

On behalf of the Board (the “Board”) of Directors (the “Directors”) of Jackley Holdings Limited (the “Company”), I hereby present the annual report of the Company and its subsidiaries (collectively, “the Group”) for the year ended 31 December 2002.

FINANCIAL RESULTS

The Group’s turnover for the year was approximately HK\$182,062,000 (2001: HK\$275,168,000). Net profit attributable to shareholders was approximately HK\$4,879,000 (2001: HK\$44,348,000) representing earnings per share of HK0.4 cent (2001: HK3.9 cents).

DIVIDENDS

The Directors do not recommend the payment of any dividend for the year ended 31 December 2002 (2001: HK\$5 per share).

BUSINESS REVIEW

During the year 2002, the construction market in the People’s Republic of China (the “PRC”) experienced a steady growth. Competition amongst the building materials suppliers was intense. Locally manufactured carpets faced stiff competition from imported carpets. In addition, around the middle of 2002, several key employees left the Group to start up a competing business. This has had an adverse impact on our business, but the Group took on these challenges head-on and has now emerged with new resolve and with fresh momentum going forward. The Group has also taken on board new blood to beef-up its Sales and Marketing teams with emphasis on the wholesale and special projects markets.

In reaction to competitive forces, the Group has had to reduce the selling prices of its carpets, particularly in the second half of the year. This has resulted in the overall decrease in gross profit.

On a positive note, the successful listing of the Group on The Stock Exchange of Hong Kong Limited (“Stock Exchange”) provided positive market exposure of the Group’s business in Hong Kong. During the year, sales to Hong Kong-based customers showed an increase despite the depressed market condition and economic climate experienced in Hong Kong in 2002.

Within the carpet industry, which remains our core business, the Group has established two more marketing representative offices in Fuzhou and Hainan in addition to those in Beijing, Guangzhou and Chengdu to strengthen the sales network of the Group. A series of marketing campaigns were launched during the year to enhance the brand name “Jackley” in the carpet industry in the PRC as well as to gain more market shares.

The Group, with a view to diversifying its source of revenue will continue to look at other business opportunities in both within and outside the building materials industry. Within the building materials industry, we have been exploring certain chain store concepts and retail business opportunities with a number of potential partners. Venturing beyond, the Group has in late 2002 invested in obtaining an Intellectual Property Rights to a health food product.

On 15 April 2003, the Group entered into a Subscription Agreement to allot 249,000,000 new shares at an issue price of HK\$0.30 per share. The net proceeds from the Subscription is estimated to be HK\$73.5 million, and will be used as general working capital of the Group. At the time of print, the Subscription is expected to be completed by June 2003.

PROSPECT

The PRC economy –

China is still one of the few countries in the world that has managed to keep a positive economic growth for the past year. The overall living standard in the PRC continues to improve dramatically and is expected to remain strong in the foreseeable future due to the effect of both the China's entry into the World Trade Organisation and construction boom with the 2008 Olympic Games to be hosted in Beijing. The demand for carpets in both the commercial and residential markets will continue to be the key focuses of the Group in 2003.

Effects of the Severe Acute Respiratory Syndrome ("SARS") outbreak and the War between the United States ("US") and Iraq –

The global economy is currently experiencing an outlook due to a series of events such as the war between US and Iraq and the continuous SARS outbreak globally. The SARS incident will especially remain as an important adverse factor affecting the market conditions in the PRC and Hong Kong. The expectation is that the effects of the SARS outbreak will continue until the third quarter of 2003 and the Group's performance may be adversely affected. However, with the strength of the Group's renowned brand name of "Jackley" and the sales network, the Group will continue to closely observe the market conditions and adjust its business strategies and implement effective marketing campaigns once the market conditions turn around.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express our sincere thanks to all our stakeholders, especially our staff for their dedication over the past year and to all our customers, suppliers and shareholders for their support to the Group.

Lam Yat Sing

Chairman

Hong Kong, 6 June 2003