
FUTURE PLANS, REASONS FOR AND PROPOSED USE OF PROCEEDS FROM THE NEW ISSUE

BUSINESS STRATEGY

It is the Group's vision to be a leading PCB manufacturer in terms of technical capability and production capacity. The Group's business philosophy is to provide high quality products in a cost-effective manner, and its aim is to promote growth of its sales revenue and to improve its profitability by harnessing its competitive strengths. The salient points of the Group's business strategy are as follows.

Increase production capacity

The Group is making on-going efforts to expand its production capacity in response to market demand. Based on the current product mix of two to 14 layer PCBs and its existing facilities, the Group has a monthly production capacity of approximately 1.3 million sq.ft.. The Group plans to upgrade its equipment so as to increase its monthly production capacity to approximately 1.5 million sq.ft. by July 2002. As part of this strategy, the Group is expanding its production plant in Shekou, Shenzhen, the PRC. Details of the expansion are set forth under the paragraph headed "Future plans" in the section headed "Future plans, reasons for and proposed use of proceeds from the New Issue" in this prospectus.

Invest in more advanced machinery

The Group has continuously expanded its production capacity and has invested in more advanced equipment. This has allowed the Group to keep pace with rapidly changing production technology and to meet its customers' constant demand for quality products. The Group also seeks to increase automation in its production processes in order to be more cost effective and to minimise human error.

Diversify into higher-end products

During each of the three years ended 31 December, 2001, sales of six to 14 layer PCBs accounted for approximately 14%, approximately 12% and approximately 17% of the total sales of the Group, respectively. The Directors intend to enhance the Group's capability to manufacture PCBs of 10 layers and above with more advanced technology such as microvia, blind and buried via, buried capacitor, buried resistor, back-panel and fine line products. Such PCBs of 10 layers and above will be used in the production of complex assemblies, servers and switches. The target markets for these products will primarily be North America and Europe, as well as EMS companies with assembly plants located in Asia. The Directors believe that such emphasis on higher-end products will provide the Group's customers with a wider range of choices and will enhance the Group's profitability as such products generally command higher profit margins.

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Provide high value-added services

As part of its commitment to providing customers and business partners with value-added services, the Group offers customised alternatives such as HMLV product programmes with lead times of two weeks or shorter. The ability to deliver HMLV products with quick turnaround times generally allows the Group to command a higher premium. Due to its well-established engineering and technical capabilities, the Group is also able to provide its customers with a wide range of products with different surface finishings, such as gold tap plating, immersion silver, immersion gold, Entek (a type of finishing which contains anti-tarnish chemicals), and hot air levelling. The Directors believe that the Group's ability to offer a wide range of products and services is important in gaining the confidence of its new customers in its capability.

Maintain low cost structure

The Group closely monitors and reviews its cost structure to ensure that a low cost structure is maintained, while constantly exploring ways to further reduce costs. Firstly, it is the Group's policy to centralise its production and storage facilities in the southern part of the PRC so as to increase operational efficiency and to avoid unnecessary loss during the course of production. Secondly, the Group has, on an on-going basis, implemented cost control measures involving a systematic and purposive approach to reduce costs, increase efficiency, reduce scrap and hence increase utilisation of raw materials.

Emphasis on long-term customer relationships

Since the commencement of its business, the Group has placed strong emphasis on cultivating long term business relationships with its customers. The Group has developed a culture of sharing information with its customers. The Group maintains good working relationships with its customers by organising regular meetings with them to review their needs in relation to production, product development and cost control and maintains continuous contact through electronic means. A good understanding of its customers enables the Group to better contribute ideas and information for engineering design to its customers. The Group and its customers arrange training sessions for each other to enhance cooperation. The information sharing process helps customers conceive designs for their products with features which enhance production efficiency, and thereby result in cost savings. The Group's philosophy of supporting clients through information sharing has helped the Group secure new contracts as it gets involved at an early stage of product planning with its customers.

FUTURE PLANS

In order to capture the future market demand of PCBs, the Group will focus on ongoing improvements in both its technical capabilities and production efficiency. The Group will engage in continuous R&D activities relating to the production of PCBs and has formulated concrete plans regarding the expansion and upgrading of its production facilities.

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Expansion of production facilities

The Group commenced the construction of its new facilities in Shekou, Shenzhen, the PRC, in March 2001. The construction of the new facilities, which will have a gross floor area of 40,329 sq.m., is expected to be completed by the end of 2002. It is expected that the new facilities will allow the Group to increase the production of PCBs of six layers and above. Based on the expected product mix, the new facilities will have a monthly production capacity of approximately 0.8 million sq.ft..

With the construction of the new production facilities, the Group will continue to invest in equipment and technology to keep pace with the more advanced PCBs that the Group targets to produce. The Group plans to purchase advanced machinery and equipment for high density circuitry PCBs, blind and buried via processing with automation features, fine line processing, high multilayer count products, green PCB development technology, thin core handling, high performance material processing and other advanced processes used in the production.

Research and development

The Group is taking a proactive approach in research and development to cater for the needs of its customers and to enhance its production efficiency with a view to increasing profitability. It is the Group's intentions that in the near future, R&D of the Group will focus on improving engineering capabilities such as laser direct imaging technology to eliminate various intermediate imaging steps, micro size hole drilling development for high density circuitry PCB products, plating products such as back-panel PCBs used in main frame computers which contain small holes and high thickness, and achieving even copper plating distribution to improve overall uniform thickness of PCB panels. In the long term, the Topsearch Technology Board, which comprises senior management staff of the Group specialising in engineering and operations, will continue to devise customer-oriented technology road maps for the Group.

Further penetration into the PRC market

In light of the PRC's entry into the WTO, the Directors anticipate that more EMS companies and OEMs will expand their production facilities in the PRC and which will in turn create opportunities for the Group. With the increased production capability of the Group, the Directors will actively explore the PRC market. Currently, the Group has sales offices established in Shekou, Shenzhen, the PRC to cover the southern part of the PRC and has marketing staff who regularly visit the production plants of the Group's customers in the central areas of the PRC. The Directors intend to establish an additional marketing office in Shanghai to strengthen its coverage in the central region of the PRC. The Group will also continue to participate in exhibitions and trade shows for the PCB industry to increase awareness of the "Topsearch" brand name.

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Improvement of customer services

Continuous improvement of customer services has always been the Group's major focus. In particular, the shortening of the time required for quick turn production of higher-end multilayer products is an important area for enhancement. In order to achieve this target, the Group will further invest in its engineering resources and sales forces.

REASONS FOR AND PROPOSED USE OF PROCEEDS FROM THE NEW ISSUE

The Directors are of the view that the New Issue will enhance the corporate profile of the Group and enable it to gain access to capital markets in order to obtain external financial resources for future expansion and growth of the Group.

The proceeds from the New Issue, after deduction of the expenses payable by the Company in relation to the New Issue, are estimated to be approximately HK\$200.0 million (assuming that the Over-allotment Option is not exercised). The Directors currently intend to apply the net proceeds of the New Issue as follows:—

- approximately HK\$170.0 million for the completion of the construction of an eight-storey production facility in Shekou, Shenzhen, the PRC;
- approximately HK\$26.2 million for the acquisition of new machinery; and
- the remaining balance of approximately HK\$3.8 million as general working capital.

If the Over-allotment Option is exercised in full, the net proceeds of the New Issue will increase to approximately HK\$232.3 million. The Directors intend to use the additional proceeds as general working capital of the Group.

To the extent that the net proceeds from the New Issue are not immediately required for the above purposes, it is the present intention of the Directors to place such proceeds in interest-bearing deposit with banks and/or financial institutions in Hong Kong.