

## REPORT OF THE DIRECTORS

The directors of the Company (the “Directors”) herein present their report and the audited financial statements of Fu Cheong International Holdings Limited (the “Company”) for the year ended 31 December 2003.

### 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 the amendments to the Rules (the “Listing rules”) Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the Company proposed to amend its articles of association (the “Articles”) at the forthcoming annual general meeting tentatively scheduled for 22 May 2004 (the “Proposed Amendments”).

### PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries of the Company acquired and investment in subsidiaries 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 of the Group’s turnover were generated from the sales of PCBs to Hong Kong based electronic products manufacturers with production facilities in Guangdong Province, the PRC.

### RESULTS AND DIVIDENDS

The Group’s operation results for the year ended 31 December 2003 and its state of affairs of the Company and the Group at that date, are set out in the financial statements on pages 17 to 40.

The Directors do not recommend the payment of any dividend in respect of the year.

**REPORT OF THE DIRECTORS** (continued)**SUMMARY OF FINANCIAL INFORMATION**

The following is a summary of the published combined results and of the assets and liabilities of the Group for the five years ended 31 December 2003, prepared on the basis set out in the note below:

**RESULTS**

	<b>2003</b> <b>HK\$'000</b>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
TURNOVER	<b>32,430</b>	172,397	202,728	158,107	167,331
(LOSS)/PROFIT BEFORE TAX	<b>(85,141)</b>	18,797	45,353	34,451	33,788
TAX	<b>(1,329)</b>	(2,990)	(4,790)	(3,680)	(3,154)
(NET LOSS)/NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	<b>(86,470)</b>	15,807	40,563	30,771	30,634

**ASSETS AND LIABILITIES**

	<b>2003</b> <b>HK\$'000</b>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
NON-CURRENT ASSETS	<b>30,802</b>	75,149	28,340	25,016	18,168
CURRENT ASSETS	<b>8,986</b>	62,332	62,236	24,877	33,865
CURRENT LIABILITIES	<b>(36,280)</b>	(47,503)	(43,230)	(26,252)	(22,435)
NON-CURRENT LIABILITIES	-	-	-	(3,858)	(4,106)
	<b>3,508</b>	89,978	47,346	19,783	25,492

Note: The results of the Group for the year ended 31 December 2003 and its assets and liabilities as at that date are those set out on pages 18 and 19 of the financial statements, and are presented on the basis set out in note 1 to the financial statements.

**FIXED ASSETS**

During the year, the Group acquired machinery for approximately HK\$0.2 million. Details of movements in the fixed assets of the Group are set out in note 13 to the financial statements.

## **REPORT OF THE DIRECTORS** *(continued)*

### **SHARE CAPITAL AND SHARE OPTIONS**

Details of the Company's share capital and share options during the year are set out in note 18 to the financial statements and disclosed under the paragraph heading "Share option scheme" below.

### **RESERVES**

Details of movements in the reserves of the Group during the year are set out in note 19 to the financial statements.

### **DISTRIBUTABLE RESERVES**

As at 31 December 2003, the Company did not have any distributable reserves.

### **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY**

There were no purchase, sale or redemption of the listed shares of the Company or any of its subsidiaries during the year.

### **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 obligate the Company to offer new shares on a pro rata basis to existing shareholders.

### **MAJOR CUSTOMERS AND SUPPLIERS**

Sales to the Group's five largest customers accounted for approximately 38% of the Group's total turnover for the year, and sales to the Group's largest customer accounted for approximately 11% of the Group's total turnover for the year.

Purchases from the Group's five largest suppliers accounted for approximately 74% of the Group's total purchases for the year, and purchases from the Group's largest supplier accounted for approximately 37% of the Group's total purchases for the year.

As far as the Directors are aware, other than Jiangyin Jingtai Laminated Board Co. Ltd. ("Jiangyin"), none of the Directors 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 shares capital, had any beneficial interest in the Group's five largest customers or suppliers. Jiangyin is the largest supplier of the Group. Jiangyin is a wholly-owned subsidiary of Advanced Technology International Holdings Limited, which owned 696,000,000 shares of the Company on 31 December 2003. Further details are set out under the heading "Directors' interests in shares" of this report.

### **CONNECTED TRANSACTIONS AND RELATED PARTY TRANSACTIONS**

Details of the connected transactions and related party transactions of the Group are set out in note 22 to the financial statements.

**REPORT OF THE DIRECTORS** (continued)**CONNECTED TRANSACTIONS AND RELATED PARTY TRANSACTIONS** (continued)

The Group had entered into the following connected transactions (the "Connected Transactions") during the year ended 31 December 2003, the details of which are required to be disclosed in this report pursuant to the Listing Rules:

<b>Name of connected person</b>	<b>Nature of transaction(s)</b>	<b>HK\$</b>
Jiangyin Jingtai Laminated Board Co., Limited ( <i>Note</i> )	purchases of laminated sheets	5,057,000

*Note:* Jiangyin Jingtai Laminated Board Co., Limited is a wholly subsidiary of Advanced Technology International Holding Limited ("**Advanced Technology**"). Advanced Technology is a substantial shareholder of the Company, holding 58% of the issued share capital of the Company. A waiver from the strict compliance of the requisite disclosure requirements pursuant to the Listing Rules in respect of the transactions had been granted by the Stock Exchange on certain conditions, details of which are set out in the prospectus of the Company dated 13 March 2002 (the "**Prospectus**").

The Company had complied with the relevant requirements of the Listing Rules for the Connected Transactions for the financial years ended 31 December 2003 and the board of directors, including the independent non-executive Directors, confirmed that:

1. the Connected Transactions had been:
  - (i) entered into by the Group in the ordinary and usual course of its business;
  - (ii) conducted on normal commercial terms (which expression will be applied by reference to transactions of a similar nature and made by similar entities) or (where there is no available comparison) on terms that are fair and reasonable as far as the shareholders are concerned;
  - (iii) entered into on terms no less favourable than those available from independent third parties and no more favourable than those available to independent third parties;
2. the aggregate amount of the Purchase Cap Amount (as defined in the Prospectus) had not been exceeded for the year ended 31 December 2003;
3. the Company's auditors had reviewed the Connected Transactions and confirmed that:
  - (i) the Connected Transactions had received the approval of Company's board of Directors;
  - (ii) the Connected Transactions had been entered into in accordance with the terms of the agreements, documents and arrangements governing each of the Connected Transactions or, if there are no such agreements, on terms no less favourable than those available from independent third parties and no more favourable than those available to independent third parties;
  - (iii) the Connected Transactions had been carried out in accordance with the Group's pricing policies; and
  - (iv) the Purchase Cap Amount had not been exceeded.

## REPORT OF THE DIRECTORS *(continued)*

### CONNECTED TRANSACTIONS AND RELATED PARTY TRANSACTIONS *(continued)*

Save as disclosed therein, there are no other transactions needed to be disclosed as connected transactions in accordance with the requirements of the Listing Rules.

### DIRECTORS

The Directors during the financial year were:-

#### Executive Directors

Mr. Ho Wing Cheong	(appointed on 29 May 2001)
Mr. Ho Wing Hung	(appointed on 29 May 2001 and resigned on 18 February 2004)
Ms. Ho Marjorie	(appointed on 18 February 2004)

#### Independent non-executive Directors

Mr. Shum Man Wah	(appointed on 18 February 2004)
Mr. Law Yau Tim	(appointed on 28 April 2003)
Ms. Xie He Ping	(appointed on 3 January 2003 and resigned on 18 February 2004)

In accordance with article 112 of the Articles, Ms. Ho Marjorie and Mr. Shum Man Wah will hold office until the forthcoming annual general meeting and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

### BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and the senior management of the Group are set out on page 6 of this annual report.

### DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company. Mr. Ho Wing Cheong has entered into a service agreement with the Company for an initial term of three years commencing from 29 May 2001 and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other, while Ms. Ho Marjorie has entered into a service agreement with the Company for a fixed term of three years commencing from 18 February 2004.

Each of the independent non-executive Directors is currently appointed for a term of two years from the date of appointment.

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.

3 Directors waived their remuneration during the year. Details of Directors' remuneration are set out in note 7 to the financial statements.

## REPORT OF THE DIRECTORS *(continued)*

### DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 22 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

As at 31 December 2003, the interest and/or short positions of the directors, chief executives of the Company and their associates in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("**SFO**")) as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code (the "**Model Code**") for Securities Transactions by the Directors of Listed Companies, 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:* The shares are owned by Advanced Technology, the shares of which are beneficially owned by I. World Limited ("I. World"). The issued shares of I. World are, in turn, beneficially owned as to 58% by Mr. Ho Wing Cheong.

Save as disclosed above, none of the directors or chief executives of the Company, nor their associates, had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

### DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed under the paragraph heading "Share option scheme" below, "Directors' interest in shares" above and at no time during the year was the Company or any of its holding companies, subsidiaries and fellow subsidiaries a party to any arrangement to enable the 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 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.

## REPORT OF THE DIRECTORS *(continued)*

### SHARE OPTION SCHEME *(continued)*

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue immediately upon completion of the share offer and the capitalisation issue of the Company. 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 for the time being. Any further grant of share options in excess of this limit is subject to shareholder's 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 shares options granted to a substantial shareholder of the Company or an independent non-executive Director, or any of their respective associates, in excess of 0.1% of the shares of the Company in issue at any time or 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 shareholder's 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 may 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 sheet on the date of the offer of the grant; (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 grant; and (iii) the nominal value of the Company's shares.

### SUBSTANTIAL SHAREHOLDERS

As at 31 December 2003, so far as is known to the Directors, the following persons had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name	Number of shares held	Percentage of holdings
Mr. Ho Wing Cheong	696,000,000 <i>(Note 1)</i>	58%
Advanced Technology	696,000,000 <i>(Note 1)</i>	58%
I. World	696,000,000 <i>(Note 1)</i>	58%
Ms. Leung Wai Fun	696,000,000 <i>(Note 2)</i>	58%

*Note 1:* The entire issued shares of Advanced Technology are owned by I. World. The issued shares of I. World are in turn owned as to 58% by Mr. Ho Wing Cheong. Accordingly, each of I. World and Mr. Ho Wing Cheong is deemed to be interested in the shares of the Company held by Advanced Technology under the SFO.

*Note 2:* Ms. Leung Wai Fun is the spouse of Mr. Ho Wing Cheong, she is deemed to be interested in the shares of the Company held by Mr. Ho Wing Cheong under the SFO.

## REPORT OF THE DIRECTORS *(continued)*

### SUBSTANTIAL SHAREHOLDERS *(continued)*

Save as disclosed above, the Directors are not aware of any other person had an interest of 5% or more in the share capital of the Company.

### BANK LOANS AND OTHER BORROWINGS

The group had no outstanding bank loans and borrowings as at 31 December 2003. Please refer to note 16 to the financial statements.

### RETIREMENT BENEFITS SCHEME

Details of the retirement benefits scheme of the Group are set out in note 4 to the financial statements.

### CODE OF BEST PRACTICE

The Company has complied throughout the year with the Code of Best Practice as set out by the Stock Exchange in Appendix 14 of the Listing Rules.

### AUDIT COMMITTEE

The Company established an audit committee (the "Committee") on 6 March 2002 with written terms of reference in compliance with Code of Best Practice, 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 is comprised of two independent non-executive Directors, namely Mr. Law Yau Tim and Mr. Shum Man Wah, they are appointed as members of the Committee on 2 November 2003 and 18 February 2004 respectively.

### AUDITORS

Ernst & Young, the previous auditors of the Company resigned as the auditors of the Company on 28 August 2003. On 11 September 2003, the Directors appointed Messrs. Lam, Kwok, Kwan & Cheng C.P.A. Limited to fill the causal vacancy arising from the resignation of Ernst & Young as the auditors of the Company. Messrs. Lam, Kwok, Kwan & Cheng C.P.A. Limited had been re-appointed as the auditors of the Company at the annual general meeting held on 10 December 2003.

The auditors, Messrs. Lam, Kwok, Kwan & Cheng C.P.A. Limited, Certified Public Accountants, retire but, being eligible, offer themselves for re-appointment. A resolution is to be proposed to the forthcoming annual general meeting to re-appoint Messrs. Lam, Kwok, Kwan & Cheng C.P.A. Limited as auditors of the Company.

FOR AND ON BEHALF OF

**Fu Cheong International Holdings Limited**

**Ho Wing Cheong**

*Chairman*

Hong Kong, 19 April 2004