



REAPING THE
REWARDS OF GROWTH



Fu Yu Corporation Limited
• annual report 2004 •

FU YU CORPORATION LIMITED
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About Fu Yu

Established in 1978 as a partnership fabricating injection moulds and manufacturing plastic injection parts, Fu Yu has since grown to become a listed corporation with a growing global presence. We are now one of the largest manufacturers and suppliers of high-precision injection moulds and plastic parts in Asia.

Currently, we have eleven plants in Singapore, Malaysia and China.

Taking a vertically integrated approach towards greater profitability, our operations make a complete range from design to fabrication to assembly, and include finishing activities such as silk screening, pad printing, ultrasonic welding, heatstaking and spray painting. The markets we serve include the information technology, telecommunications, automotive, medical, electronics and electrical appliance sectors.

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Mission Statement

Fu Yu aims to be the preferred global partner
in engineering plastic products,
from design to full assembly.

We will deliver our vision through:
Embracing technology and creativity;
Providing satisfaction to our customers;
Continuous learning for our people; and
Maximising returns to our shareholders.



Chairman's Statement

I am pleased to present Fu Yu's annual report for the Financial Year (FY) ended 31 December 2004.

The Group's profit after tax (including exceptional item) stood at S\$72.7 million, an increase of 121.5% from FY 2003. The Group's recorded profit after tax (excluding exceptional item) of S\$49.7 million, an increase of 51.6 per cent from FY 2003 was achieved on the back of 20.8 per cent increase in revenue from S\$329.4 million in FY 2003 to S\$397.8 million in FY 2004.

The Board of Directors is pleased to recommend a second and final dividend of 10 per cent less Singapore corporate tax of 20 per cent for FY 2004. The dividend payment would amount to S\$3.8 million, and is subjected to shareholders' approval at the Annual General Meeting (AGM) to be held on 28 March 2005.

Based on our performance, the Company is also proposing a bonus issue of up to 118,650,955 new ordinary shares of S\$0.10 each in the capital of the Company on the basis of one new ordinary share credited as fully paid for every four existing ordinary shares held by the shareholders of the Company at the books closure date to be determined by the Directors. Fractional entitlements will be disregarded. The bonus issue is subjected to the approval of the shareholders to be sought at the Extraordinary General Meeting which would be held on the same day as the AGM.

This bonus issue is intended to reward shareholders for their loyalty and continuing support towards the Company. It will also augment the issued share capital base of the Company to reflect the growth and expansion of the Group's business. In addition, the bonus issue will improve the trading liquidity of the shares and encourage a wider spread of shareholders by increasing the number of shares available for trading.

Challenges in a World Still in Recovery

2004 saw a world still recovering from the devastating effects of global conflict and economic weakness. Threats also existed as oil prices rose and remain unstable. This has a corresponding impact on the prices of resin, a commodity our industry is reliant on. The overall global economic situation would also be affected.



Amidst such difficulties however, there lies a strong opportunity in the form of a strengthening of the recent outsourcing trend from Europe to Asia. Fu Yu has long benefited from outsourcing opportunities from the United States, and we now seek to further capture the same opportunities arising from Europe. Benefiting from this, Fu Yu has undertaken a series of strategic expansion in Singapore, Malaysia, and China. At the same time, this strategy is an enhancement of our strategic belief of locating ourselves in good proximity to the customer, so as to provide better efficiency of delivery, better services and more attractive pricing. This also allows us to venture into new businesses that provide beneficial synergies with our existing ones.

In Singapore, our management has identified profitable potential in the area of Ultra Precision Manufacturing, particularly with relation to the fast developing industries of medical service, health care, optical and opto-electronics, and high precision engineering. We have entered into a joint venture with EDB Ventures Pte. Ltd. to establish NanoTechnology Manufacturing Pte. Ltd.. This venture will provide us with greater competitive edge against top players in Europe, America, and Japan, through the provision of a more cost effective solution in Asia.

In Malaysia, the Group's foremost achievement was the successful Initial Public Offering (IPO) or the listing of our subsidiary, LCTH Corporation Berhad's

(LCTH) shares on the main board of Bursa Malaysia Securities Berhad (formerly known as the Kuala Lumpur Stock Exchange Berhad) on 8 November 2004. LCTH would be a major thrust for all our future investments in the ASEAN region, whereas our Singapore operations will focus on our China and Singapore businesses.

With the IPO proceeds, LCTH, through Classic Advantage Sdn Bhd (Classic Advantage), has acquired a plot of land in Johor Technology Park (JTP), Johor, Malaysia. New machineries and equipment for the development and enhancement of manufacturing capabilities of precision parts and components were also acquired. This expansion is part of our strategy to develop Classic Advantage into a one-stop centre of fabrication of moulds and dies, precision injection moulding, secondary finishing and sub assembly processes. We are confident that through these efforts, Classic Advantage's main marketing thrust would be greatly enhanced.

In China, we have added two facilities to our portfolio, namely Fu Yu Moulding & Tooling (Wujiang) Co., Ltd in Wujiang in Quarter 2 (Q2) 2004, Qingdao Fu Qiang Electronics Co., Ltd in Qingdao, in Q4 2004, and the expansion of our existing plant, Fu Yu Moulding & Tooling (Suzhou) Co., Ltd in Suzhou to be completed by Q3 2005. With our existing floor spaces combined with these expansions, these increase our total production capabilities to be one of the largest in the industry, with complete capacities to capture and cater to the most significant customers in the region.

With Appreciation

On behalf of the Board of Directors, I wish to express my sincere gratitude and appreciation to our customers, suppliers, and business associates for your continued support and contribution. At the same time, we also thank our management and staff for your dedication and diligence for bringing Fu Yu to a higher level of achievements, and look forward to yet another exciting year of challenges and accomplishments.

Lui Choon Hay
Chairman

A Year of Development and Progress

Financial performance for Fu Yu Group has been strong. Our revenue increased by S\$68.4 million, or 20.8%, as compared to the previous year. This brings our revenue to S\$397.8 million, which in turn brought about an 51.6% increase in profit after tax (excluding exceptional item) to S\$49.7 million. The Group's profit after tax (including exceptional item) stood at S\$72.7 million, an increase of 121.5% from FY 2003. Fu Yu Group has achieved a creditable performance in a global economy that is still in the early stages of recovery, brought about by the cooperation and dedication of our Directors, management, and staff.

Our Singapore operations registered a revenue of S\$88.6 million. In Malaysia, our revenue has increased to S\$116.6 million, while in China, we also saw revenue growth of 64.3% to S\$188.7 million.

Singapore

A Strengthening of Business Philosophies

In terms of strategic development, the identification of business opportunities both horizontally and vertically is a constant emphasis of our operations. One area we identified was that of Ultra Precision Manufacturing. To capitalise on opportunities available, Fu Yu entered into a joint venture with the EDB Ventures Pte. Ltd. (EDBV) to establish NanoTechnology Manufacturing Pte. Ltd..

Over the years, Fu Yu has achieved both recognition and expertise in Precision Manufacturing, and this move represents a tactical advancement of our capabilities and services. The setting up of Ultra Precision Manufacturing facilities within Asia would empower us with the important advantages of lower costs and proximity to customers' operations, as compared to Europe, America, and Japan. Such benefits would undoubtedly provide a strong push to position us as a niche provider in this area. Equally important would be the synergy this new venture brings to the Group, in terms of expanding our reputation to be an all rounded, solution provider.

At the moment, five main areas of competency are targeted by NanoTechnology Manufacturing. These are Ultra Precision Tooling Manufacturing; Single Point Diamond Turning; Micro Machining; Precision and Clean Room Moulding; and Precision Stamping. We have already identified a myriad of potential

markets for these capabilities, ranging from Optical Cluster Industries, to Defense Industries, to Automotive Industries, to Niche Precision Electronics Cluster Industries.

To capture these markets, NanoTechnology Manufacturing would not only leverage on the existing reputation of both Fu Yu and EDBV, but would also differentiate itself from competitors through high entry barrier technologies and manufacturing processes. Our marketing focus would be on the development of relationships with first tier customers, and the continued preservation of their loyalty.

China

Profitability through Proximity

The belief in proximity to customers as value-added has always been an operational strategy of Fu Yu.





2004 saw further development of this philosophy through the establishment of new plants in Wujiang and Qingdao in China. Primarily involved in Plastic Injection Moulding, and located within the premises of our key customers, Calcom and Haier, Fu Yu will enjoy strong competitive advantages by working within the production chain of our customers. We not only reduce plant establishment time and costs significantly, but also enhance Fu Yu's commitment to our customers.

Equally crucial is the fact that integration into customers' operations assures us of continued business from our customers. Overall, our delivery time to customers would be more efficient, resulting in service of higher quality.

In Suzhou, we have built a new plant and acquired various new machineries to cater for existing and potential customers. We would be able to undertake the fabrication of moulds and dies from 2005 onwards. The first phase of our new plant is expected to be completed by Q2 2005 and the second phase is expected to be completed by Q3 2005. Shifting of our existing operations will commence upon the completion of the first phase.

Last but not least, Fu Ying Moulding and Tooling (Shanghai) Co., Ltd. was established in Q4 2004 in Shanghai. Its principal activity will be fabrication of moulds and dies, plastic injection moulding, assembly and spray printing of plastic parts services, and production facilities would be in operation by Q4 2005.

Mexico

Prudence in Operations

To remain as an industrial leader, it is necessary to continuously review the profitability and sensibility of our global operations. We have reviewed our Mexico operations over the past 18 months and thus closed our Mexican operations. The main reason for this move was that our key Mexican customer, Hewlett Packard's strategic move out from Mexico. This decision was backed by the management's philosophy that the absence of an existing key customer would result in unfavourable operating conditions in Mexico.

Malaysia

Expansion and Consolidation of Facilities and Capabilities

The most significant amongst our various developments in 2004 was the listing of LCTH's shares on the main board of Bursa Malaysia Securities Berhad (formerly known as the Kuala Lumpur Stock Exchange Berhad), Malaysia. Listed on 8 November 2004, LCTH will form the basis for the consolidation of our Malaysian business interests. LCTH will oversee all existing and potential business developments in the ASEAN region.

Classic Advantage, a wholly owned subsidiary of LCTH, was noted to be short of production capacity during peak seasons. To pave the way for future growth, Classic Advantage has acquired some 32 acres of industrial land in Johor Technology Park (JTP), Johor, Malaysia. On completion of our new plant and office premises in JTP, our existing plants in Senai and Kluang, Johor will be relocated and housed in this new location. The construction of our

A Year of Development and Progress

new plant and office premises will be completed by Q2 2005. Classic Advantage had also invested in various new machineries and equipment primarily for the manufacturing of precision plastic parts and components. Increased capacity would enable Classic Advantage to enter into the design and fabrication of moulds and dies in 2005. This move enables Classic Advantage complete its competency as a one-stop service provider for fabrication of moulds and dies, precision injection moulding, secondary finishing and sub-assembly processes.

Awards received by Fu Yu Group in year 2004

| Company | Awards |
|--|--|
| Fu Yu Corporation Limited | <ul style="list-style-type: none"> ① Best Under a Billion - Global Enterprises Ranking Fu Yu has been listed among the 100 Companies of the Best Smaller-Size Enterprise in both Asia/Pacific and Europe in the November issue of Forbes Global Magazine ② Top 500 International Chinese-owned Enterprises 2004 by the Chinese Business Magazine, Yazhou Zhoukan Fu Yu has been ranked 359th |
| Fu Yu Moulding & Tooling (Dongguan) Co., Ltd | ① Best Supplier Award for Cellon |
| Fu Yu Moulding & Tooling (Suzhou) Co., Ltd | <ul style="list-style-type: none"> ① Philips Sustainability System Champion ② "A" Grade supplier for a consecutive period of 5 months received from Calcomp |
| Fu Yu Moulding & Tooling (Tianjin) Co., Ltd | ① Tianjin Foreign Investment Corporation Best Efficiency Award |

Corporate ISO and QS Certification for Fu Yu Group at the end of FY 2004

| Company | Location | ISO 9001:2000 | QS 9000 | ISO 14001 |
|---|-----------|---------------|---------|-----------|
| Fu Yu Corporation Limited | Singapore | ▲ | ▲ | ▲ |
| Classic Advantage Sdn. Bhd. | Malaysia | ▲ | ▲ | |
| Fu Hao Manufacturing (M) Sdn. Bhd. | Malaysia | ▲ | ▲ | |
| Fu Yu Moulding & Tooling (Tianjin) Co., Ltd. | China | ▲ | ▲ | |
| Fu Yu Moulding & Tooling (Shanghai) Co., Ltd. | China | ▲ | ▲ | |
| Fu Yu Moulding & Tooling (Dongguan) Co., Ltd. | China | ▲ | ▲ | |
| Fu Yu Moulding & Tooling (Suzhou) Co., Ltd. | China | ▲ | ▲ | |

2005 Corporate ISO and QS Certification plan

| Company | Location | Plan |
|---|-----------|--|
| Fu Yu Corporation Limited | Singapore | Upgrade QS 9000 to TS 16949 |
| NanoTechnology Manufacturing Pte. Ltd. | Singapore | To obtain ISO 9001:2000 and ISO 14001 certifications |
| Classic Advantage Sdn. Bhd. | Malaysia | To obtain ISO 14001 certification |
| Fu Yu Moulding & Tooling (Dongguan) Co., Ltd. | China | Upgrade QS 9000 to TS 16949 and obtain ISO 14001 certification |

Our Network



Overseas Plants

SINGAPORE
NanoTechnology
Manufacturing Pte. Ltd.
43 Senoko Drive
Singapore 758227
Tel : (65) 6755 2280
Fax : (65) 6755 7326

CHINA
Fu Yu Moulding & Tooling
(Tianjin) Co., Ltd
71 Bai He Road, TEDA
Tianjin, China 300457
Tel : (8622) 2529 0888
Fax : (8622) 2532 2910

Fu Yu Moulding & Tooling
(Suzhou) Co., Ltd
No. 09, Industrial Zone, Building D
Cheng Hu Road
Wuxian Economic Development
Zone, Suzhou, China 215128
Tel : (86512) 5620 838
Fax : (86512) 5639 463

Fu Yu Moulding & Tooling
(Shanghai) Co., Ltd
888 Xinling Road,
Waigaoqiao Free Trade Zone,
Shanghai, China 200137
Tel : (8621) 5046 1638
Fax : (8621) 5046 0229

Fu Ying Moulding & Tooling
(Shanghai) Co., Ltd
888 Xinling Road,
Waigaoqiao Free Trade Zone,
Shanghai, China 200137
Tel : (8621) 5046 1638
Fax : (8621) 5046 0229

Fu Yu Moulding & Tooling
(Dongguan) Co., Ltd
Jing Fu Rd, Xin Cheng Ind. Area,
Heng Li Dongguan, Guangdong,
Sheng Zheng, China 523477
Tel : (86769) 3378 570
Fax : (86769) 3378 572

Fu Yu Moulding & Tooling
(Zhuhai) Co., Ltd
Jinhai Dadao, Baishan Industrial
Area, Sanzao, Zhuhai, Guangdong,
China 519040
Tel : (86756) 7761 862
Fax : (86756) 7761 851

Qingdao Fu Qiang Electronics
Co., Ltd
No 1 Haier Road, Hi-tech Zone
Qingdao, China 266101
Tel : (86532) 8705 533
Fax : (86532) 8705 538

Fu Yu Moulding & Tooling
(Wujiang) Co., Ltd
No 8 JiangXing East Road,
YunDong Develop Area, Wujiang,
Jiangsu, China
Tel : (86512) 5620 838
Fax : (86512) 5639 463

MALAYSIA
Classic Advantage Sdn Bhd
Lot 2592, Jalan Perindustrian III
Kawasan Perindustrian Senai II
81400 Senai, Johor, Malaysia
Tel : (607) 5993 331
Fax : (607) 5995 331

PLO 11 & 21, Jalan Persiaran
Teknologi, Taman Teknologi Johor,
81400 Senai, Johor, Malaysia
Tel : (607) 5999 980
Fax : (607) 5999 982

Fu Hao Manufacturing (M) Sdn Bhd
Plot 562, Mukim 1
Lorong Perusahaan Baru 1
Perai III, Perai Industrial Estate
13600 Perai, Penang, Malaysia
Tel : (604) 3980 499
Fax : (604) 3980 496

Corporate Profile

Board of Directors

Executive:

Mr Lui Choon Hay Chairman
Mr Ching Heng Yang Vice-Chairman

Mr Tam Wai

Mr Ho Nee Kit

Mr Yuen Chung Sang, Samuel
(appointed on 3.6.2004)

Mr Ho Kang Peng
(resigned on 31.3.2004)

Non-Executive:

Mr Tan Yew Beng Independent
Mr Lim Shook Kong Non-Independent
Mr Wong Hoo Tung Independent

Audit Committee

Mr Wong Hoo Tung Chairman
Mr Tan Yew Beng Vice-Chairman
Mr Lim Shook Kong

Nominating Committee

Mr Tan Yew Beng Chairman
Mr Lui Choon Hay
Mr Lim Shook Kong
Mr Wong Hoo Tung

Remuneration Committee

Mr Tan Yew Beng Chairman
Mr Lui Choon Hay
Mr Lim Shook Kong
Mr Wong Hoo Tung

Company Secretary

Ms Shirley Lim Keng San

Registered and Business Office

No. 2 Serangoon North Avenue 5
Singapore 554911
Tel: (65) 64848833 Fax: (65) 6482 0622

Share Registrar

Lim Associates (Pte) Ltd
10 Collyer Quay #19-08
Ocean Building, Singapore 049315

Auditors

Ernst & Young
#21-01 Ocean Building
Singapore 049315
Audit Partner: Winston Ngan Wan-Sing
Since the financial year beginning 1 January 2002

Bankers

Citibank, N.A.
DBS Bank Ltd
Maybank Berhad
RHB Bank Berhad
Standard Chartered Bank

Solicitor

Tan Kok Quan Partnership



Board of Directors

(standing from left to right)

Mr Lim Shook Kong, Mr Tan Yew Beng, Mr Wong Hoo Tung, Mr Yuen Chung Sang, Samuel

(sitting from left to right)

Mr Ho Nee Kit, Mr Lui Choon Hay (Chairman), Mr Ching Heng Yang, Mr Tam Wai

Corporate Milestones

| | |
|---------|--|
| 2004 | <ul style="list-style-type: none"> → Change of Company's name from Fu Yu Manufacturing Limited to Fu Yu Corporation Limited → Placement of 23 million new Ordinary Shares of S\$0.10 each in the capital of the Company → Listing of LCTH Corporation Berhad on the Main Board of Bursa Malaysia Securities Berhad (formerly known as Malaysia Securities Exchange Berhad) in Malaysia → Purchase of land and construction of buildings in Johor Technology Park to increase manufacturing capacity in Johor, Malaysia → Joint venture with EDB Ventures Pte. Ltd. on the set up of a new company, NanoTechnology Manufacturing Pte. Ltd. in Singapore → Winding up of Mexico plant → Set up plant in Wujiang, China → Set up plant in Qingdao, China → Set up another plant in Shanghai, China → Conversion of ISO 9002 to ISO 9001:2000 for our plant in Suzhou, China |
| 2003 | <ul style="list-style-type: none"> → Submitted the application to the relevant authorities for the listing of its proposed Malaysian subsidiary company on the main board of the Malaysia Securities Exchange Berhad → Set up plant in Zhuhai, China → Set up a management company, Fu Yu International Enterprise Limited in Hong Kong → Implemented SAP Enterprise Resource Planning System for our plants in Johor, Malaysia → Conversion of ISO 9002 to ISO 9001:2000 for our plant in Singapore → Extension of ISO 14001 to our Tuas plant in Singapore → Conversion of ISO 9002 to ISO 9001:2000 and achieved QS 9000 certification for our plant in Penang, Senai and Kluang, Malaysia → Conversion of ISO 9002 to ISO 9001:2000 and achieved QS 9000 certification for our plant in Dongguan, China |
| 2002 | <ul style="list-style-type: none"> → Commenced implementation of SAP Enterprise Resource Planning System for our plants in Johor, Malaysia → Achieved ISO 9002:1994 for our plant in Mexico → Additional factory built for our plant in Suzhou, China |
| 2001 | <ul style="list-style-type: none"> → Implemented SAP Enterprise Resource Planning System in Singapore → Achieved ISO 14001 certification for our plant in Singapore → Achieved ISO 9001:2000 certification for our plant in Senai, Malaysia → Additional warehouse built for our plant in Tianjin, China |
| 2000 | <ul style="list-style-type: none"> → Established a marketing arm in the United States → Set up plants in Suzhou, China and Guadalajara, Mexico → Started precision tooling activity in Singapore → Achieved ISO 9001 and QS 9000 certification for our Singapore operations → Achieved QS 9000 certification for our plant in Shanghai, China → Achieved ISO 9002 certification for our plant in Dongguan, China |
| 1999 | <ul style="list-style-type: none"> → Set up plant in Senai, Malaysia → Obtained Technology Achievement Award (TAA) and On-Job-Training (OJT) certification for our Singapore operations → Achieved QS 9002 certification for our Tianjin subsidiary in China → Achieved ISO 9002 certification for our plant in Penang, Malaysia |
| 1998 | <ul style="list-style-type: none"> → Established thin wall moulding capability → Achieved ISO 9002 certification for our plant in Kluang, Malaysia |
| 1997 | <ul style="list-style-type: none"> → Established our own R&D division to handle product/part design, 3D, IMold and CAD/CAM → Attained ISO 9002 certification for our plant in Shanghai, China |
| 1996 | <ul style="list-style-type: none"> → Added gas-assisted moulding to our range of services → Achieved ISO 9002 certification for our Tianjin subsidiary in China |
| 1995 | <ul style="list-style-type: none"> → Listed on the Stock Exchange of Singapore |
| 1994 | <ul style="list-style-type: none"> → Started multi-component moulding → Achieved ISO 9002 certification for our Singapore operations |
| 1993-96 | <ul style="list-style-type: none"> → Overseas expansion - set up plants in Penang, Malaysia (1993), Kluang, Malaysia (1994), Tianjin, China (1994), Dongguan, China (1995) and Shanghai, China (1996) |
| 1978 | <ul style="list-style-type: none"> → Established |

Corporate Governance

The Company maintains a high standard of corporate governance within the Group. Good corporate governance establishes and maintains an ethical environment in the Group, which strives to enhance the interests of all shareholders. For effective corporate governance, the following self-regulatory and monitoring mechanisms were established:

BOARD OF DIRECTORS

Code of Corporate Governance Principle 1 : The Board's Conduct of its Affairs

The Board conducts regularly scheduled meetings on a quarterly basis. Ad-hoc meetings are convened when circumstances require. The Company's Articles of Association permits Directors to attend meetings through the use of audio-visual equipment. In between Board meetings, important matters concerning the Company are also put to the Board for its decision by way of circulating resolutions in writing for the Directors' approval. The Board's principal functions are:

1. Supervises the management of the business and affairs of the Group;
2. Approves the Group's corporate and strategic direction;
3. Approves the appointments of directors and key managerial personnel;
4. Approves annual budgets, financial reporting and compliance, major funding and investment proposals and financial performance of the Group; and
5. Assumes responsibility for corporate governance.

The attendance of the Directors at meetings of the Board and Board Committees, as well as frequency of such meetings are disclosed as below:

| Meeting | Board | | Audit Committee | | Remuneration Committee | | Nominating Committee | |
|-------------------------|---------------------|-------------------------|---------------------|-------------------------|------------------------|-------------------------|----------------------|-------------------------|
| | No. of Meeting Held | No. of Meeting Attended | No. of Meeting Held | No. of Meeting Attended | No. of Meeting Held | No. of Meeting Attended | No. of Meeting Held | No. of Meeting Attended |
| Lui Choon Hay | 5 | 5 | – | – | 3 | 3 | 2 | 2 |
| Ching Heng Yang | 5 | 5 | – | – | – | – | – | – |
| Tam Wai | 5 | 4 | – | – | – | – | – | – |
| Ho Nee Kit | 5 | 5 | – | – | – | – | – | – |
| Yuen Chung Sang Samuel* | 5 | 3 | – | – | – | – | – | – |
| Lim Shook Kong | 5 | 5 | 4 | 4 | 3 | 3 | 2 | 2 |
| Tan Yew Beng | 5 | 5 | 4 | 4 | 3 | 3 | 2 | 2 |
| Wong Hoo Tung# | 5 | 5 | 4 | 4 | 1 | 1 | – | – |

* Mr Yuen Chung Sang Samuel was appointed to the Board on 3 June 2004.

Mr Wong Hoo Tung was appointed to the Nominating Committee and Remuneration Committee on 3 June 2004.

The Company organised orientation programmes for new directors to ensure that incoming directors are familiar with the Company's business and governance policies, disclosure of interest in securities and restrictions on disclosure of price sensitive information.

Code of Corporate Governance Principle 2 : Board Composition and Balance

The Board comprises eight directors, two of whom are independent and non-executive and whose objective judgement on corporate affairs and collective experience are valuable to the Company. The Board of Directors is as follows:

Executive Directors

Mr Lui Choon Hay (Chairman)
Mr Ching Heng Yang (Vice-Chairman)
Mr Tam Wai
Mr Ho Nee Kit
Mr Yuen Chung Sang Samuel

Non-Executive and Independent Directors

Mr Tan Yew Beng
Mr Wong Hoo Tung

Non-Executive Director

Mr Lim Shook Kong

The independence of each Director is reviewed annually by the Nominating Committee ("NC"). The NC adopts the Code of Corporate Governance's definition of what constitutes an independent director in its review. As a result of the NC's review of the independence of each Director for FY2004, the NC considers that the non-executive directors to be independent except for Mr Lim Shook Kong who is the Group General Manager of the Company's Malaysian subsidiary, LCTH Corporation Berhad.

The NC is satisfied that the current composition of the Board is appropriate and effective, taking into account the nature and scope of the Company's operations, and that no individual or a small group of individuals dominates the Board's decision-making process.

Directors' information

Mr Lui Choon Hay, age 66, the Executive Chairman of the Fu Yu Group, is the founder of Fu Yu in 1978. He left China for Hong Kong in 1962 and was involved in tool making and designing for ten years before he came to Singapore in 1973. With his extensive experience in the field, Mr Lui, together with 3 other partners, founded Fu Yu in 1978. Fu Yu was one of the few local companies formed at that time to serve the MNCs in Singapore for supplies of high precision injection moulding tools and precision engineering plastics parts. Mr Lui was appointed as Executive Director of Fu Yu since 10 December 1980 and he is heavily involved in all facets of the business operations of the Group and plays a key role in the Group's overseas business and strategic planning. Mr Lui was last re-elected on 29 March 2004. He is a Member of the Nominating and Remuneration Committee. Mr Lui is a Member of the Singapore Institute of Directors.

Mr Lui holds 2.12% direct and 57.26% deemed interests in the Company as at 31 December 2004.

Corporate Governance

Mr Ching Heng Yang, age 54, one of the co-founders of Fu Yu, is the Vice-Chairman and Executive Director of the Group. Mr Ching was appointed as Executive Director on 10 December 1980 and was last re-elected on 13 May 2003. Mr Ching will stand for re-election as a Director at the forthcoming Annual General Meeting (“AGM”). Mr Ching oversees the plastic injection moulding, finishing and sub assembly operations of the Group. He is also responsible for the investment in factory buildings and machinery of the Group. He has over 31 years of experience in the mould-fabrication and plastic injection moulding industry. Mr Ching is a Member of the Singapore Institute of Directors.

Mr Ching holds 0.21% direct and 57.61% deemed interests in the Company as at 31 December 2004.

Mr Tam Wai, age 54, is another co-founder of Fu Yu in 1978. Mr Tam was appointed as Executive Director on 10 December 1980 and his last re-elected date was 13 May 2003. He oversees the mould design and fabrication operations of Group. Prior to founding Fu Yu, he was involved in mould design and fabrication for 10 years in Hong Kong specializing in high precision moulds for the electronic and electrical industries. He has over 35 years of experience in the mould-fabrication and plastic injection moulding industry. Mr Tam is a Member of the Singapore Institute of Directors.

Mr Tam holds 2.03% direct and 57.09% deemed interests in the Company as at 31 December 2004.

Mr Ho Nee Kit, age 51, is one of the co-founders of Fu Yu in 1978. Immediately after his national service, he worked for a plastics injection company as tools maker. Realising the potential of the precision mould making industry in the 1970s, together with the other three partners who also shared the same vision of the industry, they founded Fu Yu in 1978. Mr Ho was appointed as Executive Director of Fu Yu on 10 December 1980 and was last re-elected on 29 March 2004. Mr Ho jointly oversees the mould fabrication, plastic injection moulding, finishing and sub assembly operations of the Group. Mr Ho is a Member of the Singapore Institute of Directors.

Mr Ho holds 1.98% direct and 57.09% deemed interests in the Company as at 31 December 2004.

Mr Yuen Chung Sang Samuel, age 45, joined the Group in 1997 as the Group Financial Controller and was promoted to Chief Financial Officer on 1 July 2003 and Executive Director on 3 June 2004. He will stand for re-election as a Director at the forthcoming AGM. Mr Yuen is also one of the senior vice-presidents of Fu Yu International Enterprise Limited (“FYIE”). He is responsible for all aspects of financial management and accounting functions of the Group. He holds a Master of Business Administration Degree and has a total of 19 years of working experience in the financial management and accounting in China, Hong Kong and Singapore. Mr Yuen is a Member of the Singapore Institute of Directors.

Mr Yuen holds 0.02% direct interest in the Company as at 31 December 2004.

Mr Tan Yew Beng, age 48, was appointed as Non-Executive and Independent Director since 22 May 1995. He was last re-elected as a Director on 29 March 2004. Mr Tan is the Chairman of the Remuneration and Nominating Committees and a member of the Audit Committee. He is the director of several Singapore and Malaysia companies. Mr Tan graduated in 1980 with a Bachelor of Commerce degree from the Nanyang University. He also holds a Graduate Diploma in Marketing Management from the Singapore Institute of Management and Diploma in Marketing from the institute of Marketing, U.K. Mr Tan is a Member of the Singapore Institute of Directors.

Mr Tan holds 0.26% indirect interest in the Company as at 31 December 2004.

Corporate Governance

Mr Lim Shook Kong, FCA, CA(M), MSID, age 53, was appointed as Non-Executive and Independent Director since 22 May 1995. He was last re-elected as a Director on 21 May 2002. He will stand for re-election as a Director at the forthcoming AGM.

On 3 June 2004, Mr Lim was appointed as the Group General Manager of LCTH Corporation Berhad, the Company's subsidiary, a public listed company whose shares are quoted on the Main Board of Bursa Malaysia Securities Berhad on 8 November 2004. Arising from his appointment, Mr Lim relinquished his role as Chairman of the Audit Committee and Nominating Committee. Mr Lim remains as a Member of the Audit Committee, Remuneration Committee and Nominating Committee.

Mr Lim is a Fellow of the Institute of Chartered Accountants in England and Wales, a Member of Faculty of Finance and Management, Institute of Chartered Accountants England and Wales, a Member of the Malaysian Institute of Accountants and a Member of the Singapore Institute of Directors.

Mr Lim is a Non-Executive and Independent Director of Permasteelisa Pacific Holdings Ltd, a public listed company whose shares are quoted on the Main Board of the Singapore Exchange. He is the Chairman of the Remuneration Committee and is a Member of the Audit and Nomination Committees.

Mr Wong Hoo Tung, age 69, FCPA (Singapore), FCPA (Australia), FTIA, MCMI, CMC, MSID graduated from the Singapore Polytechnic with a professional diploma in accountancy in 1964.

He was appointed as a Non-Executive and Independent Director on 16 December 2002 and was re-elected as a Director of the Company on 13 May 2003. Mr Wong was appointed the Chairman of the Audit Committee, and a Member of the Nominating Committee and Remuneration Committee on 3 June 2004.

Mr Wong is in private practice under the name "Wong Hoo Tung & Co", as auditor, liquidator, corporate secretary, tax, management and business advisors since 1970.

He has been the Director of Kwong Wai Shiu Hospital and Nursing Home and SATA for more than nine and twelve years respectively.

Code of Corporate Governance Principle 3 : Role of Chairman and Chief Executive Officer

The Company currently does not have a separate Chairman and Chief Executive Officer, however, the Company is continuously seeking for candidates of sufficient calibre and experience for the Chief Executive Officer position. The Executive Chairman is Mr Lui Choon Hay. Mr Lui is one of the four founders of Fu Yu Group. Mr Lui and the other three founders, who are also the Executive Directors of the Company, have regular meetings and all important and major decisions relating to the operations and management of the Group are made jointly by them. As such, there is a balance of power and authority and no one individual controls the entire decision making mechanism of the Group.

As part of his responsibilities, the Chairman schedules for board meetings when necessary and sets the board meeting agenda. He ensures that the Board members are provided with complete, adequate and timely information. The Chairman also assists in ensuring compliance with Company's guidelines on corporate governance.

Corporate Governance

Code of Corporate Governance Principle 6 : Access to Information

Code of Corporate Governance Principle 10 : Accountability and Audit

In order to ensure that the Board is able to fulfill its responsibilities, the Management provides the Directors with monthly Group's results within 15 working days after each month-end, and provides the Board members with management report of the Group's activities and results on quarterly basis within 45 days after each quarter-end. The Management provides complete, adequate and timely information to the Board members prior to Board meetings.

The Directors have separate and independent access to the senior management, including the Company Secretary at all times. The Company Secretary attends all Board meetings and is responsible to ensure that Board procedures are followed and that applicable rules and regulations are complied with.

The Board also has access to independent professional advice, where necessary, at the Company's expenses.

The Board of Directors is accountable to the shareholders while the Management of the Company is accountable to the Board.

BOARD COMMITTEES

Code of Corporate Governance Principle 4 : Board Membership

Code of Corporate Governance Principle 5 : Board Performance

Nominating Committee

The Board has established a Nominating Committee ("NC") comprising the following members:

Mr Tan Yew Beng (Chairman)
Mr Lui Choon Hay
Mr Lim Shook Kong
Mr Wong Hoo Tung

In its written terms of reference, the NC's functions are as follows:

1. Reviews the Board structure, size and composition and making recommendations to the Board with regards in any adjustments that are deemed necessary;
2. Reviews all nominations for all appointments and re-appointments of directors for the purpose of proposing such nominations to the Board for its approval;
3. Conducts a review to determine the independence of each director;
4. Decides whether or not a director is able to and has been adequately carrying out his duties as a director of the Company, particularly when he has multiple board representations;
5. Decides how the Board's performance may be evaluated and propose objective performance criteria;
6. Conducts a formal assessment of the effectiveness of the Board as a whole and the contribution by each director to the effectiveness of the Board; and
7. Makes recommendations to the Board for continuation (or termination) of services of any Director who has reached the age of seventy.

For financial year ended 31 December 2004, the NC has completed an evaluation exercise of the Board as a whole, including an assessment of the contribution of Directors to the effectiveness of the Board.

Corporate Governance

In accordance with the Company's Articles of Association, all Directors submit themselves for re-election once every three years and newly appointed Director will also submit himself for re-election at the AGM immediately following the appointment. In recommending a candidate for appointment/re-appointment to the Board, the NC considers, amongst other things, his contributions to the Board and his independent status. The NC has recommended the re-election of Mr Ching Heng Yang, Mr Lim Shook Kong and Mr Yuen Chung Sang Samuel at the forthcoming AGM. The Board accepted the NC's recommendation and accordingly, the three Directors will be offering themselves for re-election at the forthcoming AGM.

Code of Corporate Governance Principle 7 : Procedures for Developing Remuneration Policies

Code of Corporate Governance Principle 8 : Level and Mix of Remuneration

Code of Corporate Governance Principle 9 : Disclosure on Remuneration

Remuneration Committee

The Remuneration Committee ("RC") comprises the following members:

Mr Tan Yew Beng (Chairman)
Mr Lui Choon Hay
Mr Lim Shook Kong
Mr Wong Hoo Tung

The aims of the RC are to formulate a board-based remuneration framework to motivate and retain executives and ensure the Group is positioned to attract the best talent in the market in order to maximize shareholders' value.

The RC will recommend to the Board a framework of remuneration for the Board and key executives and determine specific remuneration package for each executive director. The RC's recommendations are made in consultation with the Executive Chairman of the Board (who is also a member of the RC), and submitted for endorsement by the entire Board. The RC reviews all aspects of remuneration, including but not limited to Directors' fees, salaries, allowances, bonuses, and benefits in kind. In setting the remuneration package, the RC takes into consideration the pay and employment conditions within the industry and in comparable companies. As part of its review, the RC shall ensure that the performance-related elements of remuneration should form a significant proportion of the total remuneration package of executive directors and is designed to align the directors' interests with those of shareholders and link rewards to corporate and individual performance. The RC has unrestricted access to expert advice within and/or outside of the Company, when required.

The RC will also review all matters concerning the remuneration of non-executive directors to ensure that the remuneration commensurates with the contributions and responsibilities of the Directors. In accordance with the Companies Act, the Company submits the quantum of directors' fees to shareholders for approval at the AGM annually.

All the four founder directors have service contracts for a fixed period and are subjected to renewal. The RC had reviewed and renewed the contracts of the four founder directors for a further term of one year, from 1 July 2004 till 30 June 2005, under the same terms and conditions.

Currently, there are no long-term incentive schemes for the Directors.

Corporate Governance

The remuneration of Directors for Financial Year 2004 are set out as below:

| | Fees % | Salary % | Bonus % | Other benefits % | Total % |
|---|--------|----------|---------|------------------|---------|
| Executive Directors | | | | | |
| <i>S\$1,250,000 to S\$1,500,000</i> | | | | | |
| Lui Choon Hay | 2.8 | 45.1 | 52.0 | 0.1 | 100.0 |
| <i>S\$1,000,000 to S\$1,250,000</i> | | | | | |
| Ching Heng Yang | 1.5 | 40.4 | 57.6 | 0.5 | 100.0 |
| Tam Wai | 1.5 | 40.4 | 57.6 | 0.5 | 100.0 |
| Ho Nee Kit | 1.5 | 40.4 | 57.6 | 0.5 | 100.0 |
| <i>Below S\$250,000</i> | | | | | |
| Yuen Chung Sang Samuel (appointed on 3.6.2004) | 5.8 | 73.5 | 14.5 | 6.2 | 100.0 |
| Ho Kang Peng (resigned on 31.3.2004) | 6.4 | 89.1 | – | 4.5 | 100.0 |
| Non-Executive Directors | | | | | |
| <i>Below S\$250,000</i> | | | | | |
| Tan Yew Beng | 95.2 | – | – | 4.8 | 100.0 |
| Lim Shook Kong | 23.5 | 62.3* | 7.3* | 6.9 | 100.0 |
| Wong Hoo Tung | 94.6 | – | – | 5.4 | 100.0 |

* By virtue of Mr Lim Shook Kong's executive appointment in the Company's subsidiaries.

The remuneration of the top 5 Key Executives (who are not directors of the Company) for Financial Year 2004 are set out as below:

| | Designation | Fees % | Salary % | Bonus % | Other benefits % | Total % |
|---------------------------------|--|--------|----------|---------|------------------|---------|
| <i>S\$250,000 to S\$499,999</i> | | | | | | |
| Hew Lien Lee, Elson | Managing Director of LCTH Corporation Berhad | 1.9 | 67.9 | 19.9 | 10.3 | 100.0 |
| <i>Below S\$250,000</i> | | | | | | |
| Hoo Tiang Hoon, Wilfred | Group Assistant-General Manager, Managing Director of Fu Yu Tianjin, Senior vice-president of Fu Yu International Enterprise Limited | – | 91.0 | 9.0 | – | 100.0 |
| Lee Tee Young Bobby | Senior General Manager, Vice-president of Fu Yu International Enterprise Limited | – | 67.9 | 32.1 | – | 100.0 |
| Yee Keng Yip | General Manager of NanoTechnology Manufacturing Pte. Ltd. | – | 58.5 | 14.0 | 27.5 | 100.0 |
| Tan Lay Kheng | Group Human Resource Manager, Senior vice-president of Fu Yu International Enterprise Limited | – | 79.1 | 14.2 | 6.7 | 100.0 |

There are no employees whose remuneration exceeds S\$150,000 during the year who are related to any Directors or substantial shareholders of the Company.

There is currently no share option scheme for the employees of the Group.

Corporate Governance

Key Executives' Information

Mr Hew Lien Lee Elson, age 48, is the Managing Director of LCTH Corporation Berhad ("LCTH"), the Malaysian subsidiary, listed on the Main Board of Bursa Malaysia Securities Berhad, Malaysia on 8 November 2004. Mr Hew joined Fu Yu in 1984 and holds a Diploma in Electrical Engineering. With 26 years of experience in the plastic injection moulding industry, he has played an instrumental role in the successful listing of LCTH. He is responsible for the overall strategic direction and management of the LCTH Group. Mr Hew is a Member of the Singapore Institute of Directors.

Mr Hoo Tiang Hoon Wilfred, age 49, is the Managing Director of Fu Yu Tianjin, Group Assistant General Manager and senior vice-president of FYIE. Mr Hoo has a Diploma in Mechanical Engineering and is responsible for the overall operations of the plant. Under the leadership of Mr Hoo, Fu Yu Tianjin won the "Tianjin Foreign Investment Corporate Best Efficiency Award" for the second time in year 2004. Mr Hoo has over 30 years of experience in the mould-fabrication and plastic injection moulding industry.

Mr Lee Tee Young Bobby, age 33, holds Bachelor Degree in Engineering (Mechanical & Production). He joined Fu Yu as a Sales Manager for the Dongguan plant and has risen rapidly to senior level positions. His contribution to Fu Yu Dongguan earned the company a place among the top foreign investments in Dongguan. In December 2004, Mr Lee was further promoted to Senior General Manager, and is responsible for the overall performance of five plants in China. Mr Lee is also the vice-president of FYIE.

Mr Yee Keng Yip, age 51, is the General Manager of NanoTechnology Manufacturing Pte. Ltd., a joint venture between the Company and EDB Venture Pte. Ltd.. Reporting to the Board of the said company, Mr Yee oversees the strategic, business and technology development as well as operational matters of the company. Prior to the setting up of this venture, Mr Yee has 27 years of experiences in the Ultra Precision Manufacturing. Mr Yee holds a Master of Business Administration Degree.

Madam Tan Lay Kheng, age 51, has 21 years of experience in Industrial Relations Management. She is the Group Human Resource Manager and is appointed as Senior Vice-President of FYIE. Madam Tan oversees the management and development of Human Resources of the Group. She is also responsible for the administrative function of the Group. Madam Tan holds a Bachelor of Art Degree.

Code of Corporate Governance Principle 11 : Audit Committee

Audit Committee

The Audit Committee ("AC") comprises the following members, majority of whom are independent and non-executive directors :

Mr Wong Hoo Tung (Chairman)
Mr Tan Yew Beng
Mr Lim Shook Kong

The AC held 4 meetings during the year. The AC had full access to and co-operation from Management, including internal auditors, to enable it to discharge its functions properly.

Corporate Governance

The AC, which has written terms of reference, performs the following delegated functions:

- (1) Reviews the audit plans of the internal and external auditors of the Company and ensures the adequacy of the Company's system of internal controls and the co-operation given by the Company's management to the external and internal auditors;
- (2) Reviews the quarterly and annual financial statements and the auditors' report of the Company before their submission to the Board of Directors;
- (3) Reviews with the management and the chief internal auditor the adequacy of the Company's internal control in respect of management, business and service systems and practices;
- (4) Reviews legal and regulatory matters that may have a material impact on the financial statements, related compliance policies and programmes and any reports received from regulators;
- (5) Reviews the cost effectiveness and the independence and objectivity of the external auditors;
- (6) Reviews the nature and extent of non-audit services provided by the external auditors;
- (7) Reviews the assistance given by the Company's officers to the auditors;
- (8) Nominates the external auditors;
- (9) Reviews interested person transactions in accordance with the requirements of the listing rules of the Singapore Exchange; and
- (10) Reviews the operating and capital expenditure budget for the Group.

The AC has the power to conduct or authorize investigations into any matters within the AC's scope of responsibility.

The AC, having reviewed all non-audit services provided by the external auditors to the Group, is satisfied that the nature and extent of such services would not affect the independence of the external auditors.

The AC has adopted the practice of inviting the other directors (who are not members of the AC) to attend the AC meetings. In performing its function, the AC also meets with the internal and external auditors without the presence of the Company's Management, which allows for a more open discussion on any issue of concern. The AC also reviewed Related Party Transactions and the Interested Person Transactions during the year.

The AC has been given the resources required for it to discharge its functions properly.

The Company has, to the best of its knowledge, complied with the Best Practices Guide in relation to the roles and responsibilities of the Audit Committee issued by the SGX-ST.

Please refer to page 12 and 13 of this report for qualifications of AC members.

Code of Corporate Governance Principle 12 : Internal Controls

The Board maintains a sound system of internal control and effective risk management policies to safeguard the shareholders' investment and the Company's assets.

In their course of statutory audit, the Company's external auditors carried out a review of the effectiveness of the Company's material internal controls. No material compliance issues or internal control weaknesses were noted by the external auditors.

The Company's internal auditors carried out major internal control checks and compliance tests in accordance with the internal audit programmes approved by the AC.

The AC reviewed the internal auditors' reports as well as external auditors' reports to ensure that adequate internal controls are in place within the Group.

Corporate Governance

The Board believes that, in the absence of any evidence to the contrary, the system of internal control maintained by the Management was in place throughout the financial year and up to the date of this report provides reasonable, but not absolute, assurance against material financial misstatements or loss, and include the safeguarding of assets, the maintenance of proper accounting records, the reliability of financial information, compliance with appropriate legislation, regulation and best practice, and the identification and containment of business risk. The Board notes that no system of internal control could provide absolute assurance against the occurrence of material errors, poor judgement in decision-making, human error, losses, fraud or other irregularities.

Code of Corporate Governance Principle 13 : Internal Audit

The Internal Audit Department oversees the Group's internal audit, risk management and compliance functions. The Internal Audit Department reports to the AC. The Internal Auditors meet the standards set by nationally and internationally recognized professional bodies including the Standards for the Professional Practice of Internal Auditing set by The Institute of Internal Auditors. The AC ensures that the internal audit function is adequately resourced and has appropriate standing within the Company.

In ensuring the adequacy of the internal audit function, the AC ensures that the internal auditors conduct reviews of the Group's internal controls and processes and submit their findings and recommendations to the AC and the Management.

COMMUNICATION WITH SHAREHOLDERS

Code of Corporate Governance Principle 10 : Accountability

Code of Corporate Governance Principle 14 : Communication with Shareholders

Code of Corporate Governance Principle 15 : Greater Participation by Shareholders

The Company engages in regular, effective and fair communication with shareholders and does not practice selective disclosure. Price sensitive announcements including quarterly and full year results are released through SGXNET and are also made available on the Company's website at "www.fuyucorp.com".

Shareholders are informed of general meetings through notices published in the newspapers and reports or circulars sent to them.

The Company encourages shareholders' participation at AGM, and welcomes shareholders to give their constructive views on various matters concerning the Company. The Chairman of the Audit Committee, the Nominating Committee and the Remuneration Committee, as well as the external auditors, are present to address questions at the AGM.

Shareholders are encouraged to visit the Company's website for information on the Group.

Dealings in Securities [SGX-ST Listing Rule 710 (2)]

The Company has issued a policy on share dealings by key employees of the Company, setting out the implications of insider trading and the recommendations of the Best Practice Guide. To improve further guidance to employees on dealing in the Company's share, the Company has adopted a code of conduct on transactions in the Company's shares modelled after the Best Practice Guide with some modifications. The Company has also introduced procedures to monitor its compliance.

Interested Person Transactions [SGX-ST Listing Rule 1207(16)]

In compliance with the rules of the SGX-ST, the Group confirms that there were no interested person transactions during the year under review.

Financial Review Contents

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Report of the Directors

The Directors are pleased to present their report to the members together with the audited financial statements of Fu Yu Corporation Limited (the Company) and its subsidiaries (the Group) for the financial year ended 31 December 2004.

Directors

The Directors of the Company in office at the date of this report are :-

| | |
|------------------------|-----------------|
| Lui Choon Hay | (Chairman) |
| Ching Heng Yang | (Vice-Chairman) |
| Tam Wai | |
| Ho Nee Kit | |
| Yuen Chung Sang Samuel | |
| Tan Yew Beng | |
| Lim Shook Kong | |
| Wong Hoo Tung | |

In accordance with Article 91 of the Company's Articles of Association, Mr Lim Shook Kong and Mr Ching Heng Yang retire and, being eligible, offer themselves for re-election. In accordance with Article 97 of the Company's Articles of Association, Mr Yuen Chung Sang Samuel, retires and, being eligible, offer himself for re-election.

Arrangements to enable directors to acquire shares and debentures

Neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose object is to enable the Directors of the Company to acquire benefits by means of the acquisition of shares or debentures of the Company or any other body corporate.

Directors' interests in shares and debentures

The following Directors, who held office at the end of the financial year, had, according to the register of directors' shareholdings required to be kept under Section 164 of the Singapore Companies Act, Cap. 50, an interest in shares of the Company, the Company's holding company and related corporations as stated below:

| Name of Director | Direct interest | | Deemed interest | |
|---|--|----------------------------------|--|----------------------------------|
| | At the beginning of the financial year/ at the date of appointment | At the end of the financial year | At the beginning of the financial year/ at the date of appointment | At the end of the financial year |
| <i>Fu Yu Corporation Limited</i> <i>(Ordinary shares of \$0.10 each)</i> | | | | |
| Lui Choon Hay | 10,650,380 | 10,050,380 | 270,968,000 | 271,768,000 |
| Ching Heng Yang | 4,230,380 | 1,000,000 | 270,968,000 | 273,398,380 |
| Tam Wai | 10,230,380 | 9,630,380 | 270,968,000 | 270,968,000 |
| Ho Nee Kit | 10,009,380 | 9,409,380 | 270,968,000 | 270,968,000 |
| Yuen Chung Sang Samuel | 100,000 | 100,000 | – | – |
| Tan Yew Beng | 1,250,000 | – | 300 | 1,250,000 |

Report of the Directors

| Name of Director | Direct interest | | Deemed interest | |
|---|--|----------------------------------|--|----------------------------------|
| | At the beginning of the financial year/ at the date of appointment | At the end of the financial year | At the beginning of the financial year/ at the date of appointment | At the end of the financial year |
| <i>Fu Yu Holding Pte Ltd</i> <i>(Ordinary shares of \$1.00 each)</i> | | | | |
| Lui Choon Hay | 1 | 1 | – | – |
| Ching Heng Yang | 1 | 1 | – | – |
| Tam Wai | 1 | 1 | – | – |
| Ho Nee Kit | 1 | 1 | – | – |
| <i>LCTH Corporation Berhad</i> <i>(Ordinary shares of RM0.20 each)</i> | | | | |
| Lui Choon Hay | – | 600,000 | – | 466,776,069 |
| Ching Heng Yang | – | 500,000 | – | 466,626,069 |
| Tam Wai | – | 600,000 | – | 466,626,069 |
| Ho Nee Kit | – | 600,000 | – | 466,626,069 |
| Yuen Chung Sang Samuel | – | 500,000 | – | – |
| Tan Yew Beng | – | 500,000 | – | – |
| Lim Shook Kong | – | 450,000 | – | – |
| Wong Hoo Tung | – | 500,000 | – | – |

Except as disclosed below, there was no change in any of the above mentioned direct and deemed interests of the Directors between the end of the financial year and 21 January 2005.

| Name of Director | Direct interest | |
|---|-----------------|--------------|
| | At 1.1.2005 | At 21.1.2005 |
| <i>LCTH Corporation Berhad</i> <i>(Ordinary shares of RM0.20 each)</i> | | |
| Ho Nee Kit | 600,000 | 602,000 |

By virtue of Section 7 of the Companies Act, Messrs Lui Choon Hay, Ching Heng Yang, Tam Wai and Ho Nee Kit are deemed to have interest in shares of the other subsidiaries of the Company in proportion to its interest in the subsidiary companies by virtue of their interests in more than 20% of the issued share capital of the Company.

Directors' contractual benefits

Since the end of the previous financial year, no Director of the Company has received or become entitled to receive a benefit by reason of a contract made by the Company or a related corporation with the Director, or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

Report of the Directors

Utilisation of proceeds from placement of shares

Pursuant to the share placement of the Company in October 2004, the status of utilisation of the net proceeds is as follows :

| | Net proceeds allocated S\$'million | Amount utilised as at 31.12.2004 S\$'million | Amount utilised as at the date of this report S\$'million |
|------------------------------------|--|--|--|
| Investment in China subsidiaries | 15.0 | 6.1 | 13.1 |
| Investment in Singapore subsidiary | 5.0 | 5.0 | 5.0 |
| Working capital | 4.8 | 4.7 | 4.8 |

Audit Committee

To assist the Board in fulfilling its responsibilities for corporate management and financial reporting, an Audit Committee was established on 29 May 1995 by the Board of Directors in accordance with Section 201B of the Companies Act, Cap. 50. It comprises three members, two of whom are independent of management. The members of the Audit Committee during the financial year and at the date of this report are :

Wong Hoo Tung (Chairman)
Tan Yew Beng (Vice-Chairman)
Lim Shook Kong

The Audit Committee recommends to the Board the re-appointment of Ernst & Young as auditors of the Company for the ensuing year.

Auditors

Ernst & Young have expressed their willingness to accept re-appointment as auditors.

On behalf of the Board,

Lui Choon Hay
Director

Ching Heng Yang
Director

Singapore
28 February 2005

Statement by Directors Pursuant to Section 201(15)

We, Lui Choon Hay and Ching Heng Yang, being two of the Directors of Fu Yu Corporation Limited, do hereby state that, in the opinion of the Directors :-

- (i) the accompanying balance sheets, profit and loss accounts, statements of changes in equity and consolidated statement of cash flows together with the notes thereto, are drawn up so as to give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2004 and of the results of the business, and changes in equity of the Company and of the Group and cash flows of the Group for the year then ended; and
- (ii) at the date of this statement there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

On behalf of the Board,

Lui Choon Hay
Director

Ching Heng Yang
Director

Singapore
28 February 2005

Auditors' Report to the Members of Fu Yu Corporation Limited

We have audited the accompanying financial statements of Fu Yu Corporation Limited (the "Company") and its subsidiaries (the "Group") set out on pages 26 to 62 for the financial year ended 31 December 2004. These financial statements are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Singapore Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion,

- (a) the financial statements of the Company and of the Group are properly drawn up in accordance with the provisions of the Singapore Companies Act, Cap. 50 (the "Act") and Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2004 and the results and changes in equity of the Company and of the Group and cash flows of the Group for the financial year ended on that date; and
- (b) the accounting and other records required by the Act to be kept by the Company and by those subsidiaries incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

ERNST & YOUNG
Certified Public Accountants

Singapore
28 February 2005

Profit and Loss Accounts

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004

(In Singapore dollars)

| | Note | Group | | Company | |
|--|------|---------------|---------------|--------------|--------------|
| | | 2004 \$ | 2003 \$ | 2004 \$ | 2003 \$ |
| Sales | 4 | 397,839,169 | 329,448,842 | 103,273,595 | 110,420,429 |
| Cost of sales | | (292,624,495) | (243,885,150) | (82,624,900) | (86,828,555) |
| Gross profit | | 105,214,674 | 85,563,692 | 20,648,695 | 23,591,874 |
| Other revenue | 5 | 5,240,484 | 2,669,337 | 11,506,707 | 7,107,270 |
| Selling and administrative expenses | | (50,339,352) | (39,184,849) | (22,100,659) | (16,177,999) |
| Other operating expenses | | (3,496,075) | (3,490,221) | (1,031,081) | (1,012,490) |
| Profit from operating activities | 6 | 56,619,731 | 45,557,959 | 9,023,662 | 13,508,655 |
| Finance costs | 7 | (1,123,490) | (1,165,070) | (530,208) | (763,079) |
| Exceptional item | 8 | 22,927,018 | – | (1,881,871) | (8,060,950) |
| Share of results of an associated company | | 413,521 | 53,688 | – | – |
| Profit before income tax | | 78,836,780 | 44,446,577 | 6,611,583 | 4,684,626 |
| Income tax | 9 | (4,414,666) | (10,578,021) | 521,463 | (1,315,533) |
| Profit after income tax | | 74,422,114 | 33,868,556 | 7,133,046 | 3,369,093 |
| Minority interests | | (1,771,232) | (1,072,534) | – | – |
| Net profit attributable to members of the Company | | 72,650,882 | 32,796,022 | 7,133,046 | 3,369,093 |
| | | Cents | Cents | | |
| Earnings per share | | | | | |
| – Basic and diluted | 10 | 15.91 | 7.26 | | |

The accompanying notes form an integral part of the financial statements.

Balance Sheets

AS AT 31 DECEMBER 2004

(In Singapore dollars)

| | Note | Group | | Company | |
|--|------|--------------------|--------------------|--------------------|--------------------|
| | | 2004 \$ | 2003 \$ | 2004 \$ | 2003 \$ |
| Non-current assets | | | | | |
| Property, plant and equipment | 11 | 232,413,903 | 186,011,421 | 69,857,235 | 71,513,303 |
| Subsidiary companies | 12 | – | – | 136,943,691 | 94,054,019 |
| Jointly controlled company | 13 | – | – | – | 900,000 |
| Associated company | 14 | 1,781,028 | 1,399,444 | – | – |
| Deferred tax assets | 9 | 4,030,756 | 1,469,922 | – | – |
| Fixed deposits | 21 | 177,135 | 160,771 | – | – |
| | | <u>238,402,822</u> | <u>189,041,558</u> | <u>206,800,926</u> | <u>166,467,322</u> |
| Current assets | | | | | |
| Stocks | 15 | 54,198,708 | 40,570,970 | 14,440,694 | 11,252,039 |
| Trade and other receivables, net | 16 | 129,567,217 | 102,997,600 | 18,094,923 | 23,401,149 |
| Cash and cash equivalents | | 97,568,360 | 42,148,314 | 2,649,884 | 7,799,647 |
| | | <u>281,334,285</u> | <u>185,716,884</u> | <u>35,185,501</u> | <u>42,452,835</u> |
| Deduct : Current liabilities | | | | | |
| Loans and borrowings | 17 | 55,064,163 | 32,256,652 | 32,325,862 | 25,738,376 |
| Trade and other payables | 18 | 126,858,152 | 111,248,025 | 44,878,858 | 39,894,208 |
| Provision for income tax | | 1,517,392 | 7,093,983 | 1,589,949 | 3,416,382 |
| | | <u>183,439,707</u> | <u>150,598,660</u> | <u>78,794,669</u> | <u>69,048,966</u> |
| Net current assets/ (liabilities) | | 97,894,578 | 35,118,224 | (43,609,168) | (26,596,131) |
| Non-current liabilities | | | | | |
| Deferred tax liabilities | 9 | (8,966,540) | (9,207,732) | (5,967,568) | (7,463,893) |
| Loans and borrowings | 17 | (74,703) | (131,415) | (42,925) | (117,097) |
| | | <u>327,256,157</u> | <u>214,820,635</u> | <u>157,181,265</u> | <u>132,290,201</u> |
| Share capital | 19 | 47,460,382 | 45,160,382 | 47,460,382 | 45,160,382 |
| Reserves | 20 | 249,899,654 | 167,562,033 | 109,720,883 | 87,129,819 |
| | | <u>297,360,036</u> | <u>212,722,415</u> | <u>157,181,265</u> | <u>132,290,201</u> |
| Minority interests | | 29,896,121 | 2,098,220 | – | – |
| | | <u>327,256,157</u> | <u>214,820,635</u> | <u>157,181,265</u> | <u>132,290,201</u> |

The accompanying notes form an integral part of the financial statements.

Statements of Changes in Equity

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004

(In Singapore dollars)

| | Share capital \$ | Share premium \$ | Capital reserve \$ | Statutory reserve \$ | Revaluation reserve \$ | Foreign currency translation reserve \$ | Revenue reserve \$ | Total shareholders' equity \$ |
|---|---------------------|---------------------|-----------------------|-------------------------|---------------------------|--|-----------------------|----------------------------------|
| Group | | | | | | | | |
| Balance at 31.12.2002 | 45,160,382 | 26,812,956 | 140,256 | 5,085,943 | 2,518,471 | 4,353,857 | 103,535,462 | 187,607,327 |
| Foreign currency translation adjustment, net of tax | – | – | – | (106,667) | – | (2,297,882) | – | (2,404,549) |
| Purchase of minority shareholder's interest | – | – | – | 7,379 | – | – | – | 7,379 |
| Transfer to statutory reserve | – | – | – | 1,067,581 | – | – | (1,067,581) | – |
| Dividends on ordinary shares less tax | – | – | – | – | – | – | (5,283,764) | (5,283,764) |
| Net profit attributable to members of the Company for the financial year | – | – | – | – | – | – | 32,796,022 | 32,796,022 |
| Balance at 31.12.2003 | 45,160,382 | 26,812,956 | 140,256 | 6,054,236 | 2,518,471 | 2,055,975 | 129,980,139 | 212,722,415 |
| Group | | | | | | | | |
| | Share capital \$ | Share premium \$ | Capital reserve \$ | Statutory reserve \$ | Revaluation reserve \$ | Foreign currency translation reserve \$ | Revenue reserve \$ | Total shareholders' equity \$ |
| Balance at 31.12.2003 | 45,160,382 | 26,812,956 | 140,256 | 6,054,236 | 2,518,471 | 2,055,975 | 129,980,139 | 212,722,415 |
| Issuance of ordinary shares | 2,300,000 | 23,000,000 | – | – | – | – | – | 25,300,000 |
| Share issue expenses | – | (524,450) | – | – | – | – | – | (524,450) |
| Foreign currency translation adjustment, net of tax | – | – | – | (232,516) | – | (5,468,463) | – | (5,700,979) |
| Deferred tax movement from change in tax rate relating to revaluation of properties | – | – | – | – | 137,829 | – | – | 137,829 |
| Transfer to statutory reserve | – | – | – | 1,669,884 | – | – | (1,669,884) | – |
| Dividends on ordinary shares less tax | – | – | – | – | – | – | (7,225,661) | (7,225,661) |
| Net profit attributable to members of the Company for the financial year | – | – | – | – | – | – | 72,650,882 | 72,650,882 |
| Balance at 31.12.2004 | 47,460,382 | 49,288,506 | 140,256 | 7,491,604 | 2,656,300 | (3,412,488) | 193,735,476 | 297,360,036 |

Statements of Changes in Equity

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004

(In Singapore dollars)

| Company | Share capital \$ | Share premium \$ | Revaluation reserve \$ | Foreign currency translation reserve \$ | Revenue reserve \$ | Total shareholders' equity \$ |
|--|------------------------|------------------------|------------------------------|---|--------------------------|--|
| Balance at 31.12.2002 | 45,160,382 | 26,812,956 | 2,518,471 | – | 59,785,363 | 134,277,172 |
| Dividends on ordinary shares less tax | – | – | – | – | (5,283,764) | (5,283,764) |
| Foreign currency adjustments | – | – | – | (72,300) | – | (72,300) |
| Net profit attributable to members of the Company for the financial year | – | – | – | – | 3,369,093 | 3,369,093 |
| Balance at 31.12.2003 | 45,160,382 | 26,812,956 | 2,518,471 | (72,300) | 57,870,692 | 132,290,201 |
| Issuance of ordinary shares | 2,300,000 | 23,000,000 | – | – | – | 25,300,000 |
| Share issue expenses | – | (524,450) | – | – | – | (524,450) |
| Dividends on ordinary shares less tax | – | – | – | – | (7,225,661) | (7,225,661) |
| Foreign currency adjustments | – | – | – | 70,300 | – | 70,300 |
| Deferred tax movement from change in tax rate relating to revaluation of properties | – | – | 137,829 | – | – | 137,829 |
| Net profit attributable to members of the Company for the financial year | – | – | – | – | 7,133,046 | 7,133,046 |
| Balance at 31.12.2004 | 47,460,382 | 49,288,506 | 2,656,300 | (2,000) | 57,778,077 | 157,181,265 |

The accompanying notes form an integral part of the financial statements.

Consolidated Statement of Cash Flows

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004

(In Singapore dollars)

| | 2004 \$ | 2003 \$ |
|---|---------------------|---------------------|
| Cash flows from operating activities : | | |
| Net profit from operating activities before interest | 78,807,023 | 45,148,802 |
| Adjustments for : | | |
| Depreciation of property, plant and equipment | 24,611,902 | 22,125,782 |
| Gain on disposal of property, plant and equipment | (2,168,201) | (37,461) |
| Property, plant and equipment written-off | 1,139,124 | 307,062 |
| Goodwill on consolidation written-off | 114,082 | – |
| Loss on disposal of a subsidiary company | – | 18,290 |
| Gain on dilution of shareholding in subsidiaries | (22,927,018) | – |
| Currency realignment | (3,469,295) | 66,850 |
| Operating profit before reinvestment in capital | 76,107,617 | 67,629,325 |
| Increase in trade and other receivables | (26,601,069) | (27,624,779) |
| Increase in stocks | (13,627,738) | (14,330,107) |
| Increase in trade and other payables | 9,362,379 | 37,575,082 |
| Income tax paid | (12,021,862) | (10,005,535) |
| Cash generated from operations | 33,219,327 | 53,243,986 |
| Interest income received | 739,726 | 409,157 |
| Interest paid | (1,123,490) | (1,165,070) |
| Net cash provided by operating activities | 32,835,563 | 52,488,073 |
| Cash flows from investing activities : | | |
| Purchase of property, plant and equipment | (74,119,189) | (30,008,143) |
| Proceeds from sale of property, plant and equipment | 7,088,248 | 98,348 |
| Increase in amount owing by an associated company | (16,888) | (51,695) |
| Purchase of minority shareholders' shares | (16,417,030) | (224,135) |
| Proceeds from disposal of a subsidiary company | – | 252,406 |
| Net cash outflow for acquisition of a subsidiary company (Note 21) | (581,355) | – |
| Net cash used in investing activities | (84,046,214) | (29,933,219) |
| Cash flows from financing activities : | | |
| Net proceeds from issuance of the Company's shares | 24,775,550 | – |
| Dividends paid to minority shareholders | (1,059,302) | (204,414) |
| Proceeds from/(repayment of) loans and borrowings | 22,750,799 | (4,477,631) |
| Dividends paid | (7,225,661) | (5,283,764) |
| Net proceeds from issuance of subsidiaries' shares | 67,405,675 | – |
| Net cash provided by/(used in) financing activities | 106,647,061 | (9,965,809) |
| Net increase in cash and cash equivalents | 55,436,410 | 12,589,045 |
| Cash and cash equivalents at beginning of financial year (Note 21) | 42,309,085 | 29,720,040 |
| Cash and cash equivalents at end of financial year (Note 21) | 97,745,495 | 42,309,085 |

The accompanying notes form an integral part of the financial statements.

Notes to the Financial Statements

31 December 2004

(In Singapore dollars)

1. Corporate information

With effect from 15 April 2004, the Company changed its name from Fu Yu Manufacturing Limited to Fu Yu Corporation Limited. Fu Yu Corporation Limited is a limited liability company which is incorporated in Singapore, and its ultimate and immediate parent company is Fu Yu Holding Pte Ltd, incorporated in Singapore.

The registered office of the Company is located at No. 2, Serangoon North Avenue 5, Singapore 554911.

The principal activities of the Company are those of manufacturing and sub-assembly of precision plastic parts and components, fabrication of precision moulds and dies and investment holding. The principal activities of the Group consist of manufacturing and sub-assembly of precision plastic parts and components, fabrication of precision moulds and dies, trading and investment holding.

There have been no significant changes in the nature of these activities during the financial year.

The Group and the Company employed 8,315 and 1,080 (2003 : 6,492 and 1,074) employees as at 31 December 2004, respectively.

2. Summary of significant accounting policies

(a) *Basis of preparation*

The financial statements of the Company and of the Group have been prepared in accordance with Singapore Financial Reporting Standards (FRS) as required by the Singapore Companies Act, Cap. 50.

The financial statements have been prepared on a historical cost basis except that certain leasehold properties are carried at revalued amounts.

The accounting policies have been consistently applied by the Company and are consistent with those used in the previous financial year.

The financial statements are presented in Singapore Dollars (SGD or \$).

(b) *Principles of consolidation*

The financial statements of the Group incorporate the financial statements of the Company and all its subsidiary companies made up to 31 December 2004. All intra-group balances and transactions are eliminated on consolidation.

The results of the subsidiary companies acquired or disposed of during the financial year are included in or excluded from the financial statements of the Group from the respective date of acquisition or disposal as applicable. Acquisitions of subsidiary companies are accounted for using the purchase method of accounting.

The financial statements of subsidiary companies are prepared for the same reporting period as the parent company, using consistent accounting policies. Adjustments are made to conform any dissimilar material accounting policies that may exist.

Notes to the Financial Statements

31 December 2004

(In Singapore dollars)

2. Summary of significant accounting policies (cont'd)

(c) *Subsidiary company*

A subsidiary is a company in which the group, directly or indirectly, holds more than 50% of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors.

In the company's separate financial statements, investments in subsidiary companies are accounted for at cost less impairment losses.

(d) *Associated company*

An associated company is defined as a company, not being a subsidiary company, in which the Group has a long-term interest of not less than 20% nor more than 50% of the equity and in whose financial and operating policy decisions the Group exercises significant influence.

The Group's investment in associated companies is recorded at cost and adjusted to recognise the Group's share of the net assets of the associated companies at the date of acquisition.

The Group's share of the results of associated companies is included in the consolidated profit and loss account. The Group's share of the post-acquisition reserves of associated companies is included in the investments in the consolidated balance sheet.

Investment cost in associated companies is stated in the Company's balance sheet at cost less impairment losses.

(e) *Goodwill*

Goodwill represents the excess of the cost of the acquisition over the fair value of identifiable net assets of a subsidiary or associate company at the date of acquisition.

Goodwill arising on acquisition on or after 1 January 2001 is amortised on a straight line basis over the useful life of up to a maximum of 20 years, determined on an individual basis, commencing in the year of acquisition. Goodwill arising from business combinations prior to that date had been written-off against Group reserves in the financial year in which it arose.

Negative goodwill

Negative goodwill arising on acquisition represents the excess of the fair value of the identifiable net assets acquired over the cost of acquisition.

To the extent that negative goodwill relates to an expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, but which have not yet been recognised, it is recognised in the profit and loss account when the future losses and expenses are recognised. Any remaining negative goodwill, but not exceeding the fair values of the non-monetary assets acquired, is recognised in the profit and loss account over the weighted average useful life of those assets that are depreciable or amortisable. Negative goodwill in excess of fair values of the non-monetary assets acquired is recognised immediately in the profit and loss account.

Negative goodwill is presented in the same balance sheet classification as goodwill. With respect to associated company, negative goodwill is included in the carrying value of the investment.

Notes to the Financial Statements

31 December 2004

(In Singapore dollars)

2. Summary of significant accounting policies (cont'd)

(f) *Jointly controlled company*

The Company's interest in the jointly controlled company is accounted for by proportionate consolidation which involves recognising a proportionate share of the jointly controlled company's assets, liabilities, income and expenses with similar items in the consolidated financial statements on a line-by-line basis.

(g) *Property, plant and equipment*

Property, plant and equipment are stated at cost or valuation less accumulated depreciation and any impairment losses. All items of property, plant and equipment are initially recorded at cost. Certain properties are subsequently revalued, on an asset-by-asset basis, to their fair values. The Group does not have a policy on the frequency of property, plant and equipment revaluation.

The initial cost of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use, any trade discounts and rebates are deducted in arriving at the purchase price. Expenditure incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the profit and loss account in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditure is capitalised as an additional cost of property, plant and equipment.

When an asset is revalued, any increase in the carrying amount is credited directly to revaluation reserve unless it reverses a previous revaluation decrease relating to the same asset which was previously recognised as an expense. In such circumstance, the increase is recognised as income to the extent of the previous write-down in the profit and loss account. When an asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised as an expense to the profit and loss account unless it reverses a previous increment relating to that asset, in which case it is charged against the related revaluation surplus, to the extent that the decrease does not exceed the amount held in the revaluation surplus in respect of that same asset. Any balance remaining in the revaluation surplus in respect of an asset, is transferred directly to revenue reserve on retirement or disposal of the asset.

The carrying amounts, for those revalued and those measured at cost, are reviewed at each balance sheet date for impairment by assessing whether the carrying amounts are recorded in excess of their recoverable amounts. If carrying values exceed their recoverable amounts, assets are written down to their recoverable amounts.

Notes to the Financial Statements

31 December 2004

(In Singapore dollars)

2. Summary of significant accounting policies (cont'd)

(h) *Depreciation*

Depreciation is calculated on the straight line method to write-off the cost or valuation of property, plant and equipment over their estimated useful lives :-

| | | |
|---|---|--|
| Freehold properties | - | 20 years |
| Leasehold properties | - | over the period of the respective leases ranging from 16 to 60 years |
| Renovations | - | 5 years |
| Factory equipment, plant and machinery | - | 10 years |
| Motor vehicles | - | 5 years |
| Office equipment, computers electrical installations and furniture and fittings | - | 3 - 5 years |
| Erectable stores | - | 2 years |
| Leasehold improvement | - | 3 years |

Building under construction is not depreciated until it is ready for its intended use.

Fully depreciated property, plant and equipment are retained in the financial statements until they are no longer in use and no further charge for depreciation is made in respect of these assets.

The useful life and depreciation method are reviewed annually to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

(i) *Investments*

Investments held on a long term basis are stated at cost. If carrying values exceed their recoverable amounts, investments are written down to their recoverable amounts.

(j) *Stocks*

Stocks are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

| | | |
|-------------------------------------|---|---|
| Raw materials | - | purchase cost on weighted average basis; and |
| Finished goods and work-in-progress | - | cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity. |

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Notes to the Financial Statements

31 December 2004

(In Singapore dollars)

2. Summary of significant accounting policies (cont'd)

(k) *Trade and other receivables*

Trade receivables, which generally have 30-120 days credit terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written-off to the profit and loss account as incurred.

Amounts due from related parties are recognised and carried at cost less an allowance for any uncollectible amounts.

(l) *Trade and other payables*

Liabilities for trade and other amounts payable which are normally settled on 30-90 day terms, are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Group.

Amounts due to related parties are carried at cost, being the fair value of the consideration to be paid.

(m) *Provisions*

Provisions are recognised when the Group has a present obligation (legal or constructive) where as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

(n) *Loans and borrowings*

All loans and borrowings are initially recognised at the fair value of the consideration received.

After initial recognition, all interest-bearing loans and borrowings are subsequently measured at amortised value. Amortised value is calculated by taking into account any discount or premium on settlement.

Borrowing costs are recognised as expenses in the period in which they are incurred.

(o) *Segments*

A segment is a distinguishable component of the Group that is engaged in providing products or services within a particular economic environment, which is subject to risks and rewards that are different from those of other segments.

For management purposes, the Group is organised into four geographical segments. The divisions are on the basis which the Group reports its primary segment information.

Inter-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include item directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise of interest-earning assets and revenue, interest-bearing loans, borrowing and expenses, and corporate assets and expenses. Segment capital expenditure is the total costs incurred during the year to acquire segment assets that are expected to be used for more than one year.

Notes to the Financial Statements

31 December 2004

(In Singapore dollars)

2. Summary of significant accounting policies (cont'd)

(p) **Leases**

Where the Group is the Lessor

Assets subject to operating leases are included in property, plant and equipment in the balance sheet. Lease income is recognised in the profit and loss accounts on a straight-line basis over the lease term.

Where the Group is the Lessee

Finance leases, which effectively transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the present value of the minimum lease payments at the inception of the lease term and disclosed as leased property, plant and equipment. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit and loss account. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased term are classified as operating leases. Operating lease payments are recognised as an expense in the profit and loss account on a straight-line basis over the lease term.

(q) **Government grants**

Assets related grants from the Economic Development Board ("EDB") and the Agency for Science, Technology and Research ("A*STAR") are credited to a deferred assets grants account and are released to the profit and loss accounts on a straight line basis over the estimated useful life of the underlying assets.

(r) **Deferred taxation**

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled based on tax rates enacted or substantively enacted at the balance sheet date.

Deferred tax liabilities are recognised for all taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry-forward of unused tax assets and unused tax losses can be utilised.

Notes to the Financial Statements

31 December 2004

(In Singapore dollars)

2. Summary of significant accounting policies (cont'd)

(r) *Deferred taxation* (cont'd)

At each balance sheet date, the Group re-assesses unrecognised deferred tax assets and the carrying amount of deferred tax assets. The Group recognises a previously unrecognised deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. The Group conversely reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of the deferred tax asset to be utilised.

Deferred tax is charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly to equity.

(s) *Cash and cash equivalents*

Cash and cash equivalents are defined as cash on hand and at bank, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

For the purposes of the Consolidated Statement of Cash Flows, cash and cash equivalents consist of cash and bank balances, fixed deposits and short-term securities with financial institutions.

(t) *Revenue recognition*

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have been passed to the buyer.

Commission income

Revenue is recognised when the right to receive the payment is established.

Interest

Interest income is recognised on a time proportion basis.

Dividends

Revenue is recognised when the shareholders' right to receive the payment is established.

Rental income

Refer to the policy on leases above.

Government grants

Refer to the policy on government grants above.

Notes to the Financial Statements

31 December 2004

(In Singapore dollars)

2. Summary of significant accounting policies (cont'd)

(u) *Foreign currency translation*

Foreign currency transactions

Transactions in foreign currencies are measured in Singapore Dollar and recorded at exchange rates approximating those ruling at the transaction dates.

Monetary assets and liabilities denominated in currencies other than Singapore Dollar are translated into Singapore Dollar equivalents using year-end spot foreign exchange rates. Non-monetary assets and liabilities are translated using exchange rates that existed at the date of transaction. Exchange differences on foreign currency transactions are included in the profit and loss account.

Net investment in subsidiary companies

Non-trade monetary items which are receivable from, or payable to, a subsidiary company for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, an extension to, or deduction from, the Company's net investment in that subsidiary company. The effects of translating these items using year-end spot foreign exchange rates are included in the Company's foreign currency translation reserve.

Foreign subsidiary companies

Assets and liabilities of foreign subsidiary companies are translated into Singapore Dollar equivalents using year-end spot foreign exchange rates. Revenues and expenses are translated at average exchange rates which approximate the exchange rates at the date of transactions. The effects of translating these operations are included in foreign currency translation reserve.

(v) *Employee benefits*

Defined contribution plan

As required by law, the Group's companies in Singapore make contributions to the state pension scheme, the Central Provident Fund ("CPF") and the Group's companies in Malaysia make contributions to the Employee Provident Fund ("EPF"). CPF and EPF are defined contribution schemes. Contributions to these schemes are recognised as compensation expenses in the same period as the employment that give rise to the contribution.

Employee entitlements

Liabilities for paid leave are recognised and are measured as the amount unpaid at the balance sheet date at current pay rates in respect of employees' services up to that date.

Notes to the Financial Statements

31 December 2004

(In Singapore dollars)

3. Group companies

The subsidiary companies and associated company at 31 December 2004 are :-

| Name of company | Place of incorporation/ establishment and business | Principal activities | Cost of investment | | Percentage of equity held by the Group | |
|---|--|--|--------------------|------------|--|-----------|
| | | | 2004 \$ | 2003 \$ | 2004 % | 2003 % |
| Held by Fu Yu Corporation Limited | | | | | | |
| <i>Subsidiary companies</i> | | | | | | |
| # Fu Yu Investment Pte Ltd | Singapore | Investment holding | 1,171,187 | 1,071,192 | 100 | 100 |
| # Chang Fu Resources Pte Ltd | Singapore | Dormant | 2,417,062 | 2,417,062 | 100 | 100 |
| # IFN Pte Ltd | Singapore | Investment holding | 1,481,871 | – | 100 | – |
| # NanoTechnology Manufacturing Pte. Ltd. | Singapore | Manufacturing of ultra precision tools and dies, precision moulding and stamping | 9,600,000 | – | 80 | – |
| * Fu Yu Moulding & Tooling (Dongguan) Co., Ltd. | People's Republic of China | Manufacture and sub-assembly of precision plastic parts and components, and fabrication of precision moulds and dies | 26,026,400 | 26,026,400 | 100 | 100 |
| * Fu Yu Moulding & Tooling (Shanghai) Co., Ltd. | People's Republic of China | Manufacture and sub-assembly of precision plastic parts and components, and fabrication of precision moulds and dies | 7,785,984 | 7,785,984 | 100 | 100 |
| * Fu Yu Trading Limited | Hong Kong | Trading | + | + | 100 | 100 |
| * Fu Yu Moulding & Tooling (Suzhou) Co., Ltd. | People's Republic of China | Manufacture and sub-assembly of precision plastic parts and components | 21,674,955 | 14,170,814 | 100 | 100 |

Notes to the Financial Statements

31 December 2004

(In Singapore dollars)

3. Group companies (cont'd)

| Name of company | Place of incorporation/ establishment and business | Principal activities | Cost of investment | | Percentage of equity held by the Group | |
|--|--|---|--------------------|------------|--|-----------|
| | | | 2004 \$ | 2003 \$ | 2004 % | 2003 % |
| @ Fu Yu (U.S.A.) Limited | United States of America | Dormant | 170,800 | 170,800 | 100 | 100 |
| * Fu Yu Mexico, S.A. De C.V. | Mexico | Dormant | 8,060,950 | 8,060,950 | 90 | 90 |
| * Fu Yu International Enterprise Limited | Hong Kong | Management services | 222,800 | 222,800 | 100 | 100 |
| * Fu Yu Moulding & Tooling (Zhuhai) Co., Ltd | People's Republic of China | Manufacture and sub-assembly of precision plastic parts and components | 3,809,122 | – | 100 | 100 |
| * Fu Yu Moulding & Tooling (Wujiang) Co., Ltd | People's Republic of China | Manufacturing of precision plastic parts and components | 2,283,775 | – | 100 | – |
| * QingDao Fu Qiang Electronics Co., Ltd | People's Republic of China | Manufacture and sub-assembly of precision plastic parts and components | 1,702,475 | – | 100 | – |
| * Fu Ying Moulding & Tooling (Shanghai) Co., Ltd | People's Republic of China | Manufacture and sub-assembly of precision, plastic parts and components, and fabrication of precision moulds and dies | – | – | 100 | – |
| | | | 86,407,381 | 59,926,002 | | |
| <i>Jointly controlled company</i> | | | | | | |
| # IFN Pte Ltd | Singapore | Investment holding | – | 900,000 | – | 50 |

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31 December 2004

(In Singapore dollars)

3. Group companies (cont'd)

| Name of company | Place of incorporation/ establishment and business | Principal activities | Percentage of equity held by the Group | |
|--|--|--|--|-----------|
| | | | 2004 % | 2003 % |
| Held through subsidiary companies | | | | |
| <i>Subsidiary companies</i> | | | | |
| * LCTH Corporation Berhad | Malaysia | Investment holding | 77.77 | – |
| * Classic Advantage Sdn Bhd | Malaysia | Manufacture and sub-assembly of precision plastic parts and components | 77.77 | 95 |
| * Fu Hao Manufacturing (M) Sdn Bhd | Malaysia | Manufacture and sub-assembly of precision plastic parts and components | 77.77 | 100 |
| * Fu Yu Moulding & Tooling (Tianjin) Co., Ltd. | People's Republic of China | Manufacture and sub-assembly of precision plastic parts and components, and fabrication of precision moulds and dies | 100 | 100 |
| * Fortune Mission Sdn Bhd | Malaysia | Sub-assembler (contract manufacturer) of precision plastic parts and components (under member voluntary liquidation) | 100 | 100 |
| * Fu Yu Guadalajara S.A. De C.V. | Mexico | Dormant | 100 | 100 |
| * Fu Yu Mexico, S.A. De C.V. | Mexico | Dormant | 10 | 5 |
| <i>Associated company</i> | | | | |
| ** Kodon (Tianjin) Electronic & Electrical Apparatus Co., Ltd. | People's Republic of China | Developing, manufacturing and sale of electronic products and equipment for medical use | 48 | 48 |

Audited by Ernst & Young, Singapore

* Audited by other member firms of Ernst & Young International.

** Audited by other firms of auditors. These are not significant foreign-incorporated subsidiary and associated companies as defined in Rule 718 of the Listing Manual.

+ Amount less than \$1.

@ Not required to be audited in the country of incorporation.

Notes to the Financial Statements

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(In Singapore dollars)

4. Sales

Sales represents net invoiced value of goods supplied. In respect of the Group, it excludes intra-group transactions.

5. Other revenue

| | Group | | Company | |
|---|------------------|------------------|-------------------|------------------|
| | 2004 \$ | 2003 \$ | 2004 \$ | 2003 \$ |
| Gross dividend received | – | – | 10,000,000 | 3,528,798 |
| Commission income | – | – | – | 2,446,137 |
| Interest income from banks | 739,726 | 409,157 | 34,255 | 155,705 |
| Rental income | 1,209,137 | 1,222,790 | 852,555 | 797,527 |
| Government grants (Note 22) | | | | |
| – income related | – | 61,248 | – | 61,248 |
| – asset related | 34,432 | 34,432 | 34,432 | 34,432 |
| Gain on disposal of property, plant and equipment | 2,168,201 | 37,461 | 432,666 | 58,819 |
| Sale of scrap and raw materials | 700,975 | 644,765 | 10,269 | 14,720 |
| Others | 388,013 | 259,484 | 142,530 | 9,884 |
| | <u>5,240,484</u> | <u>2,669,337</u> | <u>11,506,707</u> | <u>7,107,270</u> |

Notes to the Financial Statements

31 December 2004

(In Singapore dollars)

6. Profit from operating activities

| | Group | | Company | |
|--|------------|------------|------------|------------|
| | 2004 \$ | 2003 \$ | 2004 \$ | 2003 \$ |
| Operating profit is stated after charging/(crediting) :- | | | | |
| Sum paid or payable to : | | | | |
| – Directors of the Company | | | | |
| – Fees | 210,636 | 599,053 | 180,000 | 182,000 |
| – Contributions to defined contribution schemes | 37,879 | 59,590 | 27,566 | 59,590 |
| – Other emoluments | 5,023,476 | 3,738,835 | 4,041,427 | 3,738,835 |
| – Directors of subsidiaries | | | | |
| – Fees | 38,514 | – | – | – |
| – Contributions to defined contribution schemes | 22,552 | – | – | – |
| – Other emoluments | 325,065 | – | – | – |
| – Auditors of the Company | | | | |
| – Audit fees | | | | |
| – current financial year | 161,370 | 153,446 | 120,000 | 120,000 |
| – overprovision of prior financial year | – | (1,549) | – | – |
| – Non-audit fees | 98,932 | 48,428 | 69,542 | 33,788 |
| – Other auditors | | | | |
| – current financial year | 259,249 | 230,751 | – | – |
| – under/(over) provision in prior financial year | 16,944 | (1,375) | – | – |
| – Non-audit fees | 28,896 | 47,081 | – | – |
| Goodwill on consolidation written-off | 114,082 | – | – | – |
| Staff costs* | | | | |
| – salaries, bonuses and other costs | 56,212,369 | 47,512,785 | 24,319,270 | 23,826,789 |
| – contributions to defined contribution schemes | 4,291,678 | 4,820,059 | 1,874,452 | 2,343,954 |
| Net foreign exchange loss | 3,496,075 | 3,490,221 | 1,031,081 | 1,012,490 |
| Operating lease expenses | 2,922,765 | 3,634,370 | 1,428,195 | 2,342,765 |
| Loss on disposal of a subsidiary company | – | 18,290 | – | – |
| Property, plant and equipment written-off | 1,139,124 | 307,062 | 1,422 | 696 |

* Included in staff costs for the Group are contributions to defined contribution schemes and other emoluments for top 5 key executives who are not directors totalled \$19,032 (2003:\$49,185) and \$806,539 (2003:\$1,040,853)

The number of Directors of the Company within each remuneration band are as follows:

| | Number of Directors | |
|----------------------------|---------------------|------|
| | 2004 | 2003 |
| \$1,250,000 to \$1,499,999 | 1 | – |
| \$1,000,000 to \$1,249,999 | 3 | 1 |
| \$750,000 to \$999,999 | – | 3 |
| Below \$250,000 | 4 | 4 |
| Total | 8 | 8 |

Notes to the Financial Statements

31 December 2004

(In Singapore dollars)

7. Finance costs

| | Group | | Company | |
|-----------------------|------------------|------------------|----------------|----------------|
| | 2004 | 2003 | 2004 | 2003 |
| | \$ | \$ | \$ | \$ |
| Interest expense on : | | | | |
| – finance leases | 11,802 | 29,010 | 9,035 | 19,090 |
| – bank loans | 1,111,399 | 1,135,925 | 520,884 | 743,854 |
| – bank overdrafts | 289 | 135 | 289 | 135 |
| | <u>1,123,490</u> | <u>1,165,070</u> | <u>530,208</u> | <u>763,079</u> |

8. Exceptional item

| | | | | |
|--|-------------------|----------|------------------|------------------|
| Provision for diminution in value of investment | – | – | 1,881,871 | 8,060,950 |
| Gain on dilution of shareholding in subsidiaries | 22,927,018 | – | – | – |
| | <u>22,927,018</u> | <u>–</u> | <u>1,881,871</u> | <u>8,060,950</u> |

The Group recognised an exceptional gain of \$22,927,018 arising from the partial disposal of its effective equity interest in the subsidiary companies in Malaysia, namely Classic Advantage Sdn Bhd (“Classic”) and Fu Hao Manufacturing (M) Sdn Bhd (“Fu Hao”). This is in conjunction with the listing of LCTH Corporation Berhad (“LCTH”) on the Main Board of Bursa Malaysia Securities Berhad. LCTH is a newly incorporated subsidiary company of the Group and is also the immediate holding company of both Classic and Fu Hao.

The exceptional item recorded in the Company’s book relates to the provision for diminution in value of investment in subsidiary companies.

9. Income tax

| | | | | |
|---|------------------|-------------------|------------------|------------------|
| Provision for income tax in respect of profit for the financial year :- | | | | |
| Current taxation | | | | |
| – Singapore | 1,451,977 | 2,889,320 | 1,451,977 | 2,889,320 |
| – Malaysia | 2,452,768 | 8,253,209 | – | – |
| – China | 4,198,324 | 2,465,797 | – | – |
| – America | 1,351 | 1,393 | – | – |
| Deferred taxation | (729,355) | (1,255,146) | (818,345) | (564,414) |
| | <u>7,375,065</u> | <u>12,354,573</u> | <u>633,632</u> | <u>2,324,906</u> |
| (Over)/under provision of income tax in respect of previous financial years | (996,634) | (438,239) | (614,944) | 95,125 |
| Under/(over)provision of deferred taxation in respect of previous financial years | 73,472 | (1,338,313) | 557 | (1,104,498) |
| Effect of changes in tax rates | (2,037,237) | – | (540,708) | – |
| | <u>4,414,666</u> | <u>10,578,021</u> | <u>(521,463)</u> | <u>1,315,533</u> |

Notes to the Financial Statements

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(In Singapore dollars)

9. Income tax (cont'd)

As at 31 December 2004, certain subsidiary companies have unabsorbed capital allowances of approximately \$954,000 (2003 : \$2,899,000) and unabsorbed losses of approximately \$367,000 (2003 : \$10,340,000) and unutilised reinvestment allowance of approximately \$4,037,000 (2003 : \$4,395,000) available for set-off against future profits, subject to the agreements with the local tax authorities and compliance with the relevant provisions of the Singapore Income Tax Act.

A reconciliation of the tax expense and the product of accounting profit multiplied by the applicable tax rate for the financial years ended 31 December is as follows :

| | Group | | Company | |
|---|------------------|-------------------|------------------|------------------|
| | 2004 \$ | 2003 \$ | 2004 \$ | 2003 \$ |
| Profit before income tax | 78,836,780 | 44,446,577 | 6,611,583 | 4,684,626 |
| Tax calculated at statutory tax rate of 20% (2003 : 22%) | 15,767,356 | 9,778,247 | 1,322,317 | 1,030,618 |
| Expenses not deductible for tax purposes | 906,077 | 1,264,315 | 1,381,349 | 1,987,605 |
| Utilisation of capital allowances and losses not previously recognised and utilisation of reinvestment allowances | (4,290,425) | (342,416) | – | – |
| Deferred tax assets not recognised | 541,262 | 1,310,970 | – | – |
| Deferred tax assets not previously recognised | (785,096) | (507,917) | – | – |
| Overprovision in prior financial years | (923,162) | (1,776,552) | (614,387) | (1,009,373) |
| Effect of different tax rates in other countries | 770,363 | 19,213 | – | – |
| Effect of income not subject to tax | (5,786,043) | (32,741) | (2,019,415) | (776,336) |
| Effect of changes in tax rates | (2,037,237) | – | (540,708) | – |
| Release of deferred tax relating to revaluation of properties | (50,619) | (55,681) | (50,619) | (55,681) |
| Others | 302,190 | 920,583 | – | 138,700 |
| | <u>4,414,666</u> | <u>10,578,021</u> | <u>(521,463)</u> | <u>1,315,533</u> |

Notes to the Financial Statements

31 December 2004

(In Singapore dollars)

9. Income tax (cont'd)

Deferred taxes as at 31 December relate to the following :

| | Group | | | | Company | | | |
|---|---------------------|-------------|--------------------------|-------------|---------------------|-------------|--------------------------|-------------|
| | Deferred tax assets | | Deferred tax liabilities | | Deferred tax assets | | Deferred tax liabilities | |
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| (Deficit)/excess of net book value over tax written down value of property, plant and equipment | (1,172,530) | (895,109) | 9,050,105 | 8,333,318 | – | – | 5,549,532 | 6,440,800 |
| Revaluation reserve | – | – | 1,327,653 | 1,516,102 | – | – | 1,327,653 | 1,516,102 |
| Unremitted dividend and interest income | – | – | – | 731,644 | – | – | – | 731,644 |
| Employee benefits | (576,769) | (474,568) | – | – | (448,792) | (326,489) | – | – |
| Provision for doubtful debts | (2,469,449) | (525,644) | – | – | (115,862) | (259,873) | – | – |
| Provision for stock obsolescence | (877,267) | (423,654) | – | – | (104,963) | (220,943) | – | – |
| Unrealised exchange differences | – | (241,348) | – | – | – | (241,348) | – | – |
| Others | (345,959) | (282,931) | – | – | (240,000) | (176,000) | – | – |
| Deferred tax (assets)/liabilities | (5,441,974) | (2,843,254) | 10,377,758 | 10,581,064 | (909,617) | (1,224,653) | 6,877,185 | 8,688,546 |
| Set off of tax | 1,411,218 | 1,373,332 | (1,411,218) | (1,373,332) | 909,617 | 1,224,653 | (909,617) | (1,224,653) |
| Net deferred tax (assets)/liabilities | (4,030,756) | (1,469,922) | 8,966,540 | 9,207,732 | – | – | 5,967,568 | 7,463,893 |

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same tax authority.

10. Earnings per share

| | Group | |
|---|-------------|-------------|
| | 2004 \$ | 2003 \$ |
| Earnings | | |
| Net profit attributable to members of the Company | 72,650,882 | 32,796,022 |
| Number of shares | Number | Number |
| Weighted average number of ordinary shares for calculation of basic earnings per share and diluted earnings per share | 456,756,825 | 451,603,820 |
| Earnings per share | Cents | Cents |
| Basic and diluted | 15.91 | 7.26 |

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31 December 2004

(In Singapore dollars)

10. Earnings per share (cont'd)

There are no dilutive potential ordinary shares.

Basic earnings per share and diluted earnings per share are calculated on the Group's net profit attributable to members of the Company divided by the weighted average number of stock units in issue during the financial year.

11. Property, plant and equipment

| Group | Freehold properties \$ | Leasehold properties \$ | Factory equipment, plant and machinery \$ | Motor vehicles \$ | Office equipment, furniture and fittings \$ | Other assets \$ | Buildings under construction \$ | Total \$ |
|--------------------------|---------------------------|----------------------------|--|----------------------|--|--------------------|------------------------------------|-------------|
| Cost and valuation | | | | | | | | |
| At 1 January 2004 | 5,329,923 | 113,117,388 | 190,594,842 | 4,543,246 | 13,546,870 | 6,689,248 | 84,463 | 333,905,980 |
| Currency realignment | (172,387) | (1,677,119) | (4,448,692) | (82,355) | (181,047) | (111,034) | (3,243) | (6,675,877) |
| Additions | – | 22,250,249 | 47,130,323 | 798,546 | 2,854,907 | 2,226,255 | 5,575,006 | 80,835,286 |
| Disposals/write-off | (5,157,536) | – | (2,562,615) | (339,516) | (559,858) | (878,408) | – | (9,497,933) |
| Reclassification | – | (154,049) | (399,955) | (1,622) | 437,048 | 199,798 | (81,220) | – |
| At 31 December 2004 | – | 133,536,469 | 230,313,903 | 4,918,299 | 16,097,920 | 8,125,859 | 5,575,006 | 398,567,456 |
| Representing :- | | | | | | | | |
| Cost | – | 110,676,469 | 230,313,903 | 4,918,299 | 16,097,920 | 8,125,859 | 5,575,006 | 375,707,456 |
| Valuation - 1994 | – | 22,860,000 | – | – | – | – | – | 22,860,000 |
| | – | 133,536,469 | 230,313,903 | 4,918,299 | 16,097,920 | 8,125,859 | 5,575,006 | 398,567,456 |
| Accumulated depreciation | | | | | | | | |
| At 1 January 2004 | 441,604 | 26,432,036 | 102,748,452 | 2,487,051 | 10,961,043 | 4,824,373 | – | 147,894,559 |
| Currency realignment | (16,270) | (314,545) | (2,334,900) | (58,143) | (125,272) | (65,016) | – | (2,914,146) |
| Charge for the year | 118,530 | 4,535,435 | 17,364,933 | 691,891 | 1,313,551 | 587,562 | – | 24,611,902 |
| Disposals/write-off | (543,864) | – | (1,665,068) | (280,295) | (505,180) | (444,355) | – | (3,438,762) |
| Reclassification | – | (849) | (135,466) | – | 158,389 | (22,074) | – | – |
| At 31 December 2004 | – | 30,652,077 | 115,977,951 | 2,840,504 | 11,802,531 | 4,880,490 | – | 166,153,553 |
| Charge for 2003 | 170,865 | 4,160,440 | 15,346,951 | 613,809 | 1,171,012 | 662,705 | – | 22,125,782 |
| Net book value | | | | | | | | |
| At 31 December 2004 | – | 102,884,392 | 114,335,952 | 2,077,795 | 4,295,389 | 3,245,369 | 5,575,006 | 232,413,903 |
| At 31 December 2003 | 4,888,319 | 86,685,352 | 87,846,390 | 2,056,195 | 2,585,827 | 1,864,875 | 84,463 | 186,011,421 |

Notes to the Financial Statements

31 December 2004

(In Singapore dollars)

11. Property, plant and equipment (cont'd)

| Company | Leasehold properties \$ | Factory equipment, plant and machinery \$ | Motor vehicles \$ | Office equipment, furniture and fittings \$ | Other assets \$ | Total \$ |
|--|-------------------------------|---|-------------------------|---|-----------------------|-------------|
| Cost and valuation | | | | | | |
| At 1 January 2004 | 69,462,699 | 54,563,063 | 2,386,167 | 8,469,733 | 3,527,580 | 138,409,242 |
| Additions | 1,355 | 7,205,119 | 189,339 | 694,354 | 210,477 | 8,300,644 |
| Disposals/write-off | – | (659,861) | (145,550) | (302,483) | – | (1,107,894) |
| Transferred to subsidiary companies | – | (3,838,869) | – | – | – | (3,838,869) |
| At 31 December 2004 | 69,464,054 | 57,269,452 | 2,429,956 | 8,861,604 | 3,738,057 | 141,763,123 |
| Representing :- | | | | | | |
| Cost | 46,604,054 | 57,269,452 | 2,429,956 | 8,861,604 | 3,738,057 | 118,903,123 |
| Valuation - 1994 | 22,860,000 | – | – | – | – | 22,860,000 |
| | 69,464,054 | 57,269,452 | 2,429,956 | 8,861,604 | 3,738,057 | 141,763,123 |
| Accumulated depreciation | | | | | | |
| At 1 January 2004 | 19,705,965 | 34,539,617 | 1,229,736 | 8,123,149 | 3,297,472 | 66,895,939 |
| Charge for the year | 2,689,711 | 4,524,540 | 358,319 | 301,796 | 117,722 | 7,992,088 |
| Disposals/write-off | – | (616,464) | (135,475) | (300,342) | – | (1,052,281) |
| Transferred to subsidiary companies | – | (1,929,858) | – | – | – | (1,929,858) |
| At 31 December 2004 | 22,395,676 | 36,517,835 | 1,452,580 | 8,124,603 | 3,415,194 | 71,905,888 |
| Charge for 2003 | 2,685,794 | 4,346,646 | 354,829 | 522,513 | 107,633 | 8,017,415 |
| Net book value | | | | | | |
| At 31 December 2004 | 47,068,378 | 20,751,617 | 977,376 | 737,001 | 322,863 | 69,857,235 |
| At 31 December 2003 | 49,756,734 | 20,023,446 | 1,156,431 | 346,584 | 230,108 | 71,513,303 |

- (a) Certain leasehold properties of the Group and the Company were revalued by the Directors based on an independent appraisal by Knight Frank Cheong Hock Chye & Baillieu (Property Consultants) Pte Ltd on an "open market value" as at 31 August 1994. The surplus arising from the revaluation had been taken to the asset revaluation reserve (Note 20). The carrying amount of these assets included in the financial statements as at 31 December 2004 is \$15,593,864 (2003 : \$16,297,061). Had these assets been carried at cost less depreciation, the carrying amount would have been \$8,955,326 (2003 : \$9,405,424).
- (b) Other assets comprise electrical installations, renovations, erectable stores and leasehold improvement.
- (c) Included in property, plant and equipment of the Group and the Company are factory equipment, plant and machinery with total net book value of \$620,495 (2003 : \$925,189) and \$580,119 (2003 : \$906,480) acquired under finance leases respectively.
- (d) Certain leasehold properties with net book value of \$1,792,700 have been pledged to a bank as securities for trade facilities.

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31 December 2004

(In Singapore dollars)

12. Subsidiary companies

| | Company | |
|---|--------------------|-------------------|
| | 2004 \$ | 2003 \$ |
| Unquoted investment, at cost (Note 3) | 86,407,381 | 59,926,002 |
| Less : Provision for diminution in value | (10,113,621) | (8,231,750) |
| | <u>76,293,760</u> | <u>51,694,252</u> |
| Amounts owing by subsidiary companies after deducting provision for doubtful debts of \$6,193,683 (2003 : \$391,761) | 63,241,804 | 45,021,759 |
| Amounts owing to subsidiary companies | (2,591,873) | (2,661,992) |
| | <u>60,649,931</u> | <u>42,359,767</u> |
| | <u>136,943,691</u> | <u>94,054,019</u> |
| Analysis of provision for diminution in value : | | |
| Balance at beginning of financial year | 8,231,750 | 170,800 |
| Provision made during the financial year | 1,881,871 | 8,060,950 |
| Balance at end of financial year | <u>10,113,621</u> | <u>8,231,750</u> |
| Analysis of provision for doubtful debts : | | |
| Balance at beginning of financial year | 391,761 | 391,761 |
| Provision made during the financial year | 5,801,922 | - |
| Balance at end of financial year | <u>6,193,683</u> | <u>391,761</u> |
| Trade | 829,860 | 1,175,750 |
| Non-trade | 59,820,071 | 41,184,017 |
| | <u>60,649,931</u> | <u>42,359,767</u> |
| Bad debts written-off directly to profit and loss accounts | <u>840,465</u> | <u>-</u> |

All amounts owing by or to subsidiary companies as at 31 December 2004 are unsecured, interest-free and have no fixed terms of repayment but not expected to be repaid in the next twelve months.

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(In Singapore dollars)

13. Jointly controlled company

The Group increased its interest in the jointly controlled company from 50% to 100% during the financial year (Note 21). Consequently, the jointly controlled company has become a wholly owned subsidiary company of the Group.

As at 31 December 2003, the Group's share of the assets and liabilities of the jointly controlled company as listed in Note 3, which have been included in these financial statements are as follows :

| | Group's share 2003 \$ |
|-------------------------------------|--------------------------------------|
| Non-current assets | 375,208 |
| Current assets | 741 |
| Current liabilities | (4,976) |
| General and administrative expenses | (117,311) |
| Exceptional item | (447,871) |
| Loss before tax | (565,182) |
| Income tax | – |
| Net loss for the financial year | (565,182) |

14. Associated company

| | Group | |
|--|----------------------|--------------------|
| | 2004 \$ | 2003 \$ |
| Unquoted investment, at cost (Note 3) | 1,307,563 | 1,307,563 |
| Goodwill arising on consolidation and charged to revenue reserve | (636,470) | (636,470) |
| Share of results | | |
| – prior financial years | 259,199 | 205,511 |
| – current financial year | 413,521 | 53,688 |
| Currency realignment | (35,000) | 13,825 |
| Amount owing by an associated company | 1,308,813 472,215 | 944,117 455,327 |
| | 1,781,028 | 1,399,444 |

The amount owing by an associated company is trade in nature and has no fixed term of repayment but not expected to be repaid in the next twelve months.

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(In Singapore dollars)

15. Stocks

| | Group | | Company | |
|---|-------------------|-------------------|-------------------|-------------------|
| | 2004 \$ | 2003 \$ | 2004 \$ | 2003 \$ |
| Finished goods | 14,715,904 | 10,315,274 | 2,648,756 | 2,481,895 |
| Work-in-progress | 22,235,775 | 15,653,239 | 10,379,895 | 7,327,017 |
| Raw materials | 17,247,029 | 14,602,457 | 1,412,043 | 1,443,127 |
| | <u>54,198,708</u> | <u>40,570,970</u> | <u>14,440,694</u> | <u>11,252,039</u> |
| Stocks are stated after deducting provision for stock obsolescence of | <u>4,871,653</u> | <u>4,389,373</u> | <u>524,815</u> | <u>1,004,285</u> |
| Analysis of provision for stock obsolescence : | | | | |
| Balance at beginning of financial year | 4,389,373 | 2,647,801 | 1,004,285 | 1,081,368 |
| Charge/(write-back) to profit and loss accounts | 845,754 | 2,132,539 | (479,470) | (77,083) |
| Stocks written-off against provisions | (192,105) | (300,755) | – | – |
| Currency realignment | (171,369) | (90,212) | – | – |
| Balance at end of financial year | <u>4,871,653</u> | <u>4,389,373</u> | <u>524,815</u> | <u>1,004,285</u> |
| Stocks written-off directly to profit and loss accounts | <u>1,636,548</u> | <u>559,843</u> | <u>–</u> | <u>–</u> |
| Stocks stated at : | | | | |
| – cost | 36,870,108 | 32,328,137 | 10,494,516 | 7,465,152 |
| – net realisable value | 17,328,600 | 8,242,833 | 3,946,178 | 3,786,887 |
| | <u>54,198,708</u> | <u>40,570,970</u> | <u>14,440,694</u> | <u>11,252,039</u> |

Notes to the Financial Statements

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(In Singapore dollars)

16. Trade and other receivables, net

| | Group | | Company | |
|--|--------------------|--------------------|-------------------|-------------------|
| | 2004 \$ | 2003 \$ | 2004 \$ | 2003 \$ |
| Trade receivable, net of provision for doubtful debts | 115,579,455 | 97,963,674 | 17,016,897 | 22,107,530 |
| Prepaid expenses | 1,419,481 | 673,972 | 283,900 | 305,095 |
| Sundry deposits | 234,052 | 1,027,278 | 92,098 | 94,473 |
| Tax recoverable | — | 762 | — | — |
| Other receivables | 4,702,936 | 3,019,152 | 702,028 | 894,051 |
| Deposits paid to suppliers | 7,631,293 | 312,762 | — | — |
| | <u>129,567,217</u> | <u>102,997,600</u> | <u>18,094,923</u> | <u>23,401,149</u> |
| Trade receivable is stated after deducting provision for doubtful debts of | <u>13,246,839</u> | <u>5,833,948</u> | <u>579,310</u> | <u>1,181,242</u> |
| Analysis of provision for doubtful debts : | | | | |
| Balance at beginning of financial year | 5,833,948 | 4,937,586 | 1,181,242 | 981,063 |
| Charge/(write-back) to profit and loss accounts | 8,861,431 | 1,534,197 | (128,594) | 218,203 |
| Bad debts written-off against provision | (997,885) | (523,045) | (473,338) | (18,024) |
| Currency realignment | (450,655) | (114,790) | — | — |
| Balance at end of financial year | <u>13,246,839</u> | <u>5,833,948</u> | <u>579,310</u> | <u>1,181,242</u> |
| Bad debts written-off directly to profit and loss accounts | <u>136,985</u> | <u>33,342</u> | <u>—</u> | <u>—</u> |

Notes to the Financial Statements

31 December 2004

(In Singapore dollars)

17. Loans and borrowings

At 31 December, short-term and long-term bank loans and borrowings are as follows:

| | Group | | Company | |
|-------------------------------------|-------------------|-------------------|-------------------|-------------------|
| | 2004 \$ | 2003 \$ | 2004 \$ | 2003 \$ |
| Finance lease liabilities (Note 24) | 161,691 | 276,958 | 118,787 | 255,473 |
| Term loans, secured | – | 5,000,000 | – | 5,000,000 |
| Short-term loans, unsecured | 54,977,175 | 27,111,109 | 32,250,000 | 20,600,000 |
| | <u>55,138,866</u> | <u>32,388,067</u> | <u>32,368,787</u> | <u>25,855,473</u> |
| Analysed as : | | | | |
| Repayable within 1 year | 55,064,163 | 32,256,652 | 32,325,862 | 25,738,376 |
| Repayable after 1 year | 74,703 | 131,415 | 42,925 | 117,097 |
| | <u>55,138,866</u> | <u>32,388,067</u> | <u>32,368,787</u> | <u>25,855,473</u> |

The term loan of \$5 million outstanding at 31 December 2003 which was secured by first mortgage over Nos. 5, 7, 8, 9, and 10 Tuas Drive 1, bears interest at 4.2% (2003 : 4.2%) per annum, was fully repaid during the year.

The Group's and the Company's short-term unsecured loans bear interest ranging from 1.63% to 6.05% and 1.63% to 1.80% respectively (2003 : 1.3125% to 6.05% and 1.3125% to 1.76% respectively) per annum and can be rolled forward for periods between 1 month to 6 months after the maturity date.

18. Trade and other payables

| | | | | |
|---|--------------------|--------------------|-------------------|-------------------|
| Trade payable | 63,968,622 | 60,891,220 | 7,624,013 | 8,116,115 |
| Other creditors | 24,564,120 | 15,260,971 | 11,038,621 | 9,336,013 |
| Accrued operating expenses | 18,079,955 | 16,866,981 | 7,072,405 | 6,422,239 |
| Deposit received from customers | 1,415,581 | 1,471,834 | 326,510 | 189,782 |
| Progress billings | 16,348,804 | 15,115,224 | 16,336,238 | 14,527,204 |
| Purchases of property, plant and equipment | 2,412,646 | 1,538,939 | 2,412,647 | 1,199,999 |
| Deferred income - asset grants | 68,424 | 102,856 | 68,424 | 102,856 |
| | <u>126,858,152</u> | <u>111,248,025</u> | <u>44,878,858</u> | <u>39,894,208</u> |

Notes to the Financial Statements

31 December 2004

(In Singapore dollars)

19. Share capital

| | Group and Company | |
|---|--------------------------|-------------|
| | 2004 | 2003 |
| | \$ | \$ |
| Authorised :- | | |
| 1,000,000,000 ordinary shares of \$0.10 each | 100,000,000 | 100,000,000 |
| Issued and fully paid :- | | |
| At beginning of year | | |
| - 451,603,820 (2003 : 451,603,820) ordinary shares of \$0.10 each | 45,160,382 | 45,160,382 |
| Issued during the year | | |
| - 23,000,000 (2003 : Nil) ordinary shares of \$0.10 each | 2,300,000 | - |
| At end of year | | |
| - 474,603,820 (2003 : 451,603,820) ordinary shares of \$0.10 each | 47,460,382 | 45,160,382 |

The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restriction.

20. Reserves

| | Group | | Company | |
|--------------------------------------|--------------------|--------------------|--------------------|-------------------|
| | 2004 | 2003 | 2004 | 2003 |
| | \$ | \$ | \$ | \$ |
| Revenue reserve | 193,735,476 | 129,980,139 | 57,778,077 | 57,870,692 |
| Foreign currency translation reserve | (3,412,488) | 2,055,975 | (2,000) | (72,300) |
| Share premium | 49,288,506 | 26,812,956 | 49,288,506 | 26,812,956 |
| Capital reserve | 140,256 | 140,256 | - | - |
| Statutory reserve | 7,491,604 | 6,054,236 | - | - |
| Revaluation reserve | 2,656,300 | 2,518,471 | 2,656,300 | 2,518,471 |
| | <u>249,899,654</u> | <u>167,562,033</u> | <u>109,720,883</u> | <u>87,129,819</u> |

The statutory reserve is computed based on 10% of the after tax profit of subsidiary companies established in the People's Republic of China. It is made to comply with the local law and regulations.

Notes to the Financial Statements

31 December 2004

(In Singapore dollars)

21. Cash and cash equivalents

- (a) The attributable assets and liabilities of a subsidiary acquired and the cash flow effect of the acquisition is set out as follows :

| | \$ |
|--|-----------------------|
| Cash and bank balances | 516 |
| Trade and other receivables | 370,422 |
| Trade and other payables | (1,250) |
| Provision for taxation | (1,076) |
| Net assets acquired | <u>368,612</u> |
| Add : | |
| Provision for amount due from related company | 99,177 |
| Goodwill on consolidation | 114,082 |
| Purchase consideration paid | <u>581,871</u> |
| Less : | |
| Cash and bank balances acquired | <u>(516)</u> |
| Net cash outflow for acquisition of a subsidiary company | <u><u>581,355</u></u> |

- (b) Cash and cash equivalents included in the consolidated statement of cash flows comprise the following :

| | Group | |
|---|-------------------|-------------------|
| | 2004 | 2003 |
| | \$ | \$ |
| Fixed deposits pledged | 177,135 | 160,771 |
| Other fixed deposits | 7,622,790 | 7,223,262 |
| Cash and bank balances | 23,129,326 | 15,204,252 |
| Short-term securities with financial institutions | 66,816,244 | 19,720,800 |
| | <u>97,745,495</u> | <u>42,309,085</u> |

The above fixed deposits of \$177,135 (2003 : \$160,771) have been pledged to banks to secure letters of guarantee and trade facilities.

22. Government grants

The Company was awarded the following grants :

- (a) "Innovation Development Scheme" grant by EDB for the design and development of new products; and
- (b) "Research Incentives Scheme for Companies" grant by A*STAR for the capabilities development in advance moulding design, process and manufacture.

Notes to the Financial Statements

31 December 2004

(In Singapore dollars)

23. Information by segment on Group's operations

Primary segments

| | Singapore | | China | |
|--|-------------|-------------|--------------|-------------|
| | 2004 \$ | 2003 \$ | 2004 \$ | 2003 \$ |
| Segments revenue : | | | | |
| Sales to external customers | 88,571,086 | 98,993,591 | 188,682,562 | 114,841,606 |
| Earnings before interest, taxation, depreciation, amortisation and foreign exchange loss | 13,237,841 | 18,686,476 | 38,267,020 | 21,003,294 |
| Foreign exchange loss | (1,271,922) | (1,234,515) | (1,127,513) | (461,165) |
| Earnings before interest, taxation, depreciation and amortisation | 11,965,919 | 17,451,961 | 37,139,507 | 20,542,129 |
| Depreciation | (8,066,169) | (8,017,683) | (12,157,230) | (9,481,469) |
| Segment results | 3,899,750 | 9,434,278 | 24,982,277 | 11,060,660 |
| Interest income | | | | |
| Interest expense | | | | |
| Share of results of an associated company | – | – | 413,521 | 53,688 |
| Exceptional item | | | | |
| Profit before income tax | | | | |
| Income tax | | | | |
| Minority interests | | | | |
| Net profit attributable to members of the Company | | | | |
| Segments assets | 116,171,224 | 109,175,551 | 230,907,809 | 172,022,484 |
| Other assets | | | | |
| Segments liabilities | 45,355,228 | 40,002,478 | 56,922,037 | 51,628,270 |
| Other liabilities | | | | |
| Other segment information : | | | | |
| Capital expenditure | 14,564,258 | 2,212,584 | 32,636,015 | 25,932,577 |
| Other non-cash expenditures | 35,506 | 237,189 | 10,563,108 | 4,207,942 |
| Other non-cash income | 614,620 | 80,320 | 1,019,801 | – |
| Income tax | (533,572) | 1,095,685 | 554,777 | 2,150,823 |

The primary segment reporting format is geographical segments that are based on location of assets. The location of the Group's customers is not significantly different from the location of the Group assets.

Secondary segments

The Group derives its revenue and employs its assets principally in activities relating to manufacture and sub-assembly of precision plastic parts and components and fabrication of precision moulds and dies.

Notes to the Financial Statements

31 December 2004

(In Singapore dollars)

| Malaysia | | Mexico | | Total | |
|--|--|------------------------------------|----------------------------------|--|--|
| 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| \$ | \$ | \$ | \$ | \$ | \$ |
| 116,571,166 | 108,486,518 | 4,014,355 | 7,127,127 | 397,839,169 | 329,448,842 |
| 34,072,266 (837,663) | 33,242,628 (353,409) | (1,589,145) (258,977) | (2,167,593) (1,441,132) | 83,987,982 (3,496,075) | 70,764,805 (3,490,221) |
| 33,234,603 (4,020,285) | 32,889,219 (3,565,305) | (1,848,122) (368,218) | (3,608,725) (1,061,325) | 80,491,907 (24,611,902) | 67,274,584 (22,125,782) |
| 29,214,318 | 29,323,914 | (2,216,340) | (4,670,050) | 55,880,005 739,726 (1,123,490) | 45,148,802 409,157 (1,165,070) |
| | – | | – | 413,521 22,927,018 | 53,688 – |
| | | | | 78,836,780 (4,414,666) (1,771,232) | 44,446,577 (10,578,021) (1,072,534) |
| | | | | 72,650,882 | 32,796,022 |
| 93,289,906 | 52,072,493 | 721,243 | 12,913,159 | 441,090,182 78,646,925 | 346,183,687 28,574,755 |
| | | | | 519,737,107 | 374,758,442 |
| 24,573,437 | 17,227,894 | 7,450 | 2,389,383 | 126,858,152 65,622,798 | 111,248,025 48,689,782 |
| | | | | 192,480,950 | 159,937,807 |
| 33,635,014 23,284 193,353 4,392,110 | 1,774,584 469,893 384,803 7,330,120 | – 1,012,182 143,987 1,351 | 159,637 132,135 – 1,393 | 80,835,287 11,634,080 1,971,761 4,414,666 | 30,079,382 5,047,159 465,123 10,578,021 |

Notes to the Financial Statements

31 December 2004

(In Singapore dollars)

24. Commitments and contingencies

| | Group | | Company | |
|--|-------------------|------------------|-------------------|-------------------|
| | 2004 | 2003 | 2004 | 2003 |
| | \$ | \$ | \$ | \$ |
| Capital expenditure commitments | | | | |
| Capital expenditures not provided for in the financial statements :- | | | | |
| Commitments in respect of contracts placed/agreements signed | 30,254,809 | 987,296 | 25,948,351 | 22,282,547 |
| Authorised but not contracted for | 6,348,141 | 7,832,634 | – | – |
| | <u>36,602,950</u> | <u>8,819,930</u> | <u>25,948,351</u> | <u>22,282,547</u> |

Included in the Company's commitments is \$25,682,602 (2003 : \$22,282,547) relating to the injection of capital in overseas subsidiary companies.

Operating leases commitments

The Group and Company lease certain properties and land under lease arrangements that are non-cancellable within one year. The leases, which do not have purchase or renewal options, expire at various dates till 2055 and contain provisions for rental adjustments and provisions to restrict the Group and the Company to further leasing and sub-leasing. Future minimum lease payments for all leases with initial or remaining terms of one year or more are as follows :

| | | | | |
|---|-------------------|-------------------|-------------------|-------------------|
| Within one year | 2,849,421 | 2,758,963 | 1,105,497 | 1,067,532 |
| After one year but not more than five years | 5,098,333 | 4,122,734 | 3,447,315 | 3,339,646 |
| More than five years | 27,091,236 | 27,218,886 | 26,577,450 | 27,218,886 |
| | <u>35,038,990</u> | <u>34,100,583</u> | <u>31,130,262</u> | <u>31,626,064</u> |

Other commitments

As at 31 December 2004, the Group has the following commitments:

- The Company has entered into a Variable Strike Forward Plus Agreement with a bank which requires the Company to sell United States dollars for Singapore dollars at various prices and amounts dependent on USD/SGD rates at the expiration dates stipulated in the agreement. The fair value of this transaction is disclosed in Note 27.
- One of the subsidiary companies has entered into a forward contract to sell US\$623,002 for ¥68,000,000 on 20 January 2005. The fair value of this forward contract is also disclosed in Note 27.

Notes to the Financial Statements

31 December 2004

(In Singapore dollars)

24. Commitments and contingencies (cont'd)

Finance lease commitments

The Group conducts a portion of its operations using leased machinery and equipment. These leases are classified as finance leases and expire over the next six years. The average discount rate implicit in the leases is 3.5% (2003 : 3.6%) per annum. Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows:

| | Minimum payments 2004 \$ | Present value of payments 2004 \$ | Minimum payments 2003 \$ | Present value of payments 2003 \$ |
|---|-----------------------------------|---|-----------------------------------|---|
| Group | | | | |
| Within one year | 90,951 | 86,988 | 156,680 | 145,543 |
| After one year but not more than five years | 78,659 | 65,948 | 143,743 | 131,415 |
| More than five years | 9,119 | 8,755 | – | – |
| Total minimum lease payments | 178,729 | 161,691 | 300,423 | 276,958 |
| Less amounts representing finance charges | (17,038) | – | (23,465) | – |
| Present value of minimum lease payments (Note 17) | 161,691 | 161,691 | 276,958 | 276,958 |
| Company | | | | |
| Within one year | 79,218 | 75,862 | 146,977 | 138,376 |
| After one year but not more than five years | 46,830 | 42,925 | 124,352 | 117,097 |
| Total minimum lease payments | 126,048 | 118,787 | 271,329 | 255,473 |
| Less amounts representing finance charges | (7,261) | – | (15,856) | – |
| Present value of minimum lease payments (Note 17) | 118,787 | 118,787 | 255,473 | 255,473 |

Guarantees

The Company has corporate guarantees given to banks in connection with facilities granted to subsidiary companies amounting to \$33,228,175 (2003 : \$15,445,900). Amount utilised by subsidiary companies amounting to \$22,615,123 (2003 : \$7,140,425).

The Company has an outstanding corporate guarantee given to a supplier in connection with purchases made by the overseas subsidiary companies amounting to \$189,266 (2003 : \$1,138,200).

Notes to the Financial Statements

31 December 2004

(In Singapore dollars)

25. Related party transactions

During the year, the transactions carried out by the Group at arm's length commercial terms with other related parties are as follows :

| | Group | | Company | |
|---|------------|------------|------------|------------|
| | 2004 \$ | 2003 \$ | 2004 \$ | 2003 \$ |
| Purchase of raw materials from subsidiary companies | – | – | 1,193,230 | 1,107,431 |
| Sale of equipment to subsidiary companies | – | – | 2,263,909 | 951,181 |
| Sale of goods to subsidiary companies | – | – | 14,702,510 | 11,426,838 |
| Rental income from a subsidiary company | – | – | 64,704 | – |
| Commission income from a subsidiary company | – | – | – | 2,446,137 |
| Dividend income from subsidiary companies | – | – | 10,000,000 | 3,528,798 |
| Management fees from a subsidiary company | – | – | 23,000 | – |

26. Dividends paid and proposed

| | Group and Company | |
|---|-------------------|------------------|
| | 2004 \$ | 2003 \$ |
| Dividends paid | | |
| Second and final : | | |
| – ordinary shares 10% (2003 : 2.5%) less tax of 20% (2003 : 22%) and a special dividend of Nil% (2003 : 7.5%) less tax of Nil% (2003 : 22%) | 3,612,830 | 3,522,510 |
| Interim : | | |
| – ordinary shares 10% (2003 : 5%) less tax at 20% (2003 : 22%) | 3,612,831 | 1,761,254 |
| | <u>7,225,661</u> | <u>5,283,764</u> |

The Directors proposed that a second and final dividend of 10% less tax of 20%, amounting to \$3,796,831 be paid in respect of the current financial year under review. This dividend will be recorded as a liability on the balance sheet of the Company and the Group upon approval by the shareholders of the Company at the next Annual General Meeting of the Company.

Notes to the Financial Statements

31 December 2004

(In Singapore dollars)

27. Financial risk management objectives and policies

The main risks arising from the Group's financial instruments are foreign exchange risk, interest rate risk, market risk, credit risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below :

Foreign exchange risk

The Group manufactures and sells its products in several countries and, as a result, is exposed to movements in foreign currency exchange rates. The Group relies on natural hedging as a risk management tool. It also enters into hedging transactions such as forward foreign exchange contracts and options. The majority of hedging instruments have duration of less than a year. The primary objective of the Group is not to engage in trading of, or speculation in, foreign currencies. There are no outstanding foreign currency derivatives as at 31 December 2004 and 31 December 2003 other than those disclosed in Note 24.

In addition to transaction exposure, the Group is also exposed to translation exposure arising from the consolidation of foreign currency denominated financial statements of the Group's foreign subsidiary companies. The Group partially hedges net investments in foreign currency by taking foreign currency loans.

Interest rate risk

Interest rate risk arises from movements in interest rates which could have adverse effects on the Group's net income or financial position. Group companies manage their interest rate risk on short-term loans at a local level, if necessary using financial instruments such as interest rate forward contracts, swaps and options. There are no outstanding interest rate contracts, instruments or derivatives as at 31 December 2004 (2003 : Nil).

Liquidity risk

The Group maintains sufficient reserves of cash and readily available bank credit facilities to meet its liquidity requirements at all times.

Market risk

Changes in the market value of certain financial assets, liabilities and instruments can affect the net income or financial position of the Group. The Group's exposure to market risk is minimal.

Credit risk

The carrying amount of investments, cash and trade and other receivables represent the Group's maximum exposure to credit risk. No other financial assets carry a significant exposure to credit risk. Trade receivable is subject to a policy of risk management focusing on the assessment of country risk, credit terms, ongoing credit evaluation and account monitoring procedures. Collateral is generally not required.

The Group has no significant concentration of credit risk.

Notes to the Financial Statements

31 December 2004

(In Singapore dollars)

27. Financial risk management objectives and policies (cont'd)

Fair values

The financial assets and liabilities of the Group whose fair values are required to be disclosed in accordance with Singapore Financial Reporting Standard 32 ("FRS 32") comprise all its financial assets and liabilities with the exception of deferred tax assets, investment in subsidiary and associated companies, tax payables and deferred tax liabilities.

The carrying amounts of cash and cash equivalents, receivables, payables and short-term loans approximate their fair values due to their short-term nature.

As at 31 December 2004, the fair values of financial instruments not carried in the balance sheet are presented in the following table:

| | Derivatives | | | |
|--|--|---------------------------------------|--|-------------------------------|
| | 2004 | | 2003 | |
| | Contractual/ Notional amount \$ | Estimated fair value gain \$ | Contractual/ Notional amount \$ | Estimated fair value \$ |
| Forward contracts used to hedge certain payables | 1,020,166 | 68,087 | – | – |
| Variable Strike Forward Plus Agreement | 4,912,500 | 6,893 | – | – |

The fair value of foreign exchange forward contracts is estimated based on the differences between the applicable forward rates prevailing at the balance sheet date and the contracted forward rates, multiplied by the notional amount.

The fair value of the Variable Strike Forward Plus Agreement represents the mark to market net present value of the agreement.

The fair value gain arising from the above derivatives have not been recognised in the financial statements.

28. Subsequent event

On 16 February 2005, the Company announced that it is proposing a bonus issue (the "Bonus Issue") of up to 118,650,955 new ordinary shares of S\$0.10 each in the capital of the Company on the basis of one new ordinary share credited as fully paid ("Bonus Shares") for every four existing ordinary shares held by the shareholders of the Company at the books closure date to be determined by the Directors, fractional entitlements will be disregarded. The Bonus Shares will be issued subject to the approval of the Shareholders to be sought at the Extraordinary General Meeting of the Company. The Bonus Issue will be effected by capitalising up to S\$11,865,096 from the share premium account of the Company.

29. Authorisation of financial statements

The financial statements for the year ended 31 December 2004 were authorised for issue in accordance with a resolution of the Directors on 28 February 2005.

Statistics of Shareholdings

AS AT 16 FEBRUARY 2005

| | | |
|----------------------------------|---|--|
| Authorised share capital | : | \$100,000,000.00 |
| Issued and fully paid-up capital | : | \$47,460,382.00 |
| Class of shares | : | 474,603,820 ordinary shares of \$0.10 each |
| Voting rights | : | One vote per share |

STATISTICS OF SHAREHOLDINGS

| Size of Shareholding | Number of Shareholders | % | Number of Shares | % |
|----------------------|------------------------|--------|------------------|--------|
| 1 - 999 | 5 | 0.08 | 2,200 | 0.00 |
| 1,000 - 10,000 | 4,796 | 79.99 | 23,406,600 | 4.93 |
| 10,001 - 1,000,000 | 1,176 | 19.61 | 50,257,000 | 10.59 |
| 1,000,001 and above | 19 | 0.32 | 400,938,020 | 84.48 |
| | 5,996 | 100.00 | 474,603,820 | 100.00 |

SUBSTANTIAL SHAREHOLDERS

(As recorded in the Register of Substantial Shareholders)

| | Direct Interest | % | Deemed Interest | % |
|-----------------------|-----------------|-------|-----------------|-------|
| Fu Yu Holding Pte Ltd | 270,968,000 | 57.09 | – | – |
| Lui Choon Hay | 10,050,380 | 2.12 | 271,768,000 (1) | 57.26 |
| Ching Heng Yang | 1,000,000 | 0.21 | 273,398,380 (2) | 57.61 |
| Tam Wai | 9,630,380 | 2.03 | 270,968,000 (3) | 57.09 |
| Ho Nee Kit | 9,409,380 | 1.98 | 270,968,000 (3) | 57.09 |

Notes:

1. Mr Lui Choon Hay is deemed to be interested in 800,000 and 270,968,000 shares held in the names of his spouse and Fu Yu Holding Pte Ltd respectively.
2. Mr Ching Heng Yang is deemed to be interested in 2,430,380 and 270,968,000 shares held in the names of Merrill Lynch (Singapore) Pte Ltd and Fu Yu Holding Pte Ltd respectively.
3. Both Mr Tam Wai and Mr Ho Nee Kit are deemed to be interested in 270,968,000 shares held in the name of Fu Yu Holding Pte Ltd.

TWENTY LARGEST SHAREHOLDERS

| No. | Name of Shareholders | Number of Shares | % |
|-----|--|------------------|-------|
| 1. | Fu Yu Holding Pte Ltd | 270,968,000 | 57.09 |
| 2. | Citibank Nominees Singapore Pte Ltd | 21,981,000 | 4.63 |
| 3. | Raffles Nominees Pte Ltd | 17,765,500 | 3.74 |
| 4. | HSBC (Singapore) Nominees Ptd Ltd | 15,438,000 | 3.25 |
| 5. | DBS Nominees Pte Ltd | 11,671,000 | 2.46 |
| 6. | Lui Choon Hay | 10,050,380 | 2.12 |
| 7. | United Oversea Bank Nominees Pte Ltd | 9,939,000 | 2.09 |
| 8. | Tam Wai | 9,630,380 | 2.03 |
| 9. | Ho Nee Kit | 9,409,380 | 1.98 |
| 10. | Kim Eng Securities Pte Ltd | 4,248,000 | 0.90 |
| 11. | Philip Securities Pte Ltd | 3,522,000 | 0.74 |
| 12. | OCBC Securities Private Ltd | 2,690,000 | 0.57 |
| 13. | Merrill Lynch (Singapore) Pte Ltd | 2,655,380 | 0.56 |
| 14. | UOB Kay Hian Pte Ltd | 2,644,000 | 0.56 |
| 15. | DBS Vickers Securities (Singapore) Pte Ltd | 2,466,000 | 0.52 |
| 16. | OCBC Nominees Singapore Pte Ltd | 2,073,000 | 0.44 |
| 17. | Overseas Union Bank Nominees Pte Ltd | 1,300,000 | 0.27 |
| 18. | G K Goh Stockbrokers Pte Ltd | 1,267,000 | 0.27 |
| 19. | Citibank Consumer Nominees Pte Ltd | 1,220,000 | 0.26 |
| 20. | Ching Heng Yang | 1,000,000 | 0.21 |
| | Total | 401,938,020 | 84.69 |

PERCENTAGE OF SHAREHOLDING IN PUBLIC'S HANDS

35.60% of the Company's shares are held in the hands of public. Accordingly, the Company has complied with Rule 723 of the Listing Manual of the SGX-ST.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Fu Yu Corporation Limited (“the Company”) will be held at Function Rooms 1 – 3, Level 2, Raffles Marina, 10 Tuas West Drive, Singapore 638404 on Monday, 28 March 2005 at 11.30 a.m. for the following purposes:

AS ORDINARY BUSINESS

1. To receive and adopt the Directors' Report and the Audited Accounts of the Company for the year ended 31 December 2004 together with the Auditors' Report thereon. **(Resolution 1)**
2. To declare a Second and Final dividend of S\$0.01 per ordinary share less income tax for the year ended 31 December 2004. [2003: Second and Final – S\$0.01 less tax] **(Resolution 2)**
3. To re-elect the following Directors retiring pursuant to Articles 91 and 97 of the Company's Articles of Association:-
 - a) Mr Lim Shook Kong [Retiring under Article 91] **(Resolution 3)**
 - b) Mr Ching Heng Yang [Retiring under Article 91] **(Resolution 4)**
 - c) Mr Yuen Chung Sang Samuel [Retiring under Article 97] **(Resolution 5)**

Mr Lim Shook Kong will, upon re-election as a Director of the Company, remain as a member of the Audit Committee and will be considered non-independent for the purposes of Rule 704(8) of Listing Manual of the Singapore Exchange Securities Trading Limited.
4. To approve the payment of Directors' fees of S\$180,000/- for the year ended 31 December 2004. [2003: S\$182,000/-] **(Resolution 6)**
5. To re-appoint Ernst & Young as the Company's Auditors and to authorise the Directors to fix their remuneration. **(Resolution 7)**
6. To transact any other ordinary business which may properly be transacted at an Annual General Meeting.

AS SPECIAL BUSINESS

To consider and if thought fit, to pass the following resolutions as Ordinary Resolution, with or without any modifications:

7. Authority to allot and issue shares up to 50 per centum (50%) of issued share capital

That pursuant to Section 161 of the Companies Act, Cap. 50 and Rule 806 of the Listing Manual of the Singapore Exchange Securities Trading Limited, the Directors be empowered to allot and issue shares in the capital of the Company at any time and upon such terms and conditions and for such purposes as the Directors may, in their absolute discretion, deem fit provided that the aggregate number of shares to be allotted and issued pursuant to this Resolution shall not exceed fifty per centum (50%) of the issued share capital of the Company at the time of the passing of this Resolution, of which the aggregate

Notice of Annual General Meeting

number of shares to be issued other than on a pro rata basis to all shareholders of the Company shall not exceed twenty per centum (20%) of the issued share capital of the Company and that such authority shall, unless revoked or varied by the Company in general meeting, continue in force until the conclusion of the Company's next Annual General Meeting or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is earlier.[See Explanatory Note (i)]

(Resolution 8)

By Order of the Board

Shirley Lim Keng San
Secretary
Singapore, 10 March 2005

Explanatory Note:

- (i) The Ordinary Resolution 8 proposed in item 7 above, if passed, will empower the Directors from the date of this Meeting until the date of the next Annual General Meeting, or the date by which the next Annual General Meeting is required by law to be held or when varied or revoked by the Company in general meeting, whichever is the earlier, to allot and issue shares in the Company. The number of shares that the Directors may allot and issue under this resolution would not exceed fifty per centum (50%) of the issued capital of the Company at the time of the passing of this resolution. For issue of shares other than on a pro rata basis to all shareholders, the aggregate number of shares to be issued shall not exceed twenty per centum (20%) of the issued capital of the Company.

For the purpose of this resolution, the percentage of issued capital is based on the Company's issued capital at the time this proposed Ordinary Resolution is passed after adjusting for any subsequent consolidation or subdivision of shares.

Notes:

1. A Member entitled to attend and vote at the Annual General Meeting (the "Meeting") is entitled to appoint a proxy to attend and vote in his/her stead. A proxy need not be a Member of the Company.
2. If the appointor is a corporation, the proxy must be executed under seal or the hand of its duly authorised officer or attorney.
3. The instrument appointing a proxy must be deposited at the Registered Office of the Company at No.2 Serangoon North Avenue 5 Singapore 554911 not less than 48 hours before the time appointed for holding the Meeting.

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FU YU CORPORATION LIMITED

(Incorporated In The Republic of Singapore with limited liability)
(Company Registration No. 198004601C)

PROXY FORM

(Please see notes overleaf before completing this Form)

IMPORTANT:

1. For shareholders who have used their CPF monies to buy the Shares of Fu Yu Corporation Limited, this Annual Report is forwarded to them at the request of their CPF Approved Nominees and is sent solely FOR INFORMATION ONLY.
2. This Proxy Form is not valid for use by CPF investors and shall be ineffective for all intents and purposes if used or purported to be used by them.

I/We _____

of _____

being a member/members of **Fu Yu Corporation Limited** (the "Company"), hereby appoint:

| Name | NRIC/Passport No. | Proportion of Shareholdings | |
|---------|-------------------|-----------------------------|---|
| | | No. of Shares | % |
| Address | | | |

and/or (delete as appropriate)

| Name | NRIC/Passport No. | Proportion of Shareholdings | |
|---------|-------------------|-----------------------------|---|
| | | No. of Shares | % |
| Address | | | |

or failing him/her, the Chairman of the Meeting as my/our proxy/proxies to vote for me/us on my/our behalf and if necessary to demand a poll at the Annual General Meeting (the "Meeting") of the Company to be held on 28 March 2005 at 11.30 a.m. and at any adjournment thereof. I/We direct my/our proxy/proxies to vote for or against the Resolutions proposed at the Meeting as indicated hereunder. If no specific direction as to voting is given or in the event of any other matter arising at the Meeting and at any adjournment thereof, the proxy/proxies will vote or abstain from voting at his/her discretion.

(Please indicate your vote "For" or "Against" with a tick [✓] within the box provided.)

| No. | Resolutions relating to: | For | Against |
|-----|--|-----|---------|
| 1 | Directors' Report and Audited Accounts for the year ended 31 December 2004 | | |
| 2 | Payment of proposed Second and Final dividend | | |
| 3 | Re-election of Mr Lim Shook Kong as a Director | | |
| 4 | Re-election of Mr Ching Heng Yang as a Director | | |
| 5 | Re-election of Mr Yuen Chung Sang Samuel as a Director | | |
| 6 | Approval of Directors' Fees amounting to S\$180,000/- | | |
| 7 | Re-appointment of Ernst & Young as Auditors | | |
| 8 | Authority to allot and issue new shares | | |

Dated this _____ day of _____ 2005

| Total number of Shares in: | No. of Shares |
|----------------------------|---------------|
| (a) CDP Register | |
| (b) Register of Members | |

Signature of Shareholder(s)
or, *Common Seal of Corporate Shareholder*



Notes :

1. Please insert the total number of Shares held by you. If you have Shares entered against your name in the Depository Register (as defined in Section 130A of the Companies Act, Chapter 50 of Singapore), you should insert that number of Shares. If you have Shares registered in your name in the Register of Members, you should insert that number of Shares. If you have Shares entered against your name in the Depository Register and Shares registered in your name in the Register of Members, you should insert the aggregate number of Shares entered against your name in the Depository Register and registered in your name in the Register of Members. If no number is inserted, the instrument appointing a proxy or proxies shall be deemed to relate to all the Shares held by you.
2. A member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint one or two proxies to attend and vote in his/her stead. A proxy need not be a member of the Company.
3. Where a member appoints two proxies, he/she should specify the proportion of his/her shareholding (expressed as a percentage of the whole) to be represented by each proxy. If no such proportion or number is specified, the first named proxy shall be treated as representing 100% of the shareholding and any second named proxy as an alternate to the first named proxy.
4. The instrument appointing a proxy or proxies must be deposited at the registered office of the Company at No.2 Serangoon North Avenue 5 Singapore 554911 not less than 48 hours before the time appointed for the Meeting.
5. The instrument appointing a proxy or proxies must be under the hand of the appointor or of his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed either under its seal or under the hand of an officer or attorney duly authorised. Where the instrument appointing a proxy or proxies is executed by an attorney on behalf of the appointor, the letter or power of attorney or a duly certified copy thereof must be lodged with the instrument.
6. A corporation which is a member may authorise by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the Meeting, in accordance with Section 179 of the Companies Act, Chapter 50 of Singapore.

General:

The Company shall be entitled to reject the instrument appointing a proxy or proxies if it is incomplete, improperly completed or illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified in the instrument appointing a proxy or proxies. In addition, in the case of Shares entered in the Depository Register, the Company may reject any instrument appointing a proxy or proxies lodged if the member, being the appointor, is not shown to have Shares entered against his name in the Depository Register as at 48 hours before the time appointed for holding the Meeting, as certified by The Central Depository (Pte) Limited to the Company.