

### Dear Shareholders

2003 proved to be a challenging year for our Group. The year was pitted with international issues such as the continued effects on our markets by SARS, terrorism and uncertain economic conditions.

### CLEANING THE DECKS:

Our company used the year to consolidate and focus on our core business, CARPET MANUFACTURING AND DISTRIBUTION. Our annual report reflects provisions against non-core investments and doubtful debts as well as provisions against potential tax liabilities. The amount provided on all these issues for 2003 accounts was about HK\$56 million.

Our company undertook action in respect of the management and the sales group of 12 people who left the organization and proceeded to move our customer base to their new company. This will culminate in future court action being undertaken in Hong Kong, that combines actions against Interface and the old management in a claim by Jackley Holdings Limited.

Our company also took action in reducing bank debts. The reduction was in the magnitude of approximately HK\$60 million and in fact, at post balance sheet date as this report is being written the unsecured and net balance outstanding to banks is around HK\$11 million after taking into consideration the completion of sales for two of the Group's properties.

Our company went to great lengths to ensure that all areas of review for the audit of 2003 books were open and decisive in our relationship with the new audit group from RSM Nelson Wheeler. Our "clean the decks" approach has given strength to the platform for better results in 2004.

### GROWTH PREPARATION:

Our company took very decisive action in positioning itself for future growth and profitability. The highlights are:

- The acquisition of the 49% stake held by the China Joint Venture partner in the Hui Yang carpet factory.
- The acquisition of the Factory Land and Buildings in Hui Yang.
- The establishment of export selling into Middle-East, USA, Japan and Korea.
- The signing of major supply contracts for the domestic China market at a value of RMB40 million each year for the next 3 years.

- The launch of the “cash & carry” tile product for the mass retail market. The product is called “Jackley in a Box”.
- The awarding to the Hui Yang factory of the first ISO14001 Certification highlighting the success of our environmental management systems.
- The opening of our first “Carpet Centre” in the e-Home department store at Shenzhen.
- The restructuring of the sales organization throughout China and Hong Kong by firstly improving the quality of our team, and secondly training them to sell carpet tiles and broadloom products.

### CARPET OPERATIONS

While the CARPET TILE distribution business of the company received a positive push with the gain of the distribution rights to Shaw Industries carpet products for Hong Kong and the PRC (Shaw is the world’s largest manufacturer of carpet and is owned by Berkshire Hathaway), there was a negative effect in the change over from the Interface product. The real breakthrough has been the introduction of our own carpet tile range that is being sold by the sales team in a more rounded offering to the customers when combined with the high end Shaw products. This strategy allows us to address about 70% of the available market segment rather than the 12% that the single supplier, single product strategy with Interface imposes on the Group. The market with these products is the commercial segment of the industry. The China Carpet Association numbers indicated the PRC market to be valued over HK\$500 million for 2004 and over HK\$800 million in the Hong Kong market.

In the BROADLOOM manufacturing environment we moved the operation from being an OEM manufacturer for local resellers in the PRC to a standard range and OEM manufacturer focused on the hospitality market. Additional to the OEM reseller market we now take orders direct through our own sales offices from designers, developers, wholesalers and act as a “broker” for other factories in supplying to this expanded customer base. The real growth in this part of our business is the Export market and in the reporting year the factory has shipped to USA, Japan, Korea and Middle-east. Again as this report is being prepared our Company is finalizing distribution arrangements for America and Canada.

The China Carpet Association numbers indicate a market size in the year 2004 to be over 100 million M<sup>2</sup> with a value of over HK\$4 billion. In Hong Kong, the market is estimated about HK\$400 million.

**FINANCIAL HIGHLIGHTS**

	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Turnover	<b>127,338</b>	182,062
Gross profit	<b>36,086</b>	47,520
GP ratio	<b>28.34%</b>	26.10%
Operating expenses	<b>27,187</b>	31,828
Profit before non-operating expenses	<b>8,899</b>	15,692
Non-operating expenses	<b>52,475</b>	4,062
(Loss)/profit after non-operating expenses	<b>(43,576)</b>	11,630
Net (loss)/profit	<b>(31,853)</b>	4,879

**OUTLOOK**

Our company is well positioned for a strong result in 2004. We are now structured to grow organically within HK\$4.5 billion of the PRC and Hong Kong markets. The focus on growth will be on the hospitality and commercial markets.

We will use new industry relationships with key international suppliers to take advantage of technology and intellectual transfers.

We have opened many doors in the export market with distributor arrangements in over 7 countries.

The goal is to have a 24 hours/day and 7 days/week utilisation on our 9 tufting machines we have in the Hui Yang complex.

## REPORT FROM CHIEF EXECUTIVE OFFICER

Future potential acquisitions is inevitable as the consolidation of the provincial based carpet manufacturing into a national based occurs with the effect of WTO.

**Anthony Henry Serra**  
*Chief Executive Officer and  
Executive Director*

Hong Kong, 29 April 2004