

REPORT OF THE DIRECTORS

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 2002.

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 18 to the financial statements.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries of the Company 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.

SEGMENTAL INFORMATION

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

RESULTS AND DIVIDENDS

The Group’s profit for the year ended 31 December 2002 and the state of affairs of the Company and the Group at that date, are set out in the financial statements on pages 18 to 40.

The directors of the Company (the “Directors”) do not recommend the payment of any dividend in respect of the year.

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 2002, prepared on the basis set out in the note below:

RESULTS

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>	1998 <i>HK\$'000</i>
TURNOVER	172,396	202,728	158,107	167,331	49,213
PROFIT BEFORE TAX	18,797	45,353	34,451	33,788	6,122
TAX	(2,990)	(4,790)	(3,680)	(3,154)	(1,165)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	15,807	40,563	30,771	30,634	4,957

ASSETS AND LIABILITIES

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>	1998 <i>HK\$'000</i>
NON-CURRENT ASSETS	75,149	28,340	25,016	18,168	14,367
CURRENT ASSETS	62,332	62,236	24,877	33,865	18,034
CURRENT LIABILITIES	(47,503)	(43,230)	(26,252)	(22,435)	(27,330)
NON-CURRENT LIABILITIES	-	-	(3,858)	(4,106)	(4,311)
	89,978	47,346	19,783	25,492	760

Note: The results of the Group for the year ended 31 December 2002 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\$43 million. 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 and share options during the year are set out in note 18 to the financial statements and disclosed under the paragraph headed "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 2002, 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 its existing shareholders.

MAJOR CUSTOMERS AND SUPPLIERS

Sales to the Group's five largest customers accounted for approximately 30% of the Group's total turnover for the year, and sales to the Group's largest customer accounted for approximately 7% of the Group's total turnover for the year.

Purchases from the Group's five largest suppliers accounted for approximately 78% of the Group's total purchases for the year, and purchases from the Group's largest supplier accounted for approximately 54% 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 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, which owned 696,000,000 shares of the Company on 31 December 2002. Further details are set out under the heading "Directors interests in shares" of this report.

CONNECTED TRANSACTIONS AND RELATED PARTY TRANSACTIONS

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

The Group had entered into the following connected transactions (the “**Connected Transactions**”) during the year ended 31 December 2002, the details of which are required to be disclosed in this report pursuant to Chapter 14 of the Listing Rules:

Name of connected person(s)	Nature of transaction(s)	HK\$
(a) Yue Fung Development Company Limited (<i>Note 1</i>)	sales of PCBs	2,417,000
(b) Jiangyin Jingtai Laminated Board Co., Limited (<i>Note 2</i>)	purchases of laminated sheets	9,801,000

Notes:

1. Yue Fung Development Company Limited is a subsidiary of Yue Fung International Group Holding Limited, which is indirectly interested in about 14.27% of the issued share capital of the Company, thus, is a connected person of the Company under the Listing Rules. A waiver from the strict compliance of the requisite disclosure requirements pursuant to Chapter 14 of 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 section headed “Business” in the prospectus of the Company dated 13 March 2002 (the “**Prospectus**”).
2. Jiangyin Jingtai Laminated Board Co., Limited is a wholly subsidiary of Advanced Technology International Holdings 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 Chapter 14 of 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.

The board of Directors, including the independent non-executive Directors, confirmed that:

1. that each of 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 term (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 of the Company 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; and
2. the aggregate amount of the Sales and Purchase Cap Amount (as defined in the Prospectus) (as the case may be) had not been exceeded for the year ended 31 December 2002.

CONNECTED TRANSACTIONS AND RELATED PARTY TRANSACTIONS (Continued)

3. The Company's auditors had reviewed the Connected Transactions and confirmed that:
- (i) each of the Connected Transactions had received the approval of Company's board of Directors;
 - (ii) each of 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 to or from independent third parties;
 - (iii) each of the Connected Transactions had been carried out in accordance with the Group's pricing policies; and
 - (iv) the Sales and Purchase Cap Amount (as the case may be) had not been exceeded.

Save as disclosed therein, there were 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)
Ms. Kwok Shuk Wah	(appointed on 29 May 2001 and resigned on 1 January 2003)

Independent non-executive Directors

Mr. Poon Kuai Cheong	(appointed on 10 August 2001 and resigned on 18 December 2002)
Ms. Fong Ching Yin	(appointed on 10 August 2001 and resigned on 18 December 2002)
Mr. Law Yau Tim	(appointed on 29 April 2003)
Ms. Xie He Ping	(appointed on 3 January 2003)

In accordance with article 112 of the Company's articles of association, Mr. Law Yau Tim and Ms. Xie He Ping 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 report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service agreement with 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 two years.

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 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

The Directors who held office at 31 December 2002 had the following interests in the issued share capital of the Company, its holding company, subsidiaries or other associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")) at the date as recorded in the register of Directors' interests required to be kept under section 29 of the SDI Ordinance or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by the Directors:

Name of company	Name of Directors	Personal interest	Number of Shares		Total interest
			Family interest	Corporate interest	
The Company (ordinary shares of HK\$0.01 each)	Ho Wing Cheong	–	–	696,000,000	696,000,000
Advanced Technology (ordinary shares of US\$1.00 each)	Ho Wing Cheong	–	–	1,000	1,000
Score One Inc. (ordinary shares of US\$1.00 each)	Ho Wing Cheong	–	–	3,922,662	3,922,662
I. World Limited (ordinary shares of US\$1.00 each)	Ho Wing Cheong	580	–	–	580
	Ho Wing Hung	120	–	–	120

Note: The entire issued shares of Advanced Technology are owned by Score One Inc., the entire 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, as to 12% by Mr. Ho Wing Hung as to 30% by Holyworld Group Limited.

DIRECTORS' INTERESTS IN SHARES (Continued)

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, its holding company, subsidiaries or any of its associated corporations, as defined in the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed under the paragraph headed "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.

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 share 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 10 years from the date of the offer of the share options or the expiry date of the Scheme, if earlier.

SHARE OPTION SCHEME (Continued)

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 2002, 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 holdings
Ho Wing Cheong	696,000,000 (Note)	58%
Advanced Technology	696,000,000 (Note)	58%
Score One, Inc.	696,000,000 (Note)	58%
I. World Limited	696,000,000 (Note)	58%

Note: The entire issued shares of Advanced Technology are owned by Score One, Inc., the entire 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.

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.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company and the Group as at 31 December 2002 are set out in 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 comprises two independent non-executive Directors, namely Mr. Poon Kuai Cheong and Ms. Fong Ching Yin. Both Mr. Poon Kuai Cheong and Ms. Fong Ching Yin resigned on 18 December 2002. The Board of Directors appointed Mr. Law Yau Tim and Ms. Xie He Ping members of the Committee on 2 November 2003.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 23 to the financial statements.

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 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.

The auditors, Messrs. Lam, Kwok, Kwan & Cheng C.P.A. Limited, Certified Public Accountants, will 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, 6 November 2003