

Report of the Directors

Annual Report 2002

The directors 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 2002.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 18 to the financial statements. There were no significant changes in the nature of the Group’s principal activities during the year.

RESULTS AND DIVIDENDS

The Group’s profit for the year ended 31 December 2002 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 30 to 84.

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

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 The Stock Exchange of Hong Kong Limited (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 2002 and the period 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\$8 million for the establishment of marketing offices in the People’s Republic of China (the “PRC”);
- as to approximately HK\$8 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\$14 million was placed on short term deposit with a financial institution in Hong Kong as at 31 December 2002.

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING (Continued)

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, liabilities and minority interests of the Group for the years ended 31 December 1998, 1999, 2000, 2001 and 2002, prepared on the bases set out in the note below.

RESULTS

	Year ended 31 December				
	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000
TURNOVER	<u>182,062</u>	<u>275,168</u>	<u>326,693</u>	<u>235,784</u>	<u>177,000</u>
PROFIT FROM					
OPERATING ACTIVITIES	11,630	61,041	87,615	59,488	39,522
Finance costs	<u>(1,728)</u>	<u>(676)</u>	<u>(667)</u>	<u>(1,580)</u>	<u>(2,182)</u>
PROFIT BEFORE TAX	9,902	60,365	86,948	57,908	37,340
Tax	<u>(1,053)</u>	<u>(18,070)</u>	<u>(24,064)</u>	<u>(16,137)</u>	<u>(10,420)</u>
PROFIT BEFORE					
MINORITY INTERESTS	8,849	42,295	62,884	41,771	26,920
Minority interests	<u>(3,970)</u>	<u>2,053</u>	<u>244</u>	<u>477</u>	<u>1,437</u>
NET PROFIT FROM					
ORDINARY ACTIVITIES					
ATTRIBUTABLE TO					
SHAREHOLDERS	<u>4,879</u>	<u>44,348</u>	<u>63,128</u>	<u>42,248</u>	<u>28,357</u>

SUMMARY FINANCIAL INFORMATION (Continued)

ASSETS, LIABILITIES AND MINORITY INTERESTS

	At 31 December				
	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000
NON-CURRENT ASSETS	120,885	98,520	95,865	76,405	50,696
CURRENT ASSETS	<u>162,065</u>	<u>178,222</u>	<u>159,886</u>	<u>95,065</u>	<u>77,554</u>
TOTAL ASSETS	<u>282,950</u>	<u>276,742</u>	<u>255,751</u>	<u>171,470</u>	<u>128,250</u>
CURRENT LIABILITIES	79,076	98,878	108,175	84,102	66,868
NON-CURRENT LIABILITIES	<u>17,492</u>	<u>331</u>	<u>656</u>	<u>3,531</u>	<u>4,316</u>
TOTAL LIABILITIES	<u>96,568</u>	<u>99,209</u>	<u>108,831</u>	<u>87,633</u>	<u>71,184</u>
MINORITY INTERESTS	<u>14,223</u>	<u>10,253</u>	<u>30,112</u>	<u>30,356</u>	<u>30,833</u>
NET ASSETS	<u>172,159</u>	<u>167,280</u>	<u>116,808</u>	<u>53,481</u>	<u>26,233</u>

Note: The summary of the combined results of the Group for the years ended 31 December 1998, 1999 and 2000, and the assets, liabilities and minority interests 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. The results of the Group for the year ended 31 December 2001 and the assets, liabilities and minority interests of the Group as at that date have been extracted from the published audited financial statements of the Group for the year ended 31 December 2001. The results of the Group for the year ended 31 December 2002 and the assets and liabilities of the Group as at that date are those set out on pages 30 and 31 to 32 of the financial statements, respectively.

FIXED ASSETS

Details of movements in the fixed assets of the Group during the year are set out in note 15 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in notes 29 and 30 to the financial statements, respectively.

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

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 31 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2002, the Company had distributable reserves of approximately HK\$29,739,000. Under the Companies Law (Revised) of the Cayman Islands, the share premium account of the Company of approximately HK\$3,057,000 as at 31 December 2002, 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 account 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 45% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 19%.

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:

Executive directors

Mr. Lam Yat Sing

Mr. Chew Kean Eng

Mr. Khoo Chuan Teng

(appointed on 18 January 2002)

Mr. Wong Kwai Wah

(appointed on 6 June 2002)

Mr. Cheng Yuk Sui

(retired on 6 June 2002)

Non-executive directors

Mr. Azizul Rahim Abdul Rahman

Mr. Saharuddin Zamri

(alternate non-executive director to
Mr. Azizul Rahim Abdul Rahman)

Mr. Ahmad Tajuddin Ahmad Zainuddin

Mr. Dzulkifli Mohamed

(alternate non-executive director to
Mr. Ahmad Tajuddin Ahmad Zainuddin and
resigned on 20 August 2002)

Independent non-executive directors

Mr. Liu Ngai Wing

Mr. Ong Hong Hoon

DIRECTORS (continued)

Subsequent to the balance sheet date, on 16 April 2003, Mr. Anthony Henry Serra was appointed as an executive director of the Company.

In accordance with the Company's articles of association, Messrs. Wong Kwai Wah, Anthony Henry Serra, Azizul Rahim Abdul Rahman and Ahmad Tajuddin Ahmad Zainuddin will retire and, Messrs. Wong and Serra being eligible, will offer themselves for re-election at the forthcoming annual general meeting, whereas, Messrs. Abdul Rahman and Ahmad Zainuddin will not 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 11 to 13 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Messrs. Lam Yat Sing, Messrs. Chew Kean Eng, Messrs. Khoo Chuan Teng and Messrs. Wong Kwai Wah have entered into service contracts with the Company for terms of three years commencing from 1 July 2001, 28 September 2001, 1 January 2002 and 7 June 2002, respectively, which continue thereafter until terminated by either party giving not less than three months' notice in writing to the other party. The service contract with Mr. Cheng Yuk Sui was terminated upon his resignation.

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

Save as disclosed elsewhere in the annual report, 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 were in existence during the year.

DIRECTORS' INTERESTS IN SHARES

At 31 December 2002, 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	737,925,000

Note: Brilliant Path Limited ("Brilliant"), Prosperous Statesman Limited ("Prosperous Statesman") and Sinotime Limited ("Sinotime") owned 296,364,000, 68,200,000 and 373,361,000 ordinary shares of the Company, respectively. These companies are incorporated in the British Virgin Islands. The entire issued share capitals of Brilliant Path, Prosperous Statesman and Sinotime are 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 in the share option scheme disclosures in note 30 to the financial statements, 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

Due to the adoption of Statement of Standard Accounting Practice No. 34 “Employee benefits” during the year, most of the detailed disclosures relating to the Company’s share option scheme have been moved to note 30 to the financial statements.

Concerning the share options granted during the year to the directors, employees, suppliers and others, as detailed in note 30, the directors do not consider it appropriate to disclose a theoretical value of the options granted, because it is not practical to do so.

SUBSTANTIAL SHAREHOLDERS

At 31 December 2002, the following interests of 10% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name	Number of shares held	Percentage of the Company’s issued share capital
Sinotime	373,361,000#	30.0%
Brilliant Path	296,364,000#	23.8%

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 36 to the financial statements. Save as disclosed therein, there were no transactions required to be disclosed as connected transactions in accordance with the requirements of the Rules Governing the Listing of Securities on the Stock Exchange (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 A 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 businesses 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 are set out in note 37 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, throughout the accounting period covered by the annual report.

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

6 June 2003