it did not agree with the "nil consideration" proposal, whereby Furi Group and Minxiang re-negotiated the share transfer consideration), Minxiang transferred all of its 35 per cent. equity interests in Fuqiang to Furi Group. As a result, the shareholding of Fuqiang was owned as to 25 per cent. by Qiangwang, 25 per cent. by Lam Ping Tung (林秉通) and 50 per cent. by Furi Group.

In August 1998, the Group started its second phase of its PCB plant construction to add a multilayer production line capable of fabricating PCBs of up to 12 layers. The fabrication of multilayer PCBs commenced in January 1999. In November 1998, the Group was among a group of 28 companies accredited by Fujian Province Science and Technology Commission[#] (福建省科學技術委員會) as a new and advanced technology enterprise[#] (高新技術企業). On 11th June, 1998, for a consideration of HK\$9,000,000, Lam Ping Tung (林秉通) transferred all of his 25 per cent. equity interests in Fuqiang to East Sign. As a result, the shareholding of Fuqiang was owned as to 25 per cent. by Qiangwang, 50 per cent. by Furi Group and 25 per cent. by East Sign.

In May 1999, the Group implemented an EMS business development strategy for the provision of design and integrated manufacturing services to its customers. The Group, together with Newland, opened an engineering centre in Fuzhou City, Fujian Province, the PRC, to offer a broader portfolio of engineering services to Newland. This engineering centre was established with an intension to assist Newland in bringing its products from concept to volume production in order to improve its competitiveness in the market. The range of services provided by this engineering centre covers CAM and CAD-based design, "design for manufacturability", PCB layout design and testing development. Since November 1998, the Group has also devoted substantial efforts in the research and development of PCMCIA and metal-based multilayer PCBs.

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The Group also entered into two separate strategic agreements with each of Newland and Start Network, pursuant to which each of Newland and Start Network would jointly develop closely allied supply systems with the Group, which would allow the Group to have priority in accessing the supply networks of Newland and Start Network respectively. The Group would also provide Newland and Start Network with preferential treatment in pricing, delivery time and payment terms. In addition, the board and the management of the respective parties agreed to maintain a long-term interactive relationship with the Group, with an intention to work together effectively in terms of the utilisation of capital and resources. Each of Newland and Start Network also committed to establish a system which mutually assists the management of the parties, including the continuous exchange of design, technology, management, training and information, with the Group. The relevant parties to each of the strategic agreements would also consider the establishment of joint development centres for the research, development, manufacture and marketing of the products of each of Newland and Start Network respectively. The existing strategic agreements only set out the general terms of the arrangements, and the detailed terms will be determined at a later stage, subject to further negotiations and discussions between Fuqiang and the respective parties. Additional and supplemental provisions and separate definitive cooperative agreements will be appended to these strategic agreements and the implementation of which must be approved by the board of directors of the respective parties.

With the capability of adopting both high-mix and low-mix strategies, the Group focuses more on the high-mix strategy by structuring a mix of medium and small size production lots in its order list. The Group's high-mix, "one-stop" EMS strategy quickly achieved satisfactory results. The Group experienced approximately 116 per cent. revenue growth for the year ended 30th June, 2000, compared with the forecasted revenue growth rate for the PRC printed circuit industry of 16 per cent. for the corresponding period. The after tax profit margin before minority interests of the Group also grew from approximately 9.4 per cent. for the year ended 30th June, 1999 to approximately 20.2 per cent. for the year ended 30th June, 2000. During this period, the Group produced increasingly complex PCBs with higher density and layer counts, and was capable of manufacturing PCBs of up to 20 layers. Some of the Group's PCB products are also intended to be used in the defence and aerospace industries of the PRC, which signifies the Group's achievement in technology and quality. With its advanced facilities and PCB design expertise, the Directors believe that the Group is one of the leading providers of PCB design and manufacturing solutions in Fujian Province, the PRC.

On 20th March, 2000, for a consideration of RMB11,500,000, Qiangwang transferred its remaining 25 per cent. equity interests in Fuqiang to East Sign. On the same date, pursuant to the corporate reorganisation of Furi Group, Furi Group transferred all of its 50 per cent. equity interests in Fuqiang to Furi Electronics. On 19th June, 2000, for a consideration of RMB28,300,000, Furi Electronics transferred 40 per cent. of its equity interests in Fuqiang to East Sign. On 5th July, 2000, for a consideration of RMB41,400,000, which was satisfied by, at the direction of East Sign, the allotment and issue of one share of US\$1.00 in Superford to Mr. Lin, East Sign transferred all of its 90 per cent. equity interests in Fuqiang to Superford. As a result, the shareholding of Fuqiang was owned as to 90 per cent. by Superford and 10 per cent. by Furi Electronics.

The composition of the board of directors of Fuqiang remained the same despite Mr. Lin increased its beneficial interests in Fuqiang through East Sign (and subsequently Superford) from 50 per cent. to 90 per cent. since 19th June, 2000. The directors of Fuqiang unanimously voted in favour of retaining two of the directors of Fuqiang nominated by Furi Electronic based on the reason that those two directors were very experienced in and highly regarded within the electronics industry, and their continuous service as directors of Fuqiang would be beneficial to Fuqiang. In addition, Mr. Lin concurred with such arrangement because he already had majority of the board representation of Fuqiang prior to his increase in the equity interests of Fuqiang to 90 per cent. through East Sign. However, as a step to formalise the board representation of Fuqiang to be in accordance with its ownership structure, in April 2001, the two directors of Fuqiang nominated by Furi Electronics resigned and were replaced by two new directors nominated by Superford.

STRATEGIC ALLIANCE WITH A RECOGNISED RESEARCH INSTITUTION

The Directors view that the use of strategic partnerships is a cost effective way to enhance its capability in providing value-added engineering design services to its customers. In this respect, the Group entered into a non-exclusive strategic alliance agreement with Electronic Research Institute, an independent third party, in July 2000. Electronic Research Institute is one of the state-owned research institutions specialising in electronics and communications technology research. It has undertaken a variety of state and provincial level research projects such as CD-09 Pupil Tester[#] (CD-09瞳孔測試儀), Multi-usage Chinese Information Management System[#] (多用途漢字信息處理系統), JX Interest Calculation computer[#] (JX型計息電腦), 60JKQ Multi-user Remote Control Exchanger[#] (60JKQ程控用戶交換器), CAT-F1 Micro Auxiliary Electrical Engineering Testing System[#] (CAT-F1微機輔助電機測試系統), Micro Electric Power Adjustment System[#] (微機電力調度系統), Micro-type All-purpose Electric Voltage Testing System[#] (微機型全能電參量測試系統), CRST-B LCD[#] (液晶體顯示CRST-B型) and Bar-Code Attendance System[#] (條碼考勤機). Although no separate legal entity will be formed, the aim of such strategic alliance is to commit the two parties for the development of a joint engineering design centre to undertake future research and development projects from ODMs. Under this strategic alliance agreement, the number of staff contributed by each party will depend on the nature of projects to be undertaken by the Group. This joint engineering design centre, which is expected to be established by June 2001, will serve as an outsourcing alternative to the Group's in-house engineering support team. According to this strategic alliance agreement, allocation of profits will be determined on a project-by-project basis based on the expected contribution by each partner. Engineering services to be offered by this joint engineering design centre include the following:

- initial design of PCBs and PCB layout design;
- sub-system level design services for electronics and communications products;
- system design services for communications and communications related consumer products;
and
- system-level applications and technology solutions development in the communications sector.

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According to the strategic alliance agreement, the joint engineering design centre will become the foundation of future cooperation between the two entities. Leveraging on the strong research and development capabilities of Electronic Research Institute, the Group will market the engineering services offered by the joint engineering centre by capitalising on its existing business connections and customer base. The degree of commitment by the parties is not specified in the strategic alliance agreement, however, the Group plans to use approximately HK\$3 million for the establishment of the joint engineering design centre (of which HK\$0.3 million will be funded by the net proceeds from the Placing with the balance to be funded by internal resources of the Group), which will be used mainly for rental expenses and production facilities. The Directors believe that the joint engineering design centre will complement the Group's existing engineering design capability and will provide a cost efficient outsourcing alternative to its EMS business. The Group intends to develop similar strategic partnerships and/or cooperative arrangements with other research institutions in the future.

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The Group is an electronic manufacturing services provider in the PRC offering a full range of solutions to electronics ODMs and CEMs throughout the production cycle of PCBs, which covers layout design, development, prototyping, fabrication and testing. In order to provide comprehensive solutions to customers, the Group also assists its customers to arrange PCB assembly and sub-system testing.

The Directors consider that EMS companies can be broadly divided into two different groups based on the different strategies adopted:

- (1) The high-mix strategy focuses on securing a variety of orders with higher margin and smaller production lots and devising flexible manufacturing processes for real-time reconfiguration of production lines and equipment; and
- (2) The low-mix strategy targets to serve fewer ODMs and handles orders in larger production lots with lower margin.

The Directors reference the production orders with volume of less than 50m² and production lead time of less than two weeks as small orders, while production orders with volume of between 50m² to 100m² and production lead time of between two to four weeks as medium orders, and production orders with volume over 100m² and production lead time of over four weeks as large orders.

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The Directors believe that the high-mix strategy adopted by the Group tends to be more demanding in operational management than the low-mix strategy that is currently adopted by most of the PCB fabricators in China. The Directors consider that the high-mix market has long been under-served in China with a lot of untapped business potentials. The high-mix strategy can be much more costly for competitors of the Group in China who have not learnt to adjust their manufacturing processes to handle the frequent set-ups required for changing the production mix. By establishing an expertise in this area, the Group intends to develop a unique competitive niche in the EMS industry in China.

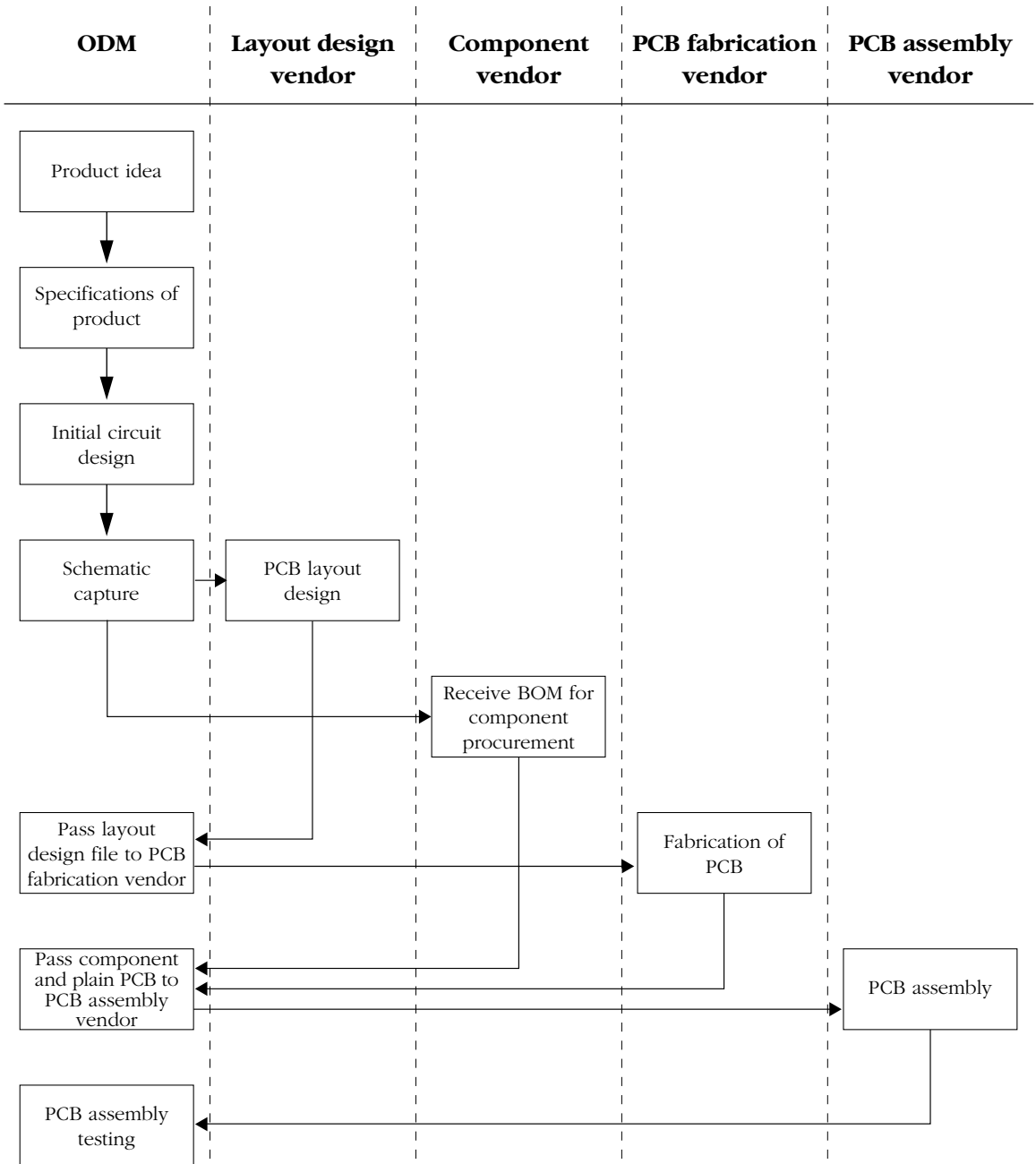
The Group provides solutions to a number of key electronics industry segments including telecommunications, computers, information technology, industrial electronics and consumer electronics. Products of the Group are used in, among others, network devices, computers and telecommunication products by some well-known international and PRC corporations.

The Group also produces a small volume of high precision advanced PCBs primarily for the high performance market. These PCBs, which are intended to be used in the defence and aerospace applications, are designed to function in high temperature environments with greater density.

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Business model

The Directors believe that the following flowchart explains the traditional model of PCB manufacturing and PCB assembly development process and the relationship between ODMs and other vendors:

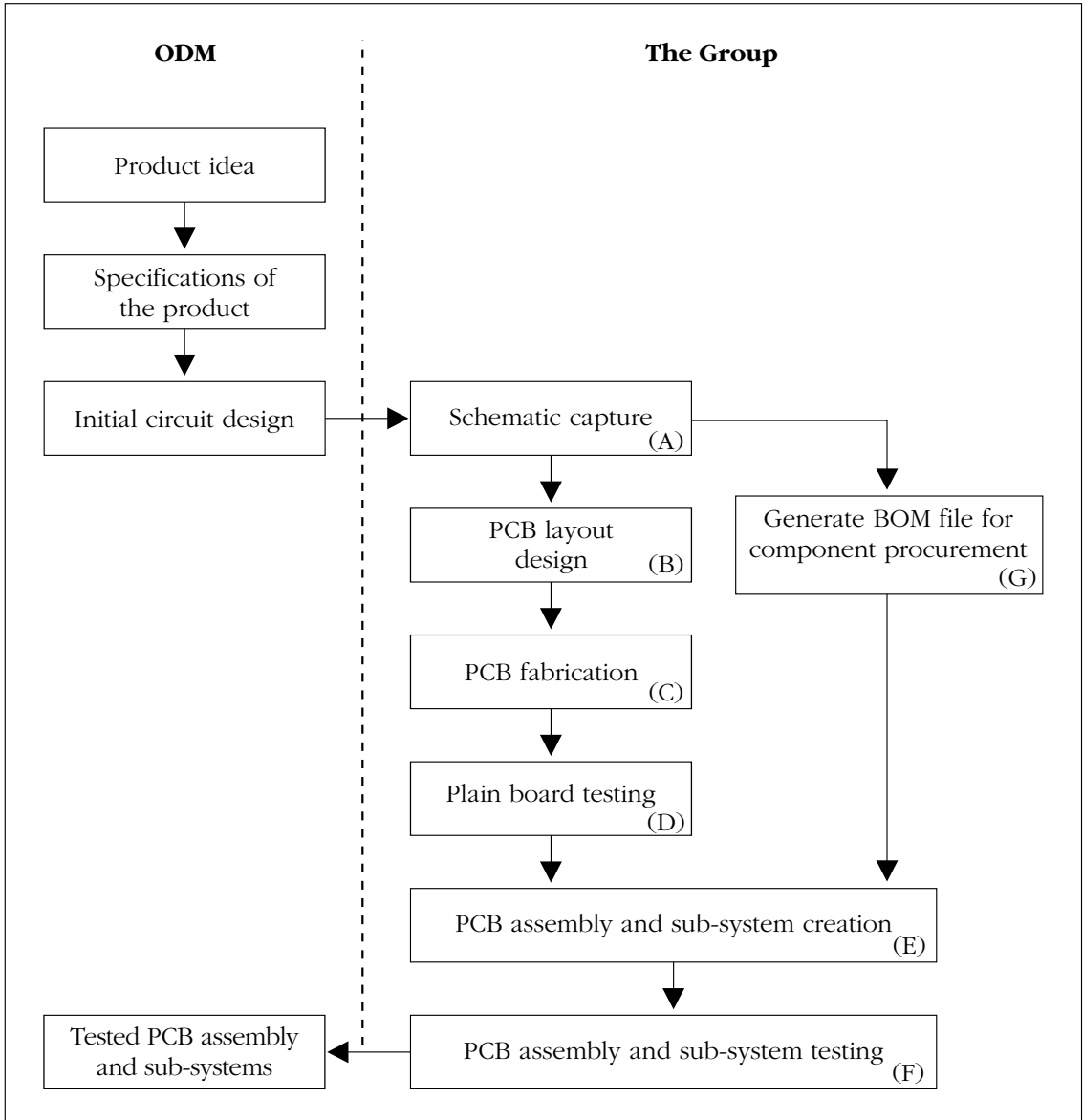


In the opinion of the Directors, due to a short development history and limited financial resources, many ODMs in China have a limited pool of engineering talents. The Directors are of the opinion that the trend of shrinking product life cycles will force them to become more dependent on outsourcing vendors in providing critical engineering and design services to facilitate the delivery of products sooner

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than their competitors. These outsourcing services can be invaluable to some of their customers in certain aspects of their product strategy. Being a specialist in PCBs, PCB assembly and sub-system design, the Group can utilise its resources efficiently to assist its customers in certain aspects of new product implementation. The Directors believe that engineering outsourcing services will likely to experience tremendous growth in the context of the outsourcing trends of ODMs.

The following flowchart illustrates the Group's business model and how the Group's EMS business can help its ODM customers during the product development stage:



* Boxes A, B, C, D and G are the engineering and manufacturing services currently provided by the Group. PCB assembly, sub-system creation and sub-system testing as described in boxes E and F are provided by the technical personnel of the Group in its customers' production and/or engineering sites.

Products and services

Recently, the Group has taken steps to expand the spectrum of its EMS business. To assist customers with PCB layout design, the Group offers CAM and CAD-based design and engineering for manufacturability. After the completion of the manufacturing process design, the Group offers quick-turn prototyping services. The Group also assists customers with the transition from the prototyping stage to volume production. The following paragraphs illustrate the services provided by the Group:

Pre-sale engineering services

Before accepting orders, the Group's sales representatives and engineers will discuss and liaise with customers in order to understand their requirements in relation to various aspects including materials, technologies, quality and schedule of delivery. The Group's development, process, and production engineers review the product design prior to production to ensure that the product is ready for manufacture and testing. The Group's technical support team also evaluates customer designs and, when appropriate, recommends design changes to reduce manufacturing costs or lead time or to increase manufacturing yields or the quality of finished PCBs. This cooperative process shortens the time in transition from the development of the customers' reference design to volume production, and facilitates the delivery of high quality products to customers in a timely fashion. Process design changes and refinements required for volume production are identified and implemented prior to production.

PCB layout design

The layout design of PCBs involves a combination of assembly and testing issue. Review of the manufacturing processes and the critique of the component layout and circuitry routing must take place at the design stage, not after the assembly moves into manufacturing. The Directors believe that ODM customers sometimes need assistance in the early stage of their product development to reflect manufacturing and cost considerations. The Group leverages its manufacturing and technical expertise by providing design and engineering assistance to customers in the early stages of product development, and helps customers to ensure that both electrical and manufacturing considerations are integrated to achieve a high quality and cost effective product for customers. The Group has a team of PCB design engineers that works closely with its customers with an emphasis on "design-for-manufacturability" and "design-for-testability". Before transmitting production specification data to its internal manufacturing divisions, the Group typically uses specialised CAM software to expedite the quick-turn process.

Quick-turn prototyping and pre-production

The Group provides quick-turn prototyping services to its customers who require small test quantities, thereby reducing the length of the design/manufacture cycle. The Group has a prototyping team of five engineers to provide pre-production services to its customers. By working closely with its customers at the prototyping stage, the Group can strengthen long-term relationships with its customers and gain advantage in securing a preferred vendor status when customers begin volume production.

Volume production

The Group's current production facilities are situated in Fuqing City, Fujian Province, the PRC, with an approximate total gross floor area of approximately 17,246 square metres. With an estimated product mix of approximately 60 per cent. single and double-sided PCBs and approximately 40 per cent. multilayer PCBs, the Directors estimate that these production facilities are capable of producing over 140,000 square metres of high precision single-sided, double-sided and multilayer PCBs per year. While customers increasingly demand a quick transition, only few PRC PCB manufacturers can provide complex PCBs with eight or more layers in the volume as the Group's facilities are capable of.

The Group employs various inventory management techniques such as JIT, ship-to-stock and auto replenish programs. The Group's investment in advanced manufacturing equipment and its experience in interconnect technologies enable the Group to offer a variety of advanced manufacturing solutions.

The Group employs numerous advanced manufacturing techniques and systems, including CAM systems, numeric controlled drilling and routing, dry-film imaging, multi-purpose metal plating, dual-access electrical testing, automated optical inspection, high-volume photoimageable solder mask processing, and computer controlled high-volume lamination systems. These techniques enable the Group to manufacture complex PCBs of consistent quality, in high-volume and on a timely basis. By adopting these advanced systems and techniques, the Group would enhance its competitiveness by expanding its capacities for orders which require advanced manufacturing technologies.

Quality control

The Group's quality assurance staff is involved in all phases of manufacturing to ensure the quality of all products made. Products manufactured by the Group have met the IPC and MIL standards of the US. Moreover, products produced by the Group have obtained the safety certifications issued by UL of the US and CCEE of the PRC. These standards are usually included as the specifications of customers' orders. The Group provides after-sales services, which normally include a warranty period of up to 90 days, to assure the quality of its products. In addition, the Group also conducts surveys on customers' demands with an aim of adjusting the design and manufacturing processes of its products in order to satisfy the customers' requirements. The Group is also working on the establishment of a statistical process control system to maintain consistent quality on its products.

Distribution

The Group offers flexible, JIT delivery programs that allow product shipments to be closely coordinated with customers' inventory requirements. The Group arranges product shipments either directly to the end-customers or to other specific destinations according to customers' instructions. The Directors believe that this service can provide customers of the Group with a more comprehensive solution to their needs and enable them to be more responsive to market demands.

Purchases

For each of the two years ended 30th June, 2000 and the five months ended 30th November, 2000, the Group's five largest suppliers, in aggregate, accounted for approximately 34 per cent., 66 per cent. and 53 per cent. respectively of the total of purchases of raw materials and components. For each of the two years ended 30th June, 2000 and the five months ended 30th November, 2000, purchases from the Group's largest supplier amounted to approximately 11 per cent., 25 per cent. and 25 per cent. respectively of the Group's total purchases of raw materials and components. None of the Directors, their respective associates (as defined in the GEM Listing Rules) or shareholders who hold more than 5 per cent. of the issued share capital of the Company holds any interest in the Group's five largest suppliers.

Purchases of raw materials and components by the Group are mainly sourced in the PRC and are settled in RMB, Hong Kong dollars and US dollars, with credit terms mainly include cash-on-delivery, 30-60 days open accounts and letters of credit of 60-120 days. For each of the two years ended 30th June, 2000 and the five months ended 30th November, 2000, approximately 41 per cent., 51 per cent. and 71 per cent. respectively of the Group's purchases were made by cash on delivery; approximately 19 per cent., 36 per cent. and 15 per cent. respectively were effected by letters of credit and the remaining approximately 40 per cent., 13 per cent. and 14 per cent. respectively were on open account basis. The Directors believe that it is the industry practice in the PRC for some of the suppliers to ask for cash on delivery payment terms.

Historically, the majority of raw materials and components used in the Group's manufacture of PCBs have been readily available. The Group maintains several vendors for each major material supply in order to diversify its vendor base. To date, material shortages or price fluctuations have not had a materially adverse effect on the Group. The Group also maintains a supplier certification program in which potential vendors are evaluated based on a number of factors including quality, timely delivery, cost, technical capability and potential technical advancement. Certification is based on both actual performance and audits of vendors' manufacturing sites. Key suppliers are also reviewed periodically by the Group with an aim to maintain close relationships with these suppliers and to maintain regular dialogue on quality, cost and technical advancement issues.

The Directors consider that it is not economically efficient to purchase common raw materials based on particular customer orders. Personnel in charge of the Group's inventory control performs periodical checks on the Group's stock records to ensure that inventories are maintained at a safety level, and notifies the purchasing department to replenish inventories that are below the safety level.

The management of the Group also performs detailed specific review on all inventories on hand. Specific provisions are made as and when the management of the Group considers the inventories to be obsolete. An approximately 4 per cent. general provision is made on the gross inventory balance after deducting those covered by specific provisions.

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Sales and marketing

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. For each of the two years ended 30th June, 2000 and the five months ended 30th November, 2000, sales to the Group's largest customer amounted to approximately 64 per cent., 34 per cent. and 22 per cent. respectively of the Group's total turnover. None of the Directors, their respective associates (as defined in the GEM Listing Rules) or shareholders who hold more than 5 per cent. of the issued share capital of the Company holds any interest in any of the Group's five largest customers.

The following table illustrates the breakdown of turnover by means of geographical location:

	For the year ended 30th June, 1999	For the year ended 30th June, 2000	For the five Months ended 30th November, 2000
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
PRC	35,826	62,021	45,817
Australia	1,214	12,361	13,966
US	—	4,190	1,489
Germany	787	3,028	1,122
Hong Kong	—	246	—
Total	<u>37,827</u>	<u>81,846</u>	<u>62,394</u>

For each of the two years ended 30th June, 2000 and the five months ended 30th November, 2000, sales in RMB accounted for approximately 95 per cent., 76 per cent. and 74 per cent. of the Group's turnover respectively, with the remaining balance denominated in US dollars or Euros. In general, overseas sales of the Group are settled by telegraphic transfer, while domestic sales have credit periods ranging from 60 days to 180 days. The Group adopts stringent control and supervision over the credit terms granted to its customers. The Directors confirm that specific provisions are being made on individual accounts according to their respective recoverability as reviewed by the management of the Group on a case-by-case basis. Furthermore, it is the Group's policy to make a general provision for bad debts of 5 per cent. on its account receivables. For each of the two years ended 30th June, 2000 and the five months ended 30th November, 2000, the provision for bad debts of the Group were HK\$2.1 million, HK\$4.0 million and HK\$0.2 million respectively. The Group had not experienced any significant sales return or any major complaints from its customers.

Production of the Group are backed by purchase orders. The Group generally does not obtain long-term purchase orders or commitments from its customers, and the orders received by the Group generally require delivery within 60 days. However, many of the Group's customers have maintained long-term purchasing relationships with the Group, and that changes in customers orders in the past did not have a significant impact on the Group's operating results.

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The Group has established a dedicated team to serve certain key customers. This team is made up of personnel from the areas of marketing, planning, technical support and quality assurance, and is responsible for addressing issues raised by these key customers to ensure continuity from PCBs design through distribution. This focused attention is designed to enable the Group to respond rapidly and efficiently to these key customers' specific precision manufacturing needs.

The Group markets its services through its own sales force and independent distributors. The Group engages, among others, marketing, quality assurance and operational planning personnel to facilitate its sales efforts. In addition, the Group's executive management team is an integral part of the Group's sales and marketing efforts. As at the Latest Practicable Date, the Group employed 23 sales, support and marketing personnel in its manufacturing plant. In addition, the Group employed a total number of nine sales personnel in six sales offices who are assigned to geographic territories including Shanghai, Fuzhou, Xiamen, Chengdu and Shenzhen within the PRC and Hong Kong. The Group's presence in the overseas markets is achieved through three distributors in the United States, Germany and Australia.

The Group markets its services to customers who, in the opinion of the Directors, currently have, or have the potential to achieve, significant market share in their respective industries. The Group focuses on developing close relationships with customers beginning at the earliest phases of design and development and continuing throughout all stages of production. The Group identifies, develops and markets new technologies that benefit its customers, and aims to position itself as an important source for these solutions. The products and services offered by the Group are promoted and marketed through provision of samples and visits of sales personnel to potential customers.

Strengths

The Directors believe that the Group has the following strengths:

- a well-established customer base;
- an experienced and committed management team capable of attracting talented employees;
- the capability and flexibility to produce both high-mix, low volume, customised complex products and low-mix, high volume products;
- the ability to offer “design-for-manufacturability” capabilities;
- the ability to maintain high quality in its products and offer outstanding engineering support services;
- the ability to conduct continuous evaluation and adopt new manufacturing and production technologies;
- manufacturing facilities located in a country with abundant supply of labour, low production costs and a large potential market; and
- strategically located in Fujian Province, one of the major manufacturing bases in the PRC for communications and communications related products.

Competition

The Directors believe that new competitors usually find it difficult to enter the industry of EMS in the interconnect market mainly due to the following reasons:

- this business is complicated, technologically demanding and highly professional. Its bulk production requires substantial technical expertise and specialised equipment as well as a long period of development time.
- this business is capital intensive. Production of high-grade products and bulk production of low-to-medium grade products will be impossible if it fails to reach the high professional standard or lacks the advanced equipment.
- this business requires technical skills from various disciplines including electronics, petrochemistry and mechanical engineering. Experts in this field have to be trained through practice.
- prior to becoming a preferred vendor of an ODM, an EMS company generally must perform, to the satisfaction of that ODM, on a trial basis and pass a series of certification procedures prior to obtaining meaningful orders from an ODM. As such, once a close relationship is established with an ODM customer, the relationship is relatively stable.

Due to the above reasons, the Directors believe that other manufacturers who are not on ODMs' vendor lists often find it difficult to obtain orders.

Intellectual property rights

The Directors believe that, due to its customers' demands for rapid technological advances and the resulting limited product life cycles, patent protection is not essential to the success of its business. Besides, the Directors believe that patents require public disclosure of information that may otherwise be subject to trade secret protection, and patent registration is not time and cost efficient for the Group's business. The Group does not have, nor does it generally intend to apply for, patent protection on any aspect of its technologies.

The Group's "Fuqiang(富強)" trademark and logo have been registered with the Trade Marks Bureau[#] (商標註冊局) of China. Furthermore, the Group submitted its application to the Trademark Registry of Hong Kong for registration of the "Fuqiang(富強)" trademark and logo in January 2001. Subject to any queries that the Trademark Registry of Hong Kong may raise, the Directors expect to obtain the certificate of registration by the end of 2001.

According to the Group's internal rules and regulations, employees of the Group are prohibited from using any know-how, copyright and trade secrets belonging to the Group or disclosing the same to any unauthorised parties, whether during the term of their employment. However, there can be no assurance that the Group will be able to maintain the confidentiality of its technologies, dissemination of which could have a materially adverse effect on the Group's business.

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As at the Latest Practicable Date, the Group is not engaged in or threatened with any claim for infringement of any intellectual property right, whether as claimant or respondent.

Environmental and safety matters

The Group is subject to the national environmental laws and local environmental rules of the PRC. According to the national environmental laws, the National Environmental Protection Bureau[#] (國家環境保護局) sets the national environmental protection standards, while local environmental protection bureaus may set stricter local standards. In the use of its properties and assets and operation of its business, the Directors confirm that the Group has used its best endeavours to ensure that it has complied and is in compliance with, in all material respects, all national, provincial and local statutes, laws, rules, regulations and orders relating to the protection of human health and safety, natural resources or the environment, including, but not limited to, water pollution, on-site or off-site hazardous substance discharge, disposal or recovery of toxic or hazardous substances, training, information and warning provisions relating to toxic or hazardous substances, or employee safety.

For each of the two years ended 30th June, 2000, the Group paid a discharge fee to the government of Fuqing City of approximately RMB354,000 and RMB130,000, respectively. The Directors believe that the Group's environmental protection system and facilities are adequate for it to comply with applicable national and local environmental protection regulations. However, there can be no assurance that the PRC government will not impose new, stricter regulations which would require additional expenditure on environmental protection.

POSSIBLE COMPETING BUSINESS BY FURI ELECTRONICS

Furi Electronics, a minority shareholder of Fuqiang, is principally engaged in the manufacture and sale of televisions, computers, computer accessories, telecommunications products and electronic components, which are not in competition with the business of the Group. However, the Directors confirm that Furi Electronics has not undertaken with the Group that it will not engage in any business which is in competition with the Group in the future.

CONNECTED TRANSACTION

The Group, on 1st February, 1999, entered into a lease agreement with Ms. He Yu Zhu, the spouse of Mr. Lin, pursuant to which the Group agreed to pay a monthly rental of RMB35,200 in respect of the Group's occupation of 15th Level, Zhong Mei Building, No. 107 Gu Tian Road, Fuzhou City, Fujian Province, PRC for a term of five years commencing on 1st February, 1999. The rental is based on normal commercial terms and is conducted in the ordinary and usual course of business of the Group. This transaction which is expected to continue after the Listing Date constitutes a de minimus on-going connected transaction and will be conducted in accordance with Rule 20.25(3) of the GEM Listing Rules.