



TO ALL SHAREHOLDERS

On behalf of the Board of Directors of the Company (the "Board"), it is my pleasure to present to shareholders the Annual Report of Artfield Group Limited and its subsidiaries (collectively the "Group") for the year ended 31 March 2001.

RESULTS

For the year ended 31 March 2001, the turnover of the Group was approximately HK\$284,200,000, representing a mild increase of 3.3% compared with last year. The net profit from ordinary activities attributable to shareholders also recorded a slight increase of 2.8% to HK\$4,330,000.

DIVIDENDS

The Board does not recommend the payment of a final dividend at the forthcoming Annual General Meeting (2000: Nil).

BUSINESS REVIEW AND OUTLOOK

Clock

The performance of Group's largest business division, the manufacturing and marketing of clocks, continued to suffer from the keen price competition and the unpromising market condition in the clock industry, resulting in a slight decrease of 6% in turnover. Although the slowdown in the USA economy during the second half of the fiscal year has slightly reduced the turnover in the USA market, Management was able to implement a marketing strategy of increasing market share in other geographic regions and therefore minimized the influence of the USA market to the Group's turnover. During the year under review, the Group has strengthened its marketing force in Europe and Asia Pacific region. While turnover in the North American market was decreased by 8%, turnover in the Asia Pacific region reported an increase of 80%. Turnover in the European market was also promising, with an increase of 12% in sales compared to last year.

Though it is expected that a less favourable environment for the clock industry will continue for some time in the coming year, the Group will strive to maintain its leadership in the clock industry by implementing strict cost reduction program and enriching its product designs. By implementing the above strategy, Management believes that this will contribute some long term benefits to the Group.

Electroplating

The Group's electroplating division, Ultra Good Electroplating Limited ("Ultra Good"), in which we have 79.75% ownership, attained a remarkable result in terms of both turnover and operating profits after tax, with a growth of 30% and 130% respectively. The mastery of electroplating techniques and the stringent cost control enabled Ultra Good to achieve excellent results in quality, efficiency and cost reduction. The achievements of the past year reflected the diligence and hard work of everyone in this division. The closure of a number of electroplating factories in the People's Republic of China (the "PRC"), driven by environmental considerations, further improved the supply/demand balance which created a better market environment to Ultra Good. Nonetheless, Management will continue to execute necessary steps to uphold the competitiveness of Ultra Good and to deliver quality services to customers. It is believed that Ultra Good will continue to have positive contributions to the Group in the future.



Lighting Product

The Group's lighting product division, Precision Group Limited ("Precision"), is still suffering from the stiff price competition in the industry. The lighting product industry is generally affected by the anti-dumping proceedings of the European Commission. Though the anti-dumping results have been announced, customers are very cautious in placing orders since the effects of the anti-dumping proceedings on the lighting product market are still unknown. However, the result that we got is quite favourable, with an anti-dumping duty rate of 17.2%, which is the third lowest amongst all the PRC lighting product manufacturers (the normal anti-dumping duty rate is 74.4% for other companies). Management believes that with the favourable anti-dumping duty rate, together with the cost cutting scheme that we have implemented, Precision shall be able to portray a better outlook in future.

Wehrle Uhrenfabrik GmbH ("Wehrle")

The relocation of the manufacturing operation of our wholly-owned subsidiary, Wehrle, to the PRC is nearly completed. Meanwhile, several major machines and tooling have been installed in our factory in Shenzhen, the PRC. It is expected that the machinery, together with the technique that brought along by our German personnel, will improve and enhance the overall clock manufacturing skills of the Group. On the other hand, our office in Germany will focus on the marketing and design aspects. As a result of the implementation of strict cost control scheme, Wehrle was able to lower its loss by 40% compared to last year. Management believes that the new arrangement can make Wehrle more cost efficient and Management is expecting a better result in the future.

Trading

The trading business of the Group achieved a satisfactory result during the year under review. Turnover was up 59%, amounting to HK\$104,500,000. Profit generated was also increased by 126%. With sufficient financial supports from our bankers, Management believes that the results of trading business will continue to have positive contributions to the Group in the future.

Wood Products

Most of our wood products are manufactured at Artfield Industries (Gaoming) Ltd. ("AIG") located in Gao Ming, the PRC. It not only acts as a provider of wooden clock cases and other clock-related parts to the Group's clock manufacturing division, but also provides other wood products such as wooden photo frame, wooden medal and wooden pen stand.

AIG has been operating for more than one year and is now in full operation. Management will continue to implement meaningful schemes to improve its operation and manufacturing efficiency which Management believes that will be able to contribute positive results to the Group in the near future.

Right Time Group, Inc. ("Right Time")

The main purpose of setting up Right Time is to help our marketing team to improve communication and provide better service to our OEM customers in the USA.

Right Time also sells some special designed plastic clocks under the brand name "Klik" to some department stores in the USA market. This market segment is different from our existing OEM market. Right Time helps to gather up-to-date market information on design and technology so that the Group can produce more feature-riched clocks. During the year under review, Right Time recorded a steady growth in turnover. In view of the current development and the potential in the USA market, Management remains positive to the future of Right Time.



PROSPECTS

The focus of the Group is to grow the business in a manner that delivers excellent value to our customers and shareholders.

Following the massive restructuring of certain business sectors and departmental re-organization, the Group is now operating on a more cost efficient and responsive service model which will substantially increase its competitive edge.

To boost the sales of clocks and lighting products, the Group will continue to actively explore possible ways which can provide better results. The Group's priorities are as follows:-

1. *Strengthening of Brand Names*

The Group is currently holding a number of brand names. Management is now re-examining these brand names, which involves the disposal of un-used and obsolete brand names, and the consolidation of other brand names which can add economic value to our products. Management believes that this re-examination can make the Group utilize its brand name resources in a more efficient manner.

As part of our brand names strategy, the Group has recently acquired the business of a well-developed, UK-based clock company, Kundo Staiger UK Limited ("KS"). With the strong and extensive customer network of KS, the Group shall be able to expand and gain wider market penetration in the UK market. Management is confident of the potential offered by this operation.

North America is also targeted for expansion. The newly established branch in New York City enables the Group to sell our branded product, "Klik". Apart from delivering excellent services to our valued OEM customers, the new New York office serves as a key communication hub between Hong Kong/China and our customers.

2. *Upgrading of Manufacturing Processes*

Management concentrates on two areas in upgrading the Group's manufacturing processes. Firstly, the Group has conducted an overall review of its machinery and facilities in its manufacturing plants in the PRC. Upgrading and improvement exercises are currently in progress. Upon completion of this review, our manufacturing plants will be able to function in a more cost-effective manner. Also, the setting up of a wood products factory and the relocation of the manufacturing division of Wehrle to China will optimize the Group's manufacturing efficiency.

3. *Seeking Other Business Opportunities in the PRC*

In the coming years, we will also devote our energy and resources to seek business opportunities in the PRC. During the year, our marketing department has established an experienced marketing team to arrange and facilitate specialized projects promoting the Group's clock business in the PRC. The preliminary performance reported by the team was in line with our expectation. Apart from clocks, the Group will also extend its business in other areas as opportunities arise.

Looking forward, the Group will expedite its structural adjustments and industrial upgrade. The review of the Group's overall operation will optimize resources allocation and reduce costs and expenses. Focus will be put on innovation in marketing strategies and research and design. In general, the Group is beginning to be benefited from its strict cost control and restructuring processes and Management is cautiously optimistic that the Group will be benefited from these action plans.



APPRECIATION

Together with all my fellow Directors, I sincerely thank all of our staff for their loyalty, commitment and hard work, and our customers, suppliers and shareholders for their continuing support.

By Order of the Board

LIANG Jin You

Chairman

Hong Kong, 26 July 2001