BUSINESS OBJECTIVES

Given that the embedded system industry is characterised by frequent product introductions and rapidly changing technology, the Directors believe that the Company, with its well-qualified and experienced research team as well as technological support from Peking University and the Four Domestic Promoters, will be able to compete favourably with other manufacturers in the PRC. With the State's policy of making IT a fundamental driving force for economic growth in the PRC, the Directors believe that the market potential in this area is significant. With the existing technology and intellectual property owned by the Company and technological arrangement with the Peking University and the Four Domestic Promoters, the Directors further believe that the Company is able to capitalise on the market potential in the market of software and hardware development for use in embedded systems in the PRC.

The Company's development strategies formulated by the Directors comprise three principal areas and they are (i) continuous enhancement of technological skills in software and hardware development through research and development; (ii) the improvement on its production technology and facilities so that its products will meet international standards thereby increasing the competitiveness of its products; and (iii) expansion of the Company's distribution network and marketing programs in the PRC.

FUTURE PLANS AND PROSPECTS

Embedded technology

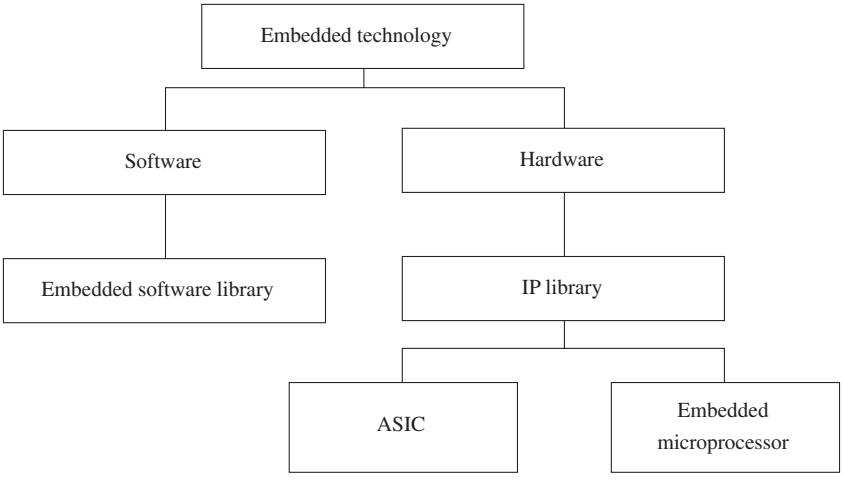
The Internet has demonstrated a rapid growth in popularity in the last decade and is expected to continue in the future. International Data Corporation estimates that the number of Internet users worldwide will grow from approximately 155.6 million at the end of 1998 to approximately 526 million by the end of 2003. Such estimates further underpin the Directors' belief that the Internet economy will be the world's next growth engine and the power of the Internet has been extending to various sectors of the economy.

Amid the structural change in economy and the shift in people's lifestyles worldwide, the Directors anticipate that more customers and businesses will be going on the Internet, leading to an imminent demand for security in different aspects. Financial information and transactions, design document, business plans and other sensitive data must only be restricted to authorised personnel. There is a valid fear that this data could be viewed or altered in transit or used by malicious people to create lawsuits or defraud corporations. Hence, embedded technology that protects the privacy of information either inside an intranet or transmitting through the Internet is of growing importance.

The development of network communication technology empowers the protection over people's property and the Directors believe that such development will gradually change the style of traditional products. For instance, connection to the Internet for wireless devices such as cellular phone will assist people in managing busy life and enhance their lifestyle, and

make a home more comfortable, safe and efficient. It can simply link lighting, entertainment, security, telecommunications, heating and air conditioning, home appliances, and kitchen appliances, etc., through a central computing device which receives signals from cellular phone and forwards those signals to the appliances and systems in the designated house. On the other hand, it also acts as a security device that keeps the homeowner informed remotely should there be any abrupt occurrences at home. In light of the growing concerns in security from different aspects, the Directors believe that with the knowledge in these application areas and strong technological development skills, demand for the Company's existing embedded system products which focus on security areas will get a boost in the Internet age.

Given the wide use of embedded systems ranging from household electrical appliances to military applications, the Directors believe that embedded technology engineering has become an established concept in industrial sector and the Company will strive for continuous development in both software and hardware to achieve higher system functionality. As such, the Company intends to provide its designers with a favourable design environment by building up reusable embedded software and hardware libraries. The reusable components of such libraries, because of their known reliability, will introduce less risk than redesigning and recoding the same component for each new application. Those libraries will not only reduce the design effort and enhance the chances for a first-time right implementation but also enable the Company to conduct continuous research on system minimisation. This allows reduction in the size of the system but at the same time allows higher level of functionality be incorporated in a chip without negatively affect the speed and power consumption of the system. Furthermore, the Directors believe that the market demand will emerge from end products towards reusable software and hardware components in the future thereby it is beneficial for the Company to build up its own fundamental tools and tap the market. A simplified chart of the Company's embedded technology is set out below:



Business strategy

The Company's strategy is to develop a wide variety of technologically advanced software and integrated circuits to satisfy evolving market demands and requirements for embedded

system products. The Company aims to become the market leader in the PRC in the development of software and integrated circuits for use in the manufacturing and production of embedded system products. The key elements of the Company's business strategies are outlined below:–

– **Compliance with the evolving standards**

The Company focuses on the research and development of advanced software and integrated circuits for the manufacture of high-end embedded system products in the PRC. The Directors believe that the high-end customers tend to be early adopters of new technology and satisfying their needs requires a constant monitoring of the market and technology trends and an ability to act quickly. The Company keeps abreast of the local market trends and works closely with its customers to identify the market needs and define product specifications early in the development process. This approach results in a thorough understanding of the end-users' requirements prior to commencement of the design process. The Company believes that its embedded systems and related product lines are able to meet the requirement of its high-end customers including government bodies in the PRC.

– **Establishing research and development centre in Shenzhen**

The Company intends to establish a research and development centre in Shenzhen, the PRC, to research and develop embedded system and related products. The local government of Shenzhen actively promotes and encourages IT industry by offering preferential treatments including tax relief, preferential residential and commercial property and immigration policy to IT companies operating in Shenzhen.

– **Maintaining relationship with Peking University**

The Directors believe that the ability to keep abreast of the technology and market trend of embedded system and the ability to develop high reliability software and integrated circuits for use in embedded systems are the keys to the Company's success. Hence, the Directors intend to maintain the Company's well established relationship with Peking University and to access its research talent and technical expertise. The Company closely coordinates with the Computer Science and Technology Department of Peking University for the recruitment of high calibre researchers. Peking University on behalf of the Institutes has entered into a technological cooperation and support agreement with the Company on 17th April, 2000, pursuant to which the Institutes will provide technological cooperation and support to the Company relating to research and development of embedded technology in hardware and software and embedded system products.

– Expanding sales and marketing activities

The Company intends to increase its sales throughout the PRC by expanding its sales force and marketing programs. The Company's sales force and its field engineers are knowledgeable in a wide variety of hardware and software environments and able to provide valuable consultancy services to its customers. The sales and marketing programs of the Company include: (a) extending its geographical reach and expanding its distribution network in the PRC by setting up representative offices; (b) expanding the Company's existing marketing department; (c) participating in major exhibitions and conducting seminars and trade shows thereby enhancing its brandname awareness; and (d) launching extensive advertising plan.

MILESTONES

Embedded technology

In light of the business objectives of the Company, the Company will seek to attain the following milestones in the period from the Latest Practicable Date to 31st December, 2000 and the two years ending 31st December, 2002. Investors should note that the following milestones and their respective scheduled time for attainment are formulated based on the bases and assumptions referred to under the paragraph headed "Bases and assumptions" below.

The Company's business objectives with respect to the development of embedded technology from the Latest Practicable Date to 31st December, 2000 and for the two years ending 31st December, 2002 are set out as follows:–

Period	The Latest Practicable Date to 31st December, 2000	2001		2002	
		1H	2H	1H	2H
Software	Conduct feasibility study and finalise research and development methods Establish a small scale experimental model of reusable embedded system software library	Conduct testing and revaluation of experimental model Formally establish a small scale reusable embedded system software library including: – extract the reusable software components from the experimental model and put in the formal library – unit testing	Continue to establish a small scale reusable embedded system software library including: – extract the reusable software components from the experimental model and put in the formal library – unit testing Conduct integrated testing and system testing	Encourage internally the use of small-scale embedded system software library for enhancement of the Company's existing products Consummate operation of embedded system software library (e.g. adding change control, access control, and synchronization control strategy) Replenish new software components to small-scale embedded system software library	Continue to encourage internally the use of small-scale embedded system software library for enhancement of the Company's existing products Continue to improve the operation of the embedded system software library Continue to replenish new software components to the small-scale embedded system software library Commence object-oriented software engineering

Period	The Latest Practicable Date to 31st December, 2000	2001 1H	2001 2H	2002 1H	2002 2H
Hardware:– Embedded microprocessor	Commence core technology study and complete system logic design including: – design and technological research on system level low power consumption – complete system logic design – research on testability techniques – research on RAM, ROM and ALU design – research on technology of digital integrated circuit Complete programming language conversion compiler	Complete circuit design including: – research on EEPROM design technology – research on ASIC design methodology Complete layout design of embedded microprocessor	Conduct trial production and testing on embedded microprocessor Begin real time operation system design	Encourage internally the use of embedded microprocessor Transform the embedded microprocessor product into IP core so that IP library can be formed. IP library available for customers' trial use Integrate IP core with algorithm IP core and connect to EEPROM, ROM, RAM and other I/O bus to advocate employment of embedded microprocessor	Complete ASIC by using embedded microprocessor as core Conduct integrated testing of embedded microprocessor
ASIC	Conduct research and development of Barrel Shifter, D/A, SRAM, ALU, etc	Commence research on mix signal integrated circuit design technology	Establish a small scale cell/module library	Replenish new cell/ module to the library Refine the existing cell/module	Continue to replenish new cell/ module to the library
Amount to be financed by the net proceeds from the Placing	HK$8,200,000	HK$6,900,000	HK$7,800,000	HK$10,600,000	HK$11,400,000

In order to tap the reusable software and hardware component market in the future, the Company intends to put significant emphasis on the research and development of the embedded technology by setting up a research and development centre in Shenzhen.

Shenzhen: Research and development centre

The Company intends to establish a research and development centre in Shenzhen, the PRC, to research and develop embedded system software and manufacture embedded system products which apply the Company's software and integrated circuits. The Directors believe that the Company will benefit from establishing a research and development centre in Shenzhen where the local government actively promotes and encourages the local IT industry's development by offering preferential treatments including tax relief, residential and commercial property and immigration policy to those IT companies establishing in Shenzhen.

Product development

With respect to the product development, the Company principally aims to carry out continuous improvement in its existing embedded system products and introduce new products to the market through its intensive and continuous research and development efforts in embedded technology and its application products. The Company's product development team strives to develop embedded system products which comply with the evolving standards. The Company's business objectives with respect to the development of embedded system products from the Latest Practicable Date to 31st December, 2000 and for the two years ending 31st December, 2002 are set out as follows:–

Period	The Latest Practicable Date to 31st December, 2000	2001		2002	
		1H	2H	1H	2H
Security ICs	Complete circuit design of 2nd generation Security ICs Commence feasibility study on 3rd generation Security ICs	Commence research and development of 3rd generation Security ICs	Complete circuit and layout design of 3rd generation Security ICs Commence research on smart card technology and complete its technology proposal	Commence research, development and design of smart card	Conduct research and development of COS Complete development of COS
Network Security Products	Develop security tunnel technology	Develop application specific security gateway applicable in areas such as securities trading system and tax collection	Develop security gateway for remote monitoring, e-commerce security gateway and Internet securities trading system	Commence research and development of high speed mainframe control system Continue development of security gateway for e-commerce and bank electronic clearing system	Commence commercialisation of application specific security gateway Develop virtual host/virtual proxy server
Smart Card Application System	Research and develop smart card networking application system Improve smart card POS application system Develop smart card multiple application system (e.g. access control and point of sale/cafeteria) Continue research and develop smart card logistics management system	Research and develop smart card logistics management system and property management system Research and develop intelligence household management	Research and develop application specific Smart Card Application System Continue research and develop intelligence household management	Continue research and develop application specific Smart Card Application System Refine and improve intelligence household management	Continue research and develop application specific Smart Card Application System Refine and improve intelligence household management

Period	The Latest Practicable Date to 31st December, 2000	2001		2002	
		1H	2H	1H	2H
GPS Application System	Conduct requirement analysis for GPS Application System in special types of vehicle Commence hardware and software design for GPS Application System tailored for anti-theft, anti-movement, anti-route-diversion and time control of vehicle movement Conduct research and analysis on 3rd generation GPS Application System JB-350M	Develop application specific GPS Application System JB-350M Conduct in depth research on 3rd generation GPS Application System JB-350M Conduct preliminary testing on cross cities GPS network and trial run on two cities	Conduct research on intra-city GPS Application System JB-350M Continue in depth research on 3rd generation GPS Application System JB-350M Commence hardware design for 3rd generation GPS Application System JB-350M and navigation project Complete testing on 3rd generation GPS Application System JB-350M and navigation project	Commence software design of 3rd generation GPS Application System JB-350M	Conduct preliminary testing on 3rd generation GPS Application System JB-350M
WFAS	Conduct testing and internal review (2nd generation WFAS) Conduct feasibility study on 3rd generation WFAS through incorporation of ASIC technology into existing system Commence study of 3rd generation WFAS Commence study for the application of WFAS in ancient buildings and large scale scenic garden Start requirement analysis of WFAS for use in general household security	Commence study of security wireless alarm system Start study of application specific WFAS (e.g. warehouse and small scale residential community) Conduct testing and review on the trial 3rd generation WFAS	Commence requirement analysis of the next generation of WFAS Continue studying of application specific WFAS and security wireless alarm system Commence requirement analysis of integrated wireless security and fire alarm system	Complete development of the next generation WFAS	Commence and complete research and development of home wireless alarm system
Amount to be financed by the net proceeds from the Placing	HK$8,500,000	HK$8,700,000	HK$8,600,000	HK$12,200,000	HK$13,000,000

Relevant approvals and permits

Having finished product development, the Company is normally required to obtain certain permits or approvals for its newly developed products prior to product commercialisation. The Company's plan in respect of the obtaining of the relevant permits and/or approvals for its embedded system products from the Latest Practicable Date to 31st December, 2000 and for the two years ending 31st December, 2002 is set out as follows:–

Period	The Latest Practicable Date to 31st December, 2000	2001 1H	2001 2H	2002 1H	2002 2H
Security ICs	Receive approval from State Cryptography Control authorities for 2nd generation Security ICs		Receive approval from State Cryptography Control authorities for 3rd generation Security ICs		
Network Security Products	Apply for sales permit for role-base authentication software, e-mail filter software and VPN model from the Ministry of Public Security Apply sales permit for application specific security gateway from the Ministry of Public Security				
Smart Card Application System	Apply to the Ministry of Public Security and國家計量局(National Bureau of Metrology) for the qualification upgrade in security engineering from Grade 2 to Grade 1 Apply to 中華人民共和國建設部(The Ministry of Construction of the PRC) for approval of intelligence building and system integration		Send relevant Smart Card Application System to 國家計量局 (National Bureau of Metrology) to test whether product quality meets national standard		

Period	The Latest Practicable Date to 31st December, 2000	2001 1H	2001 2H	2002 1H	2002 2H
GPS Application System	Obtain approval from the Ministry of Information Industry Wireless Management Authority for 2nd generation GPS Application System (JB420M)				
WFAS	Obtain approval from 瀋陽消防電子產品監督檢測中心 (Shenyang Fire Protection E-Product Intendence Proof-test Centre) and 國家消防電子產品質量監督檢驗中心 (Nation Fire Protection E-Product Quality Intendence Proof-test Center) for 2nd generation WFAS		Obtain approval from 瀋陽消防電子產品監督檢測中心 (Shenyang Fire Protection E-Product Intendence Proof-test Centre) and 國家消防電子產品質量監督檢驗中心 (Nation Fire Protection E-Product Quality Intendence Proof-test Center) for 3rd generation WFAS		

Production

The Company's production activities for the period commencing from the Latest Practicable Date to 31st December, 2000 and for the two years ending 31st December, 2002 are summarised as follows:

Period	The Latest Practicable Date to 31st December, 2000	2001		2002	
		1H	2H	1H	2H
Security ICs		Commence trial production of 2nd generation Security ICs	Commence trial production of 3rd generation Security ICs	Commence full-scale production of 1st, 2nd and 3rd generation Security ICs	Continue full-scale production of 1st, 2nd and 3rd generation of Security ICs
Network Security Products	Commence trial production of application label security control mechanism	Continue production of existing Network Security Products	Commence trial production of application specific security gateway applicable in securities trading system	Commenced trial production of security gateway for e-commerce	Commence full-scale production of application specific security gateway
	Continue production of existing Network Security Products		Continue production of existing Network Security Products	Continue production of existing Network Security Products	Continue production of existing Network Security Products
Smart Card Application System	Commence small-scale production of security Smart Card Application System	Commence trial production of smart card object classification system	Commence trial production of intelligent household management	Commence full-scale production of security and intelligent Smart Card Application System	Continue full-scale production of security and intelligent Smart Card Application System
	Continue production of existing Smart Card Application System	Continue production of existing Smart Card Application System	Continue production of existing Smart Card Application System	Commence trial production of intelligent household management	Commence full-scale production of intelligent household management
				Continue production of existing Smart Card Application System	Continue production of existing Smart Card Application System
GPS Application System	Trial sampling of JB-420M products	Continued full-scale production of 1st generation GPS Application System (JB230M) products	Commence full-scale production of 2nd generation GPS Application System (JB420M)	Trial sampling of (JB350M) products	Continue full-scale production of (JB230M) and (JB420M) products
	Commence full-scale production of 1st generation GPS Application System (JB230M) products			Continue full-scale production of (JB230M) and (JB420M) products	
WFAS	Commence trial production of 2nd generation WFAS products	Commence full-scale production of 2nd generation WFAS products	Commence trial production of 3rd generation WFAS products	Commence full-scale production of 3rd generation WFAS products	Continue full-scale production and assembly of existing WFAS products
	Continue full-scale production and assembly of existing WFAS products	Continue full-scale production and assembly of existing WFAS products	Continue full-scale production and assembly of existing WFAS products	Continue full-scale production and assembly of existing WFAS products	

It is presently intended that costs of production which include principally direct materials, direct labor and manufacturing overhead will not be financed directly by the net proceeds from the Placing.

Marketing

For the period from the Latest Practicable Date to 31st December, 2000 and for the two years ending 31st December, 2002, the Company's marketing plan will principally consist of four basic elements: (i) to open representative offices in various prosperous provinces and cities in the PRC; (ii) to further develop the Company's existing marketing department; (iii) to participate in major exhibitions of general embedded system products or conduct seminars, trade shows and exhibitions with a view to promoting the Company's existing embedded system products; (iv) to form strategic business alliances or enter into arrangements with government authorities or organisations responsible for the governance or overall planning of industries in which the Company currently operates in; and (v) to launch extensive advertising activities.

The Directors believe that such marketing activities will significantly improve the Company's market appearance and penetration and result in higher sales and better sales network of the Company's embedded system products. The Company's detailed marketing plan for the period from the Latest Practicable Date to 31st December, 2000 and for the two years ending 31st December, 2002 is illustrated as follows:

Period	The Latest Practicable Date to 31st December, 2000	2001		2002	
		1H	2H	1H	2H
Marketing activities	Open representative offices and after sales service centre in Shanghai Enter into agreement with regional sales agents Participate in professional exhibitions in Beijing, Shandong, Shanghai, Guangzhou and 中國高新技術成果交易會(China High-tech Production Fair) in Shenzhen Conduct seminars and trade shows in Shanghai, Guangzhou and Shenzhen for product promotion Formed strategic alliances with government bodies to market the Company's products Establish after sales service centre in Beijing	Open representative offices and after sales service centre in Chengdu Establish sales network in southern China Participate in professional exhibitions and trade shows in Beijing and Shanghai Commence roadshows in eastern and southern China and conduct trade shows and seminars in Shenzhen Enter into strategic alliances with government bodies Continue the Company's advertising plan such as placing advertisements in industry-related magazines	Commence preparatory activities for future establishment of national product sales agent network Participate in professional exhibitions in Beijing and 中國高新技術成果交易會 (China High-tech Production Fair) in Shenzhen Conduct trade shows and exhibitions in eastern China, Beijing, Shanghai, and Shenzhen, etc. Lobby relevant government bodies with a view to becoming one of the shortlisted suppliers to bid for government projects Continue the Company's advertising plan such as placing advertisements in professional magazines	Open representative offices and after sales service centre in Dalian Continue placing advertisements in industry-related and professional magazines Continue placing advertisements in relevant websites (e.g. sina.com, soho.com and other websites) Formulate advertisements on television Establish a comprehensive sales network in China Establish after sales service centres in China Participate in professional and industry-related exhibitions in China Conduct trade show and seminars for the Company's new products	Continue placing advertisements on industry-related and professional magazines Continue placing advertisements in relevant websites (e.g. sina.com, soho.com and other websites) Formulate advertisements on television Establish a comprehensive sales network in China Establish after sales service centres in China Participate in professional and industry-related exhibitions in China Conduct trade show and seminars for all kind of new products of the Company
Amount to be financed by the net proceeds from the Placing	HK$10,000,000	HK$8,000,000	HK$8,000,000	HK$6,600,000	HK$6,600,000

Deployment of human resources

The Directors intend to substantially increase the total number of employees of the Company in particular in the departments of research and development and sales and marketing. The Company's expected number of employees in different departments for the periods from the Latest Practicable Date to 31st December, 2000 and the two years ending 31st December, 2002 are summarized as follows:

Period	As at 31st December, 2000	As at 30th June, 2001	As at 31st December, 2001	As at 30th June, 2002	As at 31st December, 2002
Management	14	17	21	33	41
Technical support	54	63	90	73	104
Research and development	107	116	165	185	235
Sales and marketing	35	42	60	83	118
Finance and administration	20	21	23	26	32
	230	259	359	400	530

BASES AND ASSUMPTIONS

The development strategies formulated by the Company in order to achieve its business objectives set out below are based on the following assumptions:–

– There will be no significant change in the PRC legal and regulatory framework that will adversely affect the business and activities of the Company;

– There will be no significant economic change as a result of the PRC's entry into WTO that will adversely affect the business of the Company;

– The PRC government will continue to promote and encourage the development of IT industry;

– The demand for advanced technology to improve the work quality and efficiency and standard of living remains unchanged;

– There will be a continuous growth in the number of customers for computer and computer related products and services;

– There will be a sufficient amount of technical expertise in the industry where the Company operates;

– Suitable personnel can be recruited and retained by the Company;

– Inflation, interest rate and exchange rates will not differ materially from those prevailing as of the date of this prospectus;

– There is no material changes in the bases or rates of taxation applicable to the Company;

– There is no change in the cooperative relationship between the Company and Peking University;

– There will be no change in the status of the permit obtained by the Company;

– There will be no disasters, natural, political or otherwise, which would materially disrupt the business or operations of the Company or cause substantial loss, damage or destruction to its property and facilities;

– The State's policy in relation to the Company's embedded/safety products remains unchanged; and

– The State's policy in relation to cryptography remains unchanged.

USE OF PROCEEDS OF THE PLACING

Given that the industry in which the Company operates is characterised by frequent product introductions and rapid technological changes, the Directors believe that the Company, with its well qualified research team and technological support from Peking University, will compete favourably amongst its competitors. With the State's recognition of IT as a fundamental driving force for economic growth in the PRC, the Directors believe that the market potential in this area is significant. With the proprietary technology and embedded system products developed by the Company and technological cooperation and support arrangements with Peking University, the Directors further believe that the Company will capitalise on the market potential and become one of the leaders in the market of embedded systems in the PRC. The Directors believe that the proceeds from the Placing will enable the Company to implement and realise its strategic plans as set out in the section headed "Statement of Business Objectives" in this prospectus.

The net proceeds of the Placing (assuming that the Over-allotment Option is not exercised), after deducting related expenses to be borne by the Company, are estimated to amount to about HK$234 million. It is presently intended that the net proceeds will be applied as follows:–

- as to approximately HK$96 million, for use in the research and development of embedded technology and related application products (including research and development, the purchase of testing and laboratory apparatus and design tools, and recruitment of additional staff for research and development);

- as to approximately HK$70 million, for setting up a research and development centre in Shenzhen;

- as to approximately HK$30 million, for extensive marketing and promotion activities such as conducting seminars and trade shows, participating in professional exhibitions and formulating advertising plan and promotion campaign in the PRC;

- as to approximately HK$10 million, to cover the set up costs of the representative offices in Shanghai, Dalian and Chengdu in the PRC;

- as to approximately HK$16 million, for recruitment of additional staff to the Company and general staff for the representative offices to be established in Shanghai, Dalian and Chengdu in the PRC;

- as to the balance of approximately HK$12 million, for additional working capital of the Company.

Should the Over-allotment Option be exercised in full, the Company will receive additional net proceeds of approximately HK$24 million which together with the net proceeds from the Placing, after deducting related expenses, will amount to approximately HK$258 million. The Directors intend to use any of the additional proceeds raised from any exercise of the Over-allotment Option for additional working capital.

To the extent that the net proceeds of the Placing are not immediately required for the above purposes, it is the present intention of the Directors that such net proceeds, to the extent permitted by relevant PRC regulations, will be placed on short-term deposit with banks in the PRC.