

STATEMENT OF BUSINESS OBJECTIVES

BUSINESS OBJECTIVES

The Group's business objective is to become a leading EMS provider in the PRC for prominent ODMs in the high growth segments of the communications and communications related industries in the region. To achieve this business objective, the Group has established an EMS steering committee for the purpose of developing and promoting EMS and other related business. The Directors plans to expand its EMS business by providing "one-stop" design and engineering outsourcing services of PCBs, PCB assemblies and sub-system level solutions. Under its EMS strategy, the Group aims to keep track of the rapidly changing needs of its customers and develop EMS solutions that can accommodate their needs. Focusing on its EMS strategy, the Group intends to achieve the following goals over the next two to three years:

- continuing implementation of its EMS strategy by expanding its engineering support and service capacity;
- development of PCB fabrication capacity of 27,000 square metres (based on the Directors' estimation of a future product mix of approximately 25 per cent. single and double-sided PCBs and approximately 75 per cent. multilayer PCBs) to achieve economies of scale;
- become an integral part of the customers' product development and manufacturing strategy;
- become a "one-stop-shop" for PCB fabrication, PCB assembly and sub-system design services; and
- expansion of its global sales network.

The Directors believe that the communications segment would experience a higher-than-average growth, which would generate a higher demand and profit margin for PCBs than other industry sectors. Accordingly, it is the Group's EMS strategy to increase its revenue and improve its profitability by providing turnkey solutions and services to a diversified customer base in the communications segment and by capitalising on business opportunities arising from the communications and communication related industries.

BUSINESS POTENTIALS

Engineering outsourcing market

The Directors believe that a lot of potentials exist in the PRC EMS market. Traditionally, different stages of the PCB development process require substantially different capabilities, and as a result most companies specialise in only one stage of the whole process. Due to this phenomenon, ODMs and CEMs use different suppliers at each stage, which require costly and time-consuming duplicative tooling and pre-production engineering. As ODMs face increasing competition and shortening product life cycles, strategic outsourcing has become a preferred strategy for many leading ODMs and CEMs. The Directors believe that among all the market segments for PCB applications, communications and communications-related consumer products will be among the segments that will experience the engineering outsourcing trend in China.

STATEMENT OF BUSINESS OBJECTIVES

PCB market

The Directors believe that the overall market and demand for PCBs will continue to grow during the Forward Looking Period, in terms of the total units demanded, the variety of applications and the diversity of user groups. The high-end markets, which include high layer-count and advanced material PCBs, are likely to grow significantly faster than that of the PCB industry as a whole. As higher layer counts generally represents higher profit margin, the Directors believe that the Group's emphasis on its sales and engineering efforts in this high growth areas will position itself for rapid growth.

In the Directors' opinion, high-mix PCB shipments in China is going to experience high growth, in which six to 10 layer PCBs are expected to experience the highest growth while single and double-sided PCBs are going to grow more slowly. The Directors believe that there is likely to be a shortage in the supply of six to 10 layers PCBs in 2001.

The drivers of the Group's future revenue and profit growth include:

- (i) growth in the communications segment and its related consumer electronics markets;
- (ii) the emerging global EMS market and the increase in the purchase of PCBs by international ODMs; and
- (iii) rapid advancement in technology.

The Directors are of the view that currently, the Group is approaching full production capacity utilisation. By expanding its production capacity and solving its production bottlenecks, the Directors expect that the Group will substantially increase its revenue and improve its operating results.

FUTURE PLANS AND STRATEGIES

Continuing implementation of its EMS strategy by expanding engineering support and service capacity

In order to improve profit margin, the Group intends to expand its EMS business by providing PCB fabrication, PCB assembly and sub-system design services specifically to focused industry sectors and applications.

STATEMENT OF BUSINESS OBJECTIVES

The EMS operation requires significant joint design efforts between the Group and its customers at the beginning of the process. By enhancing the Group's circuit interconnect (PCBs, PCB assembly) and sub-system design capability, the Directors believe it will encourage its customers to outsource most of their layout designs and some of their sub-system development to the Group, creating an opportunity for the Group to function as an extension of its customers' product development efforts. The Group also intends to assume the responsibility of advancing technology in material usage, PCB fabrication and PCB assembly. The Directors believe that by developing an extensive involvement with its customers at their product design stage and applying technology designed to meet the rapidly changing requirements of its customers, the Group will be able to create a key competitive advantage in the future.

The Group will also consider strategic acquisitions of companies which can enhance its system design expertise, achieve economies of scale and help fulfil its long-term strategic objectives. In evaluating possible acquisition candidates, the Group considers, among other things, the opportunity for synergistic product offerings, complementary client base, new technological capabilities and potential for extended geographical coverage.

Development of PCB fabrication capacity to achieve economies of scale

The Directors believe that the interconnect industry will continue to consolidate due to the substantial capital investment on production facilities, engineering and manufacturing expertise and technology required to make increasingly sophisticated electronic interconnect products. As a result, the Directors believe that companies with lesser financial and technical resources are likely to exit the industry, while larger interconnect companies with sufficient resources will continue to gain market share. To achieve economies of scale, the Group intends to upgrade its production plant for fabrication of single-sided, double-sided and multilayer PCBs from the current monthly production capacity of approximately 12,000 square metres, as estimated by the Directors based on an estimated product mix of approximately 60 per cent. single and double-sided PCBs and approximately 40 per cent. multilayer PCBs, to approximately 27,000 square metres, as estimated by the Directors based on an estimated product mix of approximately 25 per cent. single and double-sided PCBs and approximately 75 per cent. multilayer PCBs, in two to three years.

Become an integral part of the customers' product development and manufacturing strategy

The Directors believe that in order to avoid logistical complexities and delays in new product introductions and to reduce manufacturing costs, increasing number of ODMs are engaging the few EMS providers with development, design, quick-turn prototyping and pre-production, volume production and PCB assembly capabilities to assist in their development and manufacture of electronic interconnect products.

In the past, when international semiconductor manufacturers tried to market IC products in China, they often experienced difficulty in marketing a product design to local ODMs, as these local ODMs generally lacked the research and development capability which could transfer a prototype-reference design to a manufacturable design.

STATEMENT OF BUSINESS OBJECTIVES

The Directors believe that the Group can fill this gap by establishing strategic partnerships with certain international semiconductor manufacturers and be involved in the early stages of their product localisation by providing IC applications solutions to ODMs in China. The Group intends to target applications for rigid circuit interconnects such as communications products and computers that have been characterised as large volume, high growth and rapidly changing. In these markets, the Group can apply its design skills and manufacturing efficiencies in bringing a product from concept to volume production as rapidly as possible. Likewise, the Directors believe that the group can leverage the technologies acquired from its existing markets and apply them to the new and emerging markets and applications. The Group will target on ODMs which:

- (i) are market leaders;
- (ii) need rapid response and value-added assembly; and
- (iii) will reward initiative with a preferred supplier position.

The Directors believe that these partnerships should enable the Group to build stronger strategic relationships with its key customers and become an integral and crucial part of their operations.

Become a “one-stop-shop” for PCB fabrication, PCB assembly and sub-system design services

The Group intends to offer complete and fully tested circuit interconnects through the provision of custom design, fabrication, assembly and functional testing services to ODMs and CEMs. To achieve the objective of becoming a turnkey interconnect solution provider, the Group intends to establish its own PCB assembly facilities. Through the provision of PCB assembly services, the Directors believe that the Group will become one of the few Chinese companies capable of offering significantly shorter turnaround time, lower costs and better quality for customers.

In addition, the Group believes that the integration of PCB assembly facilities and high-volume production capabilities will, over time, lower the Group's production costs through higher product yields, faster production ramps, reduced inventories and shortened production cycle.

Expansion of global sales network

The Group intends to establish direct global independent sales representatives and domestic branches. The Directors plan to further expand the Group's sales network, which is expected to make continuous and significant contribution to the Group's future business growth.

SPECIFIC BUSINESS OBJECTIVES PRIOR TO THE YEAR ENDING 30TH JUNE, 2003

The Group intends to achieve the following specific objectives prior to the year ending 30th June, 2003, and will review the response to its developments from time to time.

STATEMENT OF BUSINESS OBJECTIVES

From the Latest Practicable Date to 30th June, 2001

Engineering outsourcing (including research and development)

- expand PCB layout design services to some key domestic customers of the Group;
- provide increasing level of “design-for-manufacturability” services during the early stages of the production cycle through the Group’s engineering outsourcing services division to develop process changes and refinements required for volume production;
- start to implement ISO 9001 quality standard; and
- secure at least one strategic partnership capable of bringing in EMS orders based on the Group’s then existing ODM/CEM customers through active marketing.

PCBs and PCB assembly

- shorten the delivery time for its PCB quick-turn services from an average of 72 hours to 36 hours;
- start and complete the first phase of the expansion plan to increase PCB production capacity for single-sided, double-sided and multilayer PCBs from approximately 3,300 square metres per month to approximately 12,000 square metres per month by purchasing additional NC drillers, multilayer press machines and testing equipment;
- start the second phase of the expansion plan to increase PCB fabrication capacity for single-sided, double-sided and multilayer PCBs by 50 per cent.;
- continue the implementation of the statistical process control system, a system which involves monitoring, controlling and improving a manufacturing process through statistical analysis;
- purchase the SMT assembly line and equipment for “thru-hole” assembly line;
- increase the average layer counts for PCBs produced by the Group to four layers from two layers for the five months ended 30th November, 2000, and increase the percentage contribution to total PCB fabrication revenue by the six layer PCBs from 4 per cent. for the five months ended 30th November, 2000 to 15 per cent.; and, depending on customers’ demand, expand the proportion of sales generated from 10 to 12 layer PCBs;
- establish the capacity to fabricate PCBs up to 30 layers; and
- start to implement QS 9000 quality standard, which is a standard approved by the International Standards Organisation for different businesses with different areas of coverage.

STATEMENT OF BUSINESS OBJECTIVES

Sales and marketing

- strengthen the Group's brandname "Fuqiang (富強)" into a highly regarded and widely recognised brandname in the electronic interconnect product market by offering "one-stop" EMS solutions to customers and adding reputable international ODMs to its EMS client list;
- increase the percentage of sales to the communications sector, which the Directors consider would have a higher-than-average growth and a higher profit margin, from approximately 35 per cent. to 50 per cent.; and
- explore business opportunities in other high growth segments in the PRC, such as medical equipment and instrumentation.

Business and human resources developments

- establish EMS strategic partnership with at least one ODM during this period. Negotiations with ODMs in the telecommunication sector have already been taking place;
- recruit approximately two additional engineers for its engineering outsourcing division during this period;
- complete the implementation of a computerised ERP system for the integration of material management, engineering production and control;
- approach US and European semiconductor makers and offer PCB design solutions for the application of their IC products;
- establish a joint engineering design centre together with Electronic Research Institute; and
- since universities in the PRC usually have experts who are technically competent and are willing to focus their resources in research and development, the Group plans to enter into formal arrangements with one national university in the PRC to establish joint laboratory for the design of system solutions and other advanced technologies. In this respect, negotiations between the Group and Qinghua University in Beijing, the PRC have already been taking place.

Cost to be incurred

Based on the Directors' estimate, the total cost to be incurred by the Group in respect of the implementation of its planned strategies during the six months ending 30th June, 2001 would amount to approximately HK\$40 million, which will be funded by the net proceeds from the Placing.

STATEMENT OF BUSINESS OBJECTIVES

Six months ending 31st December, 2001

Engineering outsourcing (including research and development)

- start to offer PCB assembly and sub-system design services to existing customers; and
- obtain ISO 9001 quality certification, which is a standard for compliance of certain procedures and practices by business enterprises for maintaining a certain level of quality standards, covering areas including design and development, production, assembly/investment and services.

PCBs and PCB assembly

- enhance fabrication facility and develop higher margin customer base through the provision of PCB assembly services to customers who require shorter production time;
- conduct the pilot run and pre-production preparation of SMT assembly;
- continue to increase the proportion of sales generated from 10 to 12 layers PCBs, which are expected to have a higher profit margin due to the increasing complexity on design and fabrication, as compared to the year ending 30th June, 2001;
- increase revenue through the sale of higher layers PCBs and complex PCB assembly;
- purchase advanced equipment which permits fabrication of higher layers PCBs;
- continue to adjust its fabrication plant to complement the changing needs of its customers;
- start the second phase of expansion of assembly line by purchasing additional backplane assembly equipment;
- continue the second phase of the expansion plan to increase production capacity for single-sided, double-sided and multilayer PCBs by 50 per cent. from approximately 12,000 square metres to approximately 18,000 square metres; and
- obtain QS 9000 quality certification.

Sales and marketing

- undertake a comprehensive marketing program to attract new customers including subsidiaries of international ODMs in the PRC and domestic ODMs by offering tailor-made PCB and sub-system design solutions; and
- focus marketing efforts on ODMs in the high-growth communications, computer and computer peripheral segments of the electronics industry.

STATEMENT OF BUSINESS OBJECTIVES

Business and human resources developments

- increase revenue through completion of the first phase of the development plan, which includes the expansion of its PCB production capacity to approximately 18,000 square metres and adding PCB assembly capacity to service its higher margin customers; and
- recruit at least one new engineer for its engineering outsourcing division during this period.

Cost to be incurred

The Directors estimate that the costs incurred by the Group in respect of the above expansion plans would amount to approximately HK\$16 million, of which approximately HK\$7.6 million will be funded by the net proceeds from the Placing, with the balance of approximately HK\$8.4 million to be funded by internal resources of the Group.

Six months ending 30th June, 2002

Engineering outsourcing (including research and development)

- launch turnkey sub-system solutions designed by the Group and Electronic Research Institute for communications and communications related segments;
- establish function test capacity for sub-systems;
- plan for the construction of PCB prototyping facilities and the establishment of an EMS branch office in Shenzhen, the PRC;
- establish a joint laboratory with a national university in the PRC for the research of advanced materials used in the fabrication of PCBs. In this respect, the Group is undergoing negotiations with Qinghua University in Beijing, the PRC; and
- undertake projects to develop emerging technologies including various micro-via processes, horizontal plating, plasma etching and laser drilling.

PCBs and PCB assembly

- complete the second phase of the expansion plan which includes the increase of plant floor space and the purchase of state-of-the-art equipment to increase monthly production capacity to approximately 27,000 square metres for single-sided, double-sided and multilayer PCBs;
- depending on the customers' demand, increase the layer counts of PCBs to 12 or more, and increase its production capabilities from its current 20 layers to 30 layers; and
- increase the percentage contribution to revenue from the communications segment to 65 per cent. of total revenue.

STATEMENT OF BUSINESS OBJECTIVES

Sales and marketing

- target customers with latest technologies, including broadband technologies such as optical networking, wireless applications, and data storage technologies.

Business and human resources developments

- improve the gross margin of the Group by 15 per cent. through the increase in the provision of higher margin, value added, high-mix and EMS strategies;
- establish preferred supplier relationships with two established leaders in the communications and communications related consumer product markets (the Directors believe that the establishment of business relationships with two companies within the same industry sector will enable the Group to consolidate its efforts for realisation of market expansion, easing its internal operations and management constrains); and
- recruit at least two new engineers for its engineering outsourcing division during this period.

Cost to be incurred

The Directors estimate that the costs incurred by the Group in respect of the above expansion plans would amount to approximately HK\$10 million, which will be funded by internal resources of the Group.

Six months ending 31st December, 2002

Engineering outsourcing (including research and development)

- launch testing services of sub-systems or PCB assembly;
- utilise its EMS capacity and leverage on its established customer base to provide new value-added services which may include supply chain management, repair services and higher level of design services to customers;
- establish strategic alliances with at least one semiconductor manufacturer to provide PCB design solutions for the application of its IC products; and
- seek opportunities for co-operation with other design houses in the PRC, Taiwan, the US and Japan in the development of certain communication devices.

PCBs and PCB assembly

- complete the second phase of the expansion plan to increase SMT assembly production capacity by 50 per cent.

STATEMENT OF BUSINESS OBJECTIVES

Sales and marketing

- establish a sales representative office outside Hong Kong and the PRC.

Business and human resources developments

- recruit two new engineers for its engineering outsourcing division during this period; and
- acquire of quick-turn prototyping and design facility in an area near its major EMS customers to increase the Group's ability to meet their accelerated time-to-market and time-to-volume requirements.

Cost to be incurred

The Directors estimate that the costs incurred by the Group in respect of the above expansion plans would amount to approximately HK\$8 million, which is expected to be funded by internal resources of the Group.

Six months ending 30th June, 2003

Engineering outsourcing (including research and development)

- pursue long-term supply agreements with large international ODMs in the communications segment through the provision of integrated PCB fabrication, PCB assembly and material procurement services;
- recruit at least one new engineer for its engineering outsourcing division during this period;
- roll out an increasing level of its engineering outsourcing services including “design-for-manufacturability”, PCB layout design, assembly, system level solution and “design-for-testability” prior to other competitors in order to establish a significant leading market position; and
- increase revenue generating from its EMS business to approximately 70 per cent. of the Group's total revenue by establishing closer strategic business relationships with and by providing more value-added services to its customers.

PCBs and PCB assemblies

- start to use alternative high performance materials such as Teflon, GETEK, OHMEG-PLY(r), cyanate ester and polyimide for high temperature, fast signal speed and other high-performance requirements.

STATEMENT OF BUSINESS OBJECTIVES

Sales and marketing

- target the PRC as its key market for the expansion of its engineering outsourcing services.

Business and human resources developments

- explore opportunities to acquire or form alliances with companies in the communications and IT sectors which can provide synergies and technological support to the Group;
- establish broader sales and marketing channels by recruiting more marketing personnel and appointing two additional independent distributors in Europe and the US; and
- invest in or establish partnership with companies which have complete system design capabilities.

Cost to be incurred

The Directors estimate that the costs to be incurred by the Group in respect of the above expansion plans would amount to approximately HK\$1 million which will be funded by internal resources of the Group.

Bases and assumptions

The business objectives of the Group stated above are based on the following bases and assumptions:

1. the business objectives for any of the specified periods have been stated on the basis that they may have to be revised or adjusted by the Group from time to time in light of factors such as changes in market conditions, market response to particular products and whether the Group has successfully achieved its stated business objectives in the preceding period or periods. It is also assumed that the Group does not experience significant delay in achieving its stated business objectives in any of the specific periods;
2. the Group does not encounter any significant difficulty in the research and development of any of its new products or solutions;
3. the Group does not encounter any significant problem or disruption adversely affecting its operations or business objectives in any ways including but not limited to:
 - failure in the Group's software and hardware systems; and
 - the Group being involved in future litigation with respect to technology rights and proprietary rights which disrupt the Group's business operations;
4. the interconnect industry and the EMS industry continue to develop and grow as anticipated;

STATEMENT OF BUSINESS OBJECTIVES

5. the Group is not materially adversely affected by any change in existing government policies or political, legal (including changes in legislation or regulations or rules), fiscal or economic conditions in Hong Kong, the PRC or any of the countries in which the Group carries on business or to which it exports or imports its merchandise or sources supplies;
6. the Group is not materially adversely affected by any change in bases or rates of taxation in the PRC or in any other places in which the Group operates or is incorporated; and
7. the Group is not materially adversely affected by any change in interest rates or exchange rates from those currently prevailing.

Reference is made to the risk factors set out in the section headed “Risk factors” in this prospectus, the occurrence of any of which may delay or otherwise adversely affect the attainment by the Group of any of its business objectives.

Human resources deployment

The headcount projection for each of the year ending 30th June, 2003 is set out in the following table:

	<u>(Actual)</u>	<u>(Projected)</u>		
	Year ended 30th June, 2000	Year ending 30th June, 2001	Year ending 30th June, 2002	Year ending 30th June, 2003
Engineering and research and development	75	100	200	234
Sales and marketing (including sales engineers)	26	33	40	45
Finance, accounting, operation and administration	<u>373</u>	<u>383</u>	<u>655</u>	<u>748</u>
	<u><u>474</u></u>	<u><u>516</u></u>	<u><u>895</u></u>	<u><u>1,027</u></u>

The above projection assumes that the Group will expand and thus increase its headcount through organic growth, and does not take into account any headcount increase as a result of potential acquisitions by the Group.

STATEMENT OF BUSINESS OBJECTIVES

REASONS FOR THE PLACING AND USE OF PROCEEDS

The Placing will enhance the Group's capital base and provide funding for the expansion plan and the implementation of its EMS strategy. It is estimated that the net proceeds from the Placing before the exercise of the Over-allotment Option and after deducting related expenses are estimated to be approximately HK\$47.6 million. The Group currently intends to use such net proceeds as follows:

- approximately HK\$30 million for the expansion of the PCB fabrication plant;
- approximately HK\$10 million for the development of EMS business and the purchase of related equipment;
- approximately HK\$4 million for the construction of a SMT assembly line;
- approximately HK\$3.3 million for the purchase of advanced testing equipment and software for PCB testing to facilitate the provision of computer-aided testing and assembly of PCBs; and
- approximately HK\$0.3 million for the establishment of a joint engineering design centre with Electronic Research Institute to undertake future research and development projects from ODMs.

It is estimated that a total sum of approximately HK\$42 million will be required for the expansion of PCB fabrication plant from the existing production capacity of approximately 12,000 square metres to the Group's targeted production capacity of approximately 27,000 square metres, of which approximately HK\$30 million will be financed by the net proceeds from the Placing, and the balance of HK\$12 million will be financed by internal resources.

Should the Over-allotment Option be exercised in full, the Company will receive additional net proceeds of approximately HK\$8.7 million which, together with the net proceeds from the Placing and after deducting related expenses, will amount to approximately HK\$56.3 million. The Directors intend to use such additional proceeds for general working capital of the Group.

To the extent that the net proceeds from the Placing are not immediately applied for the above purposes, it is the present intention of the Directors that they will be placed on short-term interest-bearing deposits with licenced banks in Hong Kong.