

The directors herein present their first report and the audited financial statements of Fu Cheong International Holdings Limited (the "Company") for the period from 23 May 2001 (date of incorporation) to 31 December 2001. The audited financial statements for the year ended 31 December 2001 include supplementary pro forma combined financial statements of the Company and its subsidiaries (collectively referred to as the "Group"), which was legally formed subsequent to 31 December 2001.

## **Group reorganisation**

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 23 May 2001 under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a reorganisation scheme to rationalise the structure of Group in preparation for the listing of the Company's shares on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the companies now comprising the Group on 6 March 2002 (the "Group Reorganisation"). Further details of the Group Reorganisation and the subsidiaries acquired pursuant thereto are set out in notes 1 and 19 to the financial statements.

Subsequent to the balance sheet date, on 27 March 2002, the Company completed its initial public offering and the shares of the Company were listed on the Stock Exchange.

In order to apprise the Company's shareholders of the pro forma combined financial results and position of the Group, should the Group have been in existence throughout the period presented, supplementary financial information comprising supplementary pro forma combined profit and loss account, balance sheet and cash flow statement are included in this annual report. The basis of preparing the aforesaid supplementary financial information, which is detailed in note 1 to the financial statements, has also been applied for presenting the information referring to the Group in this report of the directors.

## **Principal activities**

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries acquired subsequent to the balance sheet date are set out in note 1 to the financial statements. There were no changes in the nature of the Group's principal activities during the year.

## **Segment information**

No segmental information was disclosed as all the Group's turnover were generated from the sales of printed circuit boards ("PCBs") to Hong Kong based consumer electronic products manufacturers with production facilities in Guangdong Province, the People's Republic of China (the "PRC").

### **Results and dividends**

The Group's pro forma combined profit for the year ended 31 December 2001 and its pro forma combined state of affairs as at that date, together with the state of affairs of the Company as at 31 December 2001, are set out in the financial statements on pages 19 to 46.

As stated in the Company's prospectus dated 13 March 2002 (the "Prospectus"), a special dividend of HK\$13 million was paid by a subsidiary of the Company to its then shareholders prior to the Group Reorganisation described in note 1 to the financial statements.

The directors of the Company do not recommend the payment of any dividend in respect of the period.

### **Use of proceeds from the Company's initial public offering**

The net proceeds from the issue of new shares at the time of its listing on the Stock Exchange on 27 March 2002, after deduction of related expenses, amounted to approximately HK\$27 million. As set out in the Prospectus, the directors intended that such net proceeds would be applied as follows:

- as to approximately HK\$17 million to acquire additional machinery and equipment for the expansion of the Group's manufacturing capacity for high-density PCBs;
- as to approximately HK\$5 million to refurbish and renovate the existing plant operated by a subsidiary of the Company in the PRC; and
- as to the balance of approximately HK\$5 million as additional working capital of the Group.

Subsequent to the balance sheet date and upon the listing of the Company's shares on the Stock Exchange on 27 March 2002, approximately HK\$17 million and HK\$5 million were paid as deposits for the procurement of production machinery and equipment and additions to leasehold improvements, respectively. The remaining proceeds not utilised were deposited with banks. The directors are of the opinion that the remaining proceeds will be applied in the coming year to their intended uses as set out above.

### **Summary financial information**

The following is a summary of the pro forma combined results and of the assets and liabilities of the Group prepared on the basis set out in the note below.

## Summary financial information *(continued)*

### RESULTS

	Year ended 31 December			
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>	1998 <i>HK\$'000</i>
Turnover	<b>202,728</b>	158,107	167,331	49,213
Profit before tax	<b>45,353</b>	34,451	33,788	6,122
Tax	<b>(4,790)</b>	(3,680)	(3,154)	(1,165)
Net profit from ordinary activities attributable to shareholders	<b>40,563</b>	30,771	30,634	4,957

### ASSETS AND LIABILITIES

	At 31 December			
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>	1998 <i>HK\$'000</i>
Non-current assets	<b>28,340</b>	25,016	18,168	14,367
Current assets	<b>62,236</b>	24,877	33,865	18,034
Current liabilities	<b>(43,230)</b>	(26,252)	(22,435)	(27,330)
Non-current liabilities	–	(3,858)	(4,106)	(4,311)
	<b>47,346</b>	19,783	25,492	760

*Note:* The summary of the pro forma combined results of the Group for each of the three years ended 31 December 2000 and the pro forma combined balance sheet of the Group as at 31 December 1998, 1999 and 2000 have been extracted from the Company's prospectus dated 13 March 2002. This summary was prepared from the audited financial statements of the companies now comprising the Group, as if the current structure of the Group had been in existence throughout these financial years and is presented on the basis set out in note 1 to the financial statements. The results of the Group for the year ended 31 December 2001 and its assets and liabilities as at that date are those set out on pages 20 and 21 of the financial statements, and are presented on the basis set out in note 1 to the financial statements.

### Fixed assets

Details of movements in the fixed assets of the Group are set out in note 13 to the financial statements.

### **Share capital and share options**

Details of movements in the Company's share capital since 23 May 2001 (date of incorporation), together with the reasons therefor, and details of the Company's share option scheme are set out in note 19 to the financial statements and disclosed under the heading "Share option scheme" below.

### **Reserves**

Details of movements in the reserves of the Group during the year are set out in note 20 to the financial statements.

### **Distributable reserves**

As at 31 December 2001, the Company did not have any distributable reserves.

### **Pre-emptive rights**

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

### **Purchase, redemption or sale of listed securities of the Company**

The Company's shares were listed on the Stock Exchange on 27 March 2002. Save as disclosed above, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the period up to the date of this report.

### **Major customers and suppliers**

Sales to the Group's five largest customers accounted for 32% of the Group's total turnover for the year, and sales to the Group's largest customer accounted for 7% of the Group's total turnover for the year.

Purchases from the Group's five largest suppliers accounted for 87% of the Group's total purchases for the year, and purchases from the Group's largest supplier accounted for 67% of the Group's total purchases for the year.

As far as the directors are aware, other than concerning Jiangyin Jingtai Laminated Board Co. Ltd. ("Jiangyin"), none of the directors of the Company or their associates or any of the shareholders which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital, had any beneficial interest in the Group's five largest customers or suppliers. Jiangyin is one of the five largest suppliers of the Group. Jiangyin is a wholly-owned subsidiary of Advanced Technology International Holdings Limited ("Advanced Technology"), which owned 8,000,000 shares and 696,000,000 shares of the Company on 31 December 2001 and on the date of this report, respectively. Further details are set out under the heading "Directors' interests in shares" of this report of the directors.

### **Related party transactions**

Details of the related party transactions of the Group are set out in note 24 to the financial statements.

### **Directors**

The directors of the Company since 23 May 2001 (date of incorporation) and up to the date of this report were:

#### **Executive directors**

Mr. Ho Wing Cheong	(appointed on 29 May 2001)
Mr. Ho Wing Hung	(appointed on 29 May 2001)
Ms. Kwok Shuk Wah	(appointed on 29 May 2001)

#### **Independent non-executive directors**

Mr. Poon Kuai Cheong	(appointed on 10 August 2001)
Ms. Fong Ching Yin	(appointed on 10 August 2001)

The directors of the Company, including the independent non-executive directors but not including the chairman or deputy chairman of the board of directors and/or the managing director of the Company, are subject to retirement by rotation and re-election in accordance with the provisions of the Company's articles of association.

In accordance with article 108A of the Company's articles of association, Ms. Kwok Shuk Wah will retire and, being eligible, will offer herself for re-election at the forthcoming annual general meeting.

### **Biographical details of directors and senior management**

Biographical details of the directors of the Company and the senior management of the Group are set out on page 8 to 9 of the Company's annual report.

### **Directors' service contracts**

Each of the executive directors has entered into a service agreement with the Company for an initial term of three years commencing from 1 August 2001, and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other.

Each of the independent non-executive directors is currently appointed for a term of three years commencing from 1 August 2001.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

### Directors' interests in contracts

Save as disclosed in note 24 to the financial statements, no director had a significant beneficial interest, either direct or indirect, in any contracts of significance to the business of the Group to which the Company or any of its holding companies, subsidiaries and fellow subsidiaries was a party during the year.

### Directors' interests in shares

Subsequent to the balance sheet date, on 27 March 2002, the shares of the Company were listed on the Stock Exchange. At the date of this report, the interests of directors in the share capital of the Company or its associated corporations as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), were as follows:

<b>Name</b>	<b>Nature of interest</b>	<b>Number of shares held</b>
Mr. Ho Wing Cheong	Corporate <i>(Note)</i>	696,000,000

*Note:* These shares are owned by Advanced Technology, the shares of which are beneficially owned by Score One, Inc.. The shares of Score One, Inc. are held as to 82% by I. World Limited. I. World Limited is, in turn, beneficially owned by Mr. Ho Wing Cheong as to 58%.

Save as disclosed above, none of the directors or their associates had any personal, family, corporate or other interests in the share capital of the Company or any of its associated corporations, as defined in the SDI Ordinance.

### Directors' rights to acquire shares

Save as disclosed under the heading "Share option scheme" below, and other than in connection with the Group Reorganisation and the Company's initial public offering, at no time during the period was the Company or any of its holding companies, subsidiaries and fellow subsidiaries a party to any arrangement to enable the Company's directors, their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

### Share option scheme

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants for their contribution to the Group. Eligible participants of the Scheme include the Company's directors, including independent non-executive directors, other employees or proposed employees of the Group, suppliers of goods or services to the Group, customers of the Group, any person or entity that provides research, development or other technological support to the Group and shareholders of any member of the Group. The Scheme became effective upon the listing of the Company's shares on the Stock Exchange on 27 March 2002 and, unless otherwise cancelled or amended, will remain in force for a period of 10 years from that date.

### Share option scheme *(continued)*

The maximum number of shares currently permitted to be issued upon exercise of any share options granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. No share options were granted during the period and up to the date of this report. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their respective associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the closing price of the Company's shares at the date of each grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of the grant of a share option may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than ten years from the date of the offer of the share options or the expiry date of the Scheme, if earlier.

The exercise price of the share options is determinable by the directors, but shall not be less than the higher of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations on the date of the offer of the share options, which must be a business day; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations for the five trading days immediately preceding the date of the offer of the share options; and (iii) the nominal value of the Company's shares.

### Substantial shareholders

At the date of this report, the following interests of 10% or more in the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name	Number of shares held	Percentage of holding
Mr. Ho Wing Cheong	696,000,000 <i>(Note)</i>	58%
Advanced Technology	696,000,000 <i>(Note)</i>	58%
Score One, Inc.	696,000,000 <i>(Note)</i>	58%
I. World Limited	696,000,000 <i>(Note)</i>	58%

*Note:* The entire issued shares of Advanced Technology are owned by Score One, Inc., the issued shares of which are owned as to 82% by I. World Limited. The issued shares of I. World Limited are in turn owned as to 58% by Mr. Ho Wing Cheong. Accordingly, each of Score One, Inc., I. World Limited and Mr. Ho Wing Cheong is deemed to be interested in the shares of the Company held by Advanced Technology under the SDI Ordinance.

### **Substantial shareholders** *(continued)*

Save as disclosed above, no other person had registered an interest in the share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance.

### **Code of Best Practice**

In the opinion of the directors, the Company complied with the Code of Best Practice (the "Code"), as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), following the listing of the Company's shares on the Stock Exchange on 27 March 2002.

### **Audit committee**

The Company established an audit committee (the "Committee") on 6 March 2002 with written terms of reference in compliance with the Code, as set out in Appendix 14 of the Listing Rules. The primary duties of the Committee are to review and supervise the Group's financial reporting process and internal controls. The Committee comprises two independent non-executive directors of the Company, namely Mr. Poon Kuai Cheong and Ms. Fong Ching Yin. The Company's financial position as at 31 December 2001 and the Group's supplementary pro forma combined financial statements for the year ended 31 December 2001 have been reviewed by the Committee, who are of the opinion that such statements comply with the applicable accounting standards, the Listing Rules and legal requirement and that adequate disclosures have been made.

### **Post balance sheet events**

Details of the significant post balance sheet events of the Group are set out in note 25 to the financial statements.

### **Auditors**

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

### **Ho Wing Cheong**

*Chairman*

Hong Kong  
22 April 2002