

FUTURE PLANS AND PROSPECTS

“Golden Tax Project” is a nationwide project for the computerisation of the tax collection system in the PRC. In addition to the “Golden Tax Project”, the PRC government has launched a series of separate E-government infrastructure initiatives which aim at developing an information economy and building administrative capabilities (such initiatives and the “Golden Tax Project” are collectively known as the “Twelve Gold Projects”). The “Twelve Gold Projects” cover the whole range of IT systems for intra-government communications, education, health care and medical research, and agriculture.

The Directors consider that the implementation of the “Twelve Gold Projects” will prompt the replacement of handwritten records by the usage of computerised information systems. In turn, more hardcopy documents, including computerised reports and multi-part forms, will be printed by computer printers in both governmental and commercial sectors. Such reports and forms are often required to be printed in multi-part forms and multiple sheets in a single pass for which the use of SDM printers are required. Therefore, the implementation of the “Twelve Gold Projects” is expected to lead to an increase in demand for SDM printers in both governmental and commercial sectors in the PRC.

The implementation of “Golden Tax Project” in China since 1994 not only has directly stimulated the demand for SDM printers in the governmental and commercial sectors in China, it has also created a sizeable market for a range of tax control equipment, including tax control ECR, mini printers, external tax control device, anti-fraud invoice printers (business tax invoice) and anti-fraud invoice printers (VAT invoice).

According to CCW Research, the accumulated sales of tax control equipment in the PRC between 2005 and 2011 will reach approximately RMB57.9 billion. The Directors believe that the Group, by virtue of its high brand recognition, well-established production capacity and distribution network, and solid relationship with major customers and suppliers in the PRC and overseas, is now well positioned to capture the sizeable business opportunities arising from the implementation of the “Golden Tax Project” and the “Twelve Gold Projects”.

Regarding the EMS/ODM/OEM business, the Directors believe that competition in the PRC is intense because of low entry barrier. However, amid the trend of globalisation, the cost advantages of the PRC have attracted substantial foreign companies to outsource its manufacturing activities to the manufacturers in the PRC. In order to maintain the competitiveness of the Group and sustain its profitability, the Group is not only able to offer manufacturing services to customers, but also to provide a range of value-added services, including direct material procurement, sales distribution and after-service services. The Directors believe there is a sizeable unexplored outsourcing market in the developed countries. To strengthen its position as a key EMS/ODM/OEM services provider, the Group intends to strengthen its effort in developing the outsourcing market in the developed countries and target to some mid-sized companies in US and Europe which wish to outsource their manufacturing operations to the PRC for cost reduction and to enter the PRC market.

To achieve the above business objectives, the Group has formulated the following major business strategies:

- **Enhancing brand recognition of the Group’s own branded products in the PRC**

Customers of the Group’s Jolimark branded products include both distributors and end users (mainly those in commercial sectors and the government/state-owned sectors). In order to approach these users, the Group’s marketing strategy aims both directly at the end users and at distributors. To enhance brand recognition, the Group places outdoor advertisements, participates in seminars targeted

FUTURE PLANS AND USE OF PROCEEDS

at different customer groups to promote their products and offers free trials. Where appropriate, the Group provides on-site training courses for its end-users. The Group also organises conventions for its existing distributors and end users, to introduce new products to its distributors and end users.

In order to further enhance the Group's brand recognition, the Group plans to employ marketing experts to help promote the Group's own branded products. It will seek to appoint a professional public relations consultant in the year commencing from the Listing Date to assist the Group in formulating plans for and coordinating the following:

- (i) advertisement and promotion of Jolimark branded products in the PRC through bill boards, advertisements in newspapers and trade magazines and attending trade shows and exhibitions
- (ii) arrangement of periodic seminars for end users of business equipment and tax control equipment
- (iii) provision of training sessions for distributors of the Group.

● **Expanding its sales and distribution network in the PRC**

The distribution of Jolimark branded products is now channelled through the Group's core distributors, general distributors or tax control equipment distributors (as the case may be) throughout the PRC. The Group directly enters into distribution contracts with its distributors and its distribution network for Jolimark branded products is now managed by the nine branches of Kongyue Jolimark in the PRC.

In order to expand its current distribution network for Jolimark branded products, the Group plans to build up a network of retail outlets by setting up approximately 300 nation-wide specialty counters, specialty shops and flagship stores for Jolimark branded products including tax control equipment by the end of 2006. This may be done through franchising arrangements with its core and general distributors. The distributors will be selected based on their experience and track record in retail business and they will be required to operate the specialty shops within guidelines and specifications prescribed by the Group, such as those which relate to the location and internal decoration of such shops. The Group also intends to provide regular training to the sales staff of these specialty counters, shops or stores. The Directors believe that the setting up of specialty counters, shops and flagship stores for the sale of its own branded products could more effectively promote the Jolimark brand.

FUTURE PLANS AND USE OF PROCEEDS

- **Developing overseas EMS/ODM/OEM business**

The Group aims to expand its overseas client base in developed countries where the labour cost and overheads are high. The Directors believe that high labour cost and operating overhead in these developed countries have prompted companies to seek to shift all or part of their manufacturing operations to the PRC to the extent they perceive costs saving could be achieved in doing so. In addition the Directors believe that with the economic growth in the PRC, the PRC has become a sizeable market for electronic products. This in turn may also attract overseas companies to establish manufacturing facilities in the PRC. In light of this, the Group seeks to target companies in the US, Europe, South Korea, Japan and Singapore especially medium sized companies, which wish to outsource their manufacturing operations to the PRC and to expand their market in or to the PRC. The Group's plans to further develop its EMS/ODM/OEM business include the following:

- establishing a new business development team for overseas EMS/ODM/OEM business, in connection with which, the Group plans to employ by the second half of 2005, by appointing approximately 10 more employees including 2 senior executives to be dedicated to managing EMS/ODM/OEM projects and developing further EMS/ODM/OEM business
- appointing manufacturer representatives in the USA, Europe and South Korea on a retainer basis to approach potential medium sized corporate clients
- establishing in 2005 overseas offices in Singapore, Japan and Hong Kong, intended ultimately to operate as profit centres, to develop its overseas EMS/ODM/OEM client base each with its own staff
- increasing its participation in overseas trade shows, exhibitions, industry seminars and advertising to enhance the Group's profile as a provider of EMS/ODM/OEM services.

- **Strengthening the Group's capability in research and development**

To maintain the cost advantage of the Group's products and broaden the Group's product mix, the Group aims to increase its effort in strengthening the Group's capacity in research and development. The Group's plans in this regard includes the following:

- strengthening its research and development team by employing approximately 4 additional senior executives and recruiting about 30 technical staff
- strengthening its capabilities in product development and manufacturing technologies through technology transfer or joint development arrangements with design houses in Japan and South Korea for product design, product commercialisation and mass production technology. Areas which the Group intends to focus include the following:
 - (i) projector optical engine for digital display products
 - (ii) ink jet, thermal and SDM mini printer mechanisms
 - (iii) printer head manufacturing technology.

Currently, the Group is in preliminary negotiations with two prospective vendors with respect to the possible acquisitions of manufacturing technology for 24-pin SDM printer-heads from them. Save for the above, the Group has not identified other technical know-how for acquisition.

FUTURE PLANS AND USE OF PROCEEDS

REASONS FOR THE SHARE OFFER AND USE OF PROCEEDS

Reasons for the Share Offer

The Directors believe that the listing of the Shares on the Main Board will enhance the corporate profile of the Group. In addition, the Directors expect the net proceeds from the Share Offer to provide the funding for the implementation of the Group's future plans, as set out in this section.

Use of proceeds

Assuming the Share Offer becomes unconditional and the Over-allotment Option is not exercised, the net proceeds of the Share Offer, after deduction of related expenses payable by the Company, are estimated to be approximately HK\$120.0 million. The Directors at present intend to apply the net proceeds as follows:

- up to approximately HK\$35 million for strengthening the Group's marketing and promotional activities in the PRC and overseas markets and enhancing brand recognition of the Group's own branded products in the PRC over the 12 months period after the Listing Date;
- up to approximately HK\$35 million for strengthening the Group's capability in research and development. The amount is intended to be used primarily for the acquisition of technical know-how in product development and manufacturing technologies for certain core components of the Group's products, including printers and tax control equipment, through technology transfer and/or joint development arrangements;
- up to approximately HK\$20 million for potential acquisition of companies engaged in business equipment, tax control equipment and related business (in respect of which the Company has not yet as at the Latest Practicable Date identified any acquisition target);
- up to approximately HK\$15 million for expanding its sales and distribution network in the PRC in the two years after the Listing Date;
- up to approximately HK\$10 million for developing overseas EMS business over the 12 months period after the Listing Date. The amount will primarily be used for (1) the establishment of a larger business development team for overseas EMS business; (2) the establishment of overseas sales offices in Singapore, Hong Kong and Japan; and (3) the appointment of sales agents in US, Europe and Korea; and
- up to approximately HK\$5.0 million used as capital expenditure relating to the acquisition of new machineries and equipment for the development and production of new products and for the enhancement and expansion of the Group's production capacity.

Should the Over-allotment Option be exercised in full, the Company will receive additional net proceeds of approximately HK\$20.0 million. The Group currently intends to use such additional net proceeds evenly for (1) additional general working capital and (2) the potential acquisition of business equipment, tax control equipment and related business and/or technical know-how in product development and manufacturing technologies.

To the extent that the net proceeds of the Share Offer are not immediately applied to the above purposes, it is the present intention of the Directors that such net proceeds be placed on short term deposits with financial institutions and/or licensed banks in Hong Kong or be used as general working capital of the Group.