

# Report of the directors

The directors herein present their report and the audited financial statements of Jackley Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2001.

## **GROUP REORGANISATION >**

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 8 August 2000 under the Companies Law (Revised) of the Cayman Islands. Pursuant to a reorganisation scheme (the “Group Reorganisation”) to rationalise the structure of the Group in preparation for the public listing of the Company’s shares on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the Company became the holding company of the companies now comprising the Group on 23 November 2000. Further details of the Group Reorganisation, together with details of the subsidiaries acquired pursuant thereto, are set out in notes 1, 17 and 24 to the financial statements, and in the Company’s prospectus dated 16 July 2001.

On 26 July 2001, the shares of the Company were listed on the Stock Exchange.

## **PRINCIPAL ACTIVITIES >**

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 17 to the financial statements. There were no significant changes in the nature of the Group’s principal activities during the year.

## **SEGMENT INFORMATION >**

An analysis of the Group’s turnover and results by principal activity and geographical location of customers for the year ended 31 December 2001 is set out in note 6 to the financial statements.

## **RESULTS AND DIVIDENDS >**

The Group’s profit for the year ended 31 December 2001 and the state of affairs of the Company and of the Group as at that date are set out in the financial statements on pages 29 to 68.

An interim dividend of HK\$5 per ordinary share, amounting to HK\$10 million, was paid by the Company to its then shareholders prior to the listing of the Company’s shares on the Stock Exchange during the year. The directors propose the grant of two bonus shares for every one ordinary share of HK\$0.10 each in the issued share capital of the Company held by the shareholders whose names appear on the register of members on 6 June 2002.

### USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING >

The proceeds from the Company's issue of new ordinary shares at the time of its listing on the Stock Exchange on 26 July 2001, after deduction of related issuance expenses, amounted to approximately HK\$46 million. These proceeds were partially applied during the year ended 31 December 2001 as follows:

- as to approximately HK\$2 million for the acquisition of additional production equipment and machinery for the manufacturing of the Group's existing products;
- as to approximately HK\$3 million for the establishment of marketing offices in the People's Republic of China (the "PRC");
- as to approximately HK\$4 million for the promotion and marketing of the Group's products; and
- as to approximately HK\$14 million as general working capital for the Group.

The balance of the proceeds of approximately HK\$23 million was placed on short term deposits with a financial institution in Hong Kong as at 31 December 2001.

The actual and intended applications of the net proceeds are consistent with the plans set out in the prospectus of the Company dated 16 July 2001.

### SUMMARY FINANCIAL INFORMATION >

The following is a summary of the published consolidated/combined results and of the assets and liabilities of the Group for the years ended 31 December 1998, 1999, 2000 and 2001, prepared on the bases set out in the note below. The amounts for the year ended 31 December 2000 in the following summary have been adjusted for the effects of the retrospective changes in accounting policy affecting dividends, as detailed in note 3 to the financial statements. The effect of this change in accounting policy is that prior year adjustment has been made to reclassify the proposed final dividend of HK\$30,000,000 for the year ended 31 December 2000, which was recognised as a current liability at that year end, to the proposed final dividend reserve account within the capital and reserves section of the balance sheet. The result of this has been to reduce both the Company's and the Group's current liabilities and increase the reserves previously reported as at 31 December 2000, by HK\$30,000,000.

## SUMMARY FINANCIAL INFORMATION (continued)

## RESULTS

	Year ended 31 December			
	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000
TURNOVER	275,168	326,693	235,784	177,000
PROFIT FROM OPERATING ACTIVITIES	61,041	87,615	59,488	39,522
Finance costs	(676)	(667)	(1,580)	(2,182)
PROFIT BEFORE TAX	60,365	86,948	57,908	37,340
Tax	(18,070)	(24,064)	(16,137)	(10,420)
PROFIT BEFORE MINORITY INTERESTS	42,295	62,884	41,771	26,920
Minority interests	2,053	244	477	1,437
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	44,348	63,128	42,248	28,357

## SUMMARY FINANCIAL INFORMATION (continued) &gt;

## ASSETS AND LIABILITIES

	At 31 December			
	2001 HK\$'000	2000 HK\$'000 (Restated)	1999 HK\$'000	1998 HK\$'000
NON-CURRENT ASSETS	98,520	95,865	76,405	50,696
CURRENT ASSETS	178,222	159,886	95,065	77,554
TOTAL ASSETS	276,742	255,751	171,470	128,250
CURRENT LIABILITIES	98,878	108,175	84,102	66,868
NON-CURRENT LIABILITIES	331	656	3,531	4,316
TOTAL LIABILITIES	99,209	108,831	87,633	71,184
MINORITY INTERESTS	10,253	30,112	30,356	30,833
NET ASSETS	167,280	116,808	53,481	26,233

*Note:* The summary of the combined results of the Group for the years ended 31 December 1998, 1999 and 2000, and the assets and liabilities of the Group as at those dates have been extracted from the Company's prospectus dated 16 July 2001. This summary was prepared from the audited financial statements of the companies now comprising the Group, as if the current structure of the Group had been in existence throughout these financial years and was presented on the basis set out in note 4 to the financial statements. The results of the Group for the year ended 31 December 2001 and the assets and liabilities of the Group as at that date are those set out on pages 29 and 30 of the financial statements, respectively.

### **FIXED ASSETS >**

Details of the movements in the fixed assets of the Group during the year are set out in note 14 to the financial statements.

### **SHARE CAPITAL >**

Details of movements in the Company's share capital during the year, together with the reasons therefor, are set out in note 24 to the financial statements.

### **PRE-EMPTIVE RIGHTS >**

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

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

The Company's shares were listed on the Stock Exchange on 26 July 2001. Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities since 26 July 2001.

### **RESERVES >**

Details of the movements in the reserves of the Company and the Group during the year are set out in note 25 to the financial statements.

### **DISTRIBUTABLE RESERVES >**

At 31 December 2001, the Company had distributable reserves of approximately HK\$111,655,000. Under the Companies Law (Revised) of the Cayman Islands, the share premium of the Company of approximately HK\$86,057,000 as at 31 December 2001, is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business. The share premium may also be distributed in the form of fully paid bonus shares.

### **MAJOR CUSTOMERS AND SUPPLIERS >**

During the year, the sales to the Group's five largest customers accounted for less than 30% of the Group's total sales for the year.

Purchases from the Group's five largest suppliers accounted for approximately 48% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 20%.

## MAJOR CUSTOMERS AND SUPPLIERS (continued)

None of the directors of the Company, any of their associates or shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital), had any beneficial interest in the Group's five largest suppliers.

## DIRECTORS

The directors of the Company during the year were as follows:

### Executive directors

Mr. Lam Yat Sing

Mr. Cheng Yuk Sui

Mr. Chew Kean Eng (appointed on 27 September 2001)

Mr. Tam Poh Yuen (resigned on 20 January 2001)

Ms. Lam Sau Fan, May (resigned on 9 March 2001)

Mr. Lam Chi On (resigned on 27 September 2001)

Mr. Tay Way Bock (appointed on 27 March 2001 and resigned on 1 November 2001)

### Non-executive directors

Mr. Ahmad Tajuddin Ahmad Zainuddin (appointed on 21 June 2001)

Mr. Dzulkifli Mohamed (appointed as alternate non-executive director to Mr. Ahmad Tajuddin Ahmad Zainuddin on 21 June 2001)

Mr. Azizul Rahim Abdul Rahman (appointed on 21 June 2001)

Mr. Saharuddin Zamri (appointed as alternate non-executive director to Mr. Azizul Rahim Abdul Rahman on 21 June 2001)

Mr. Yap Sin Kien, Peter (appointed on 13 March 2001 and resigned on 23 May 2001)

### Independent non-executive directors

Mr. Liu Ngai Wing (appointed on 27 March 2001)

Mr. Ong Hong Hoon (appointed on 28 June 2001)

Mr. Sulaiman Daud (resigned on 20 January 2001)

Mr. Ho Hing Chung (resigned on 9 March 2001)

Subsequent to the balance sheet date, on 18 January 2002, Mr. Khoo Chuan Teng was appointed as an executive director of the Company.

### **DIRECTORS (continued) >**

In accordance with the Company's articles of association, Messrs. Cheng Yuk Sui, Chew Kean Eng, Khoo Chuan Teng, Ahmad Tajuddin Ahmad Zainuddin, Azizul Rahim Abdul Rahman, Liu Ngai Wing and Ong Hong Hoon will retire, and except for Cheng Yuk Sui, all the retiring directors, will offer themselves for re-election at the forthcoming annual general meeting.

Each of the independent non-executive directors is currently appointed for a term of two years commencing from 9 July 2001.

### **BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT >**

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 14 to 16 of the annual report.

### **DIRECTORS' SERVICE CONTRACTS >**

Mr. Lam Yat Sing and Mr. Cheng Yuk Sui, and Mr. Chew Kean Eng have entered into service contracts with the Company for a term of three years commencing from 1 July 2001 and 28 September 2001, respectively, which continues thereafter until terminated by either party giving not less than three months' notice in writing to the other party.

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

### **DIRECTORS' INTERESTS IN CONTRACTS >**

Other than in connection with the Group Reorganisation in preparation for the Company's initial public offering and those transactions disclosed in note 30 to the financial statements, no director had a significant beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

### **MANAGEMENT CONTRACTS >**

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or in existence during the year.

## DIRECTORS' INTERESTS IN SHARES >

At 31 December 2001, the interests of the directors in the share capital of the Company or its associated corporations, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), were as follows:

### Interest in the Company >

Name of director	Nature of interest	Number of ordinary shares held
Mr. Lam Yat Sing	Corporate	245,975,000

*Note:* These shares are owned by Prosperous Statesman Limited ("Prosperous Statesman"), a company incorporated in the British Virgin Islands. The entire issued share capital of Prosperous Statesman is beneficially owned by Mr. Lam Yat Sing.

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

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES >

Apart from as disclosed under the headings "DIRECTORS' INTERESTS IN SHARES" above and "SHARE OPTION SCHEME" below, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

## SHARE OPTION SCHEME >

The Company operates a share option scheme (the "SO Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the SO Scheme include any full-time employee of the Company and its subsidiaries, including any executive director, but not any non-executive director. The SO Scheme became effective on 26 July 2001 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

**SHARE OPTION SCHEME (continued)**

The maximum number of unexercised share options currently permitted to be granted under the SO Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the SO Scheme within any 12-month period, is limited to 2.5% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of the offer of the share options or the expiry date of the SO Scheme, if earlier.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of: (i) 80% of the average closing price of the ordinary shares on the Stock Exchange for the five trading days immediately preceding the offer date; and (ii) the nominal value of the ordinary shares.

On 23 August 2001, the Stock Exchange announced amendments to Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") in respect of share option schemes, which came into effect on 1 September 2001. In compliance with the amendments to the Listing Rules and the announcement of the Stock Exchange, the directors consider that it is in the interests of the Company to terminate the existing SO Scheme of the Company adopted on 23 July 2001 and to adopt a new SO Scheme. An ordinary resolution will be proposed at the Company's shareholders' meeting for the approval of the said adoption of the new SO Scheme and the termination of the Company's existing SO Scheme.

No share options had been granted by the Company since the SO Scheme became effective on 26 July 2001.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the share options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their costs. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Share options which are cancelled prior to their exercise dates are deleted from the register of outstanding options.

### **SUBSTANTIAL SHAREHOLDERS >**

At 31 December 2001, the following interests of 10% or more of the share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance.

Name	Number of shares held	Percentage of the Company's share capital
Prosperous Statesman	245,975,000#	59.3%

# The shareholding is duplicated in the disclosure in the "Directors' interests in shares" section above.

Save as disclosed above, no person, other than a director of the Company, whose interest is set out above, had registered an interest in the share capital of the Company that was required to be recorded pursuant to Section 16(1) of the SDI Ordinance.

### **CONNECTED TRANSACTIONS >**

Details of the connected transactions that are required to be disclosed for the year are set out in note 30 to the financial statements. Save as disclosed therein, there were no other transactions required to be disclosed as connected transactions in accordance with the requirements of the Listing Rules.

The independent non-executive directors of the Company are of the opinion that the terms of the above transactions are fair and reasonable so far as the shareholders of the Company are concerned; and that the transactions have been entered into by the Group in its ordinary and usual course of business and were carried out in accordance with the terms of the agreements governing such transactions.

### **DIRECTORS' INTERESTS IN COMPETING BUSINESS >**

During the year and up to date of this report, no directors of the Company are considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group, as defined by the Listing Rules, other than those business of which the directors of the Company have been appointed as directors to represent the interests of the Company and/or the Group.

### **POST BALANCE SHEET EVENT >**

Details of the significant post balance sheet event of the Group is set out in note 31 to the financial statements.

### **CODE OF BEST PRACTICE >**

In the opinion of the directors of the Company, the Company has complied with the Code of Best Practice (the "Code") as set out in appendix 14 of the Listing Rules of the Stock Exchange, since the listing of the Company's shares on the Stock Exchange on 26 July 2001.

### **AUDIT COMMITTEE >**

The Company has an audit committee which was established in accordance with the requirements of the Code, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the two independent non-executive directors of the Company.

### **AUDITORS >**

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

ON BEHALF OF THE BOARD

Lam Yat Sing  
*Chairman*

Hong Kong  
26 April 2002