

Chairman's Statement

I am pleased to present to our shareholders the first annual report of Fu Cheong International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") as a listed company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Our successful listing on 27 March 2002 marked a milestone development in the Group's corporate history and I would like to take this opportunity to welcome our new shareholders.

The Group continued to achieve consistent growth in turnover, gross profit and net profit for the year ended 31 December 2001. Total sales of the Group's portfolio of printed circuit boards ("PCB" or "PCBs") products increased by about 28% to HK\$202.7 million compared with the previous year. Notwithstanding growth across the board for all types of PCBs produced by the Group, the largest growth driving force came from high-density PCBs, sales of which grew by approximately 141% in the year under review and accounted for about 15% of total sales, up from 8% in the previous year.

We are encouraged by the remarkable sales performance of our high-density PCBs. It has proven to be successful the Group's strategic decision to focus its business development on and increase production capacity for high-density PCBs. As the trend of miniaturisation in the consumer electronics industry continues, we anticipate increasing market demand for high-density PCBs that are generally deployed in technologically advanced digital imaging and telecommunications devices.

Carbon through hole paper phenolic ("CHPP") PCBs remained the Group's core income source for the year under review. There was a 10% increase in the sales amount of CHPP PCBs to HK\$109.5 million, accounting for about 54% of the total sales of the Group, compared with 63% in 2000. CHPP PCBs are mainly used in more traditional consumer electronic products such as calculators, remote controls and portable game sets. Turnover growth in the year under review primarily stemmed from the increasing demand for Euro-currency converters since the adoption of Euro as the legal common currency among certain member countries of the European Union.

The Group's gross profit for the year under review was well sustained at about 29%, buoyed by the more favourable profit margin commanded by high-density PCBs. Combined net profit attributable to shareholders amounted to HK\$40.6 million, representing an increase of about 32% compared with HK\$30.8 million in 2000. It was in line with the profit estimate as stated in the Company's prospectus dated 13 March 2002 (the "Prospectus").

Earnings per share were HK4.0 cents on a weighted average basis (2000: HK3.0 cents).

The Company raised a net proceed of about HK\$27 million from its share offer in March 2002. Coupled with the Group's strong revenue generating capability, the Group is in a sound financial position. As at 31 December 2001, the Group had unpledged cash and bank balances of about HK\$4.4 million.

BUSINESS REVIEW

The Group manufactures PCBs in the People's Republic of China (the "PRC") and sells the products to consumer electronics manufacturers that are based in Hong Kong but with production facilities in the PRC.

Our PCB portfolio comprises five categories – CHPP PCBs, single-side PCB with carbon jumper, paper phenolic double-side plate through hole PCB, high-density PCB and mylar PCB (carbon/silver paste). PCB is the key material for myriad consumer electronic products, and different PCBs are deployed for the manufacture of calculators, remote controls, portable game sets, watches, data banks, PDAs, MP3 players, digital cameras and telecommunications devices.

Our comprehensive and well-balanced product mix of quality assured PCBs has enabled us to cater to changing market demands and evolving industry trends. In the year under review, we saw our lead in the market further enhanced with the successful introduction of high-density PCBs and more cost-effective and sophisticated CHPP PCBs.

High-density PCBs enable the manufacture of increasingly miniaturised and multi-functional audio-visual, digital imaging, game and telecommunications devices. Our first line of high-density PCBs received favourable market feedback with orders received very quickly. With the introduction of 3G telecommunications infrastructure and other advanced technologies, we anticipate that high-density PCBs will continue to be a key growth driving force for the Group in the coming years.

Demand for the Group's other PCBs continued to be steady during the year under review which appeared to be unaffected by the 911 incident in the United States, and a stable production flow throughout the year under review also helped to reduce production cost. We were also encouraged by the accomplishments made in increasing production efficiency and cost effectiveness through implementation of stringent control measures on operation and quality assurance.

BUSINESS PROSPECTS

As digital technology continues to evolve, there will always be emergence of increasingly advanced consumer electronic products to create and sustain purchasing interests. Though the global economy headed downwards in the second half of 2001, demand for the Group's PCBs products was largely unaffected as reflected by our business performance.

Nevertheless, initial signs of a rebound in the electronics industry as a whole began to surface in the first quarter of 2002, as indicated by the Group's strong orders on hand. Our strategic decision to expand and renovate our production facility in Dongguan, the PRC, was immaculately timed to capture this positive industry trend.

The consumer electronics industry is notably characterised by short notice orders, as prompt feedback to market trends and demands is the rule of the trade. Hence, it is critical for the Group to maintain at least 30% residue production capacity to accommodate such orders flexibly. In fact, the majority of the net proceeds raised from our share offer in March 2002 have been used for the expansion of our production facility for high-density PCBs and other more conventional PCBs.

The Group successfully foresaw the rigorous market demand for high-density PCBs in 2001 and will continue to strengthen our established leading position in this market segment of higher margin through active expansion of our production capacity. Our target is to increase production capacity for high-density PCBs by at least five times of its existing capacity in three years, to a level that is comparable to the Group's existing capacity for conventional PCB products. We will also allocate more research and development resources to maintain our edge in PCB technologies.

The Group is acutely aware of the growth potential in premium items used in marketing and promotional campaigns. The very competitive operating environment has obviously led to the increasing use of more valuable premium items to generate sales and retain customers. There are strong indications of robust growth in this market in 2002 and beyond. Blessed with an established customer base, the Group will designate more effort on business development and expand our share in this market.

PCBs are remarkably versatile in their application on consumer electronic products and our well-balanced spectrum of PCB products, from high-end to the more conventional types, provide an additional buffer for any unforeseeable adverse market condition in any particular sector. We continue to be optimistic as to the future prospects of our PCB manufacturing and sales business.

On behalf of the Group, I would also like to extend my sincere thanks and appreciation to the Group's employees and management team for their dedication, commitment and contribution to the Group.

Ho Wing Cheong

Chairman

Hong Kong, 22 April 2002