OPERATION

Vertical Integration in Manufacturing

The Group continues to follow the long-term strategy of vertical integration in its manufacturing processes. The principle has the benefits of assuring production quality, scheduling, cost controls and on-time delivery. Vertical integration has underpinned the success of the Group in the past and will continue to form the foundation for future growth.

Quality Control

Management continues to place strong emphasis on product quality and reliability. In addition to setting adequate incoming and end-of-line quality controls, quality audit and endurance tests are performed on all incoming base materials, components, work in progress and finished goods and throughout the whole production process.

Design, Research and Development

Our products are customer-orientated. Research and development are mostly performed in-house to reduce product development time. Taking clock as an example, during the year under review, over 250 models have been developed and launched to the market with marked success.

Sales and Marketing

As part of our aggressive expansion strategy, the Group continues to strengthen our sales and marketing team in USA to develop with our key partners new market segments. The USA office is led by high calibre and experienced sale and marketing executives. Their inputs on products, markets and customers allow the Group to keep abreast of useful information on current market and product trends. The intact knowledge on customer demands will enable us to serve them well to their complete satisfaction. The Group is greatly capitalized on this dynamic marketing and distribution network with an ongoing direct business contact with our customers.

The Group continues its strategy of direct sales which has greatly shortened the delivery time of our products to further consolidate our market position in USA and Europe.

PRODUCTS

Analogue Clocks

This is so far the most important product line of the Group. It consists of desk clocks, travel alarm clocks, wall clocks and bell alarm clocks. Over 180 models are produced in Hong Kong and the People's Republic of China (the "PRC"), and an additional 70 models are produced in Germany.

During the period under review, the turnover of analogue clocks decreased moderately against keen price competition and prolonged deteriorating market condition in the Asian market. Management will strengthen the design of products and sourcing of raw materials in order to improve its sales volume.

LCD Products

Turnover of LCD products was HK$2,600,000, representing a decrease of 68% from last year. Management will strive to improve its productivity through lowering production cost and strengthening the design and sourcing strategy of this product line.

PRODUCTS *(Cont'd)*

Gift Items

This is a non-clock product line which covers office products such as memo pad, name card stand, pen set, letter opener, coaster set, etc.

The performance of gift items is encouraging, achieving a steady growth of 9% in sales volume against keen market competition. The results of this product line recognized the success of the Group's aggressive marketing campaign during the year.

The Group believes that there is room for further improvement in the sales of gift products and will continue to design and introduce more innovative products, which offer attractive growth potential, in order to maintain its position in the premium market segment.

Other Products

The Group will continue to diversify into high margin products in order to stimulate demand and improve sales performance.

SUBSIDIARIES & ASSOCIATE

Artfield Industries (Shenzhen) Ltd. ("AIS")

AIS is our major subsidiary where most of our clock manufacturing operations are located. The Group's senior staff located in AIS impose stringent supervision on all aspects of its operation ranging from cost control, inventory level to product quality to ensure that our products have a strong competitive edge over other industry players in terms of both profitability and return on capital expenditure.

An effective sourcing and purchasing strategy has been adopted in order to obtain favourable material prices.

Wehrle Uhrenfabrik GmbH ("Wehrle")

The performance of Wehrle improved substantially during the year. Though Wehrle has not yet turned into a profit-making unit for the Group, when compared with last year, the operating loss was greatly reduced by 40%. Thanks to the effective cost control measures imposed by the Management such as streamlining manpower, the proposal of shifting manufacturing operation from Germany to the Group's factory in Shenzhen, the PRC, reducing the leased area and realigning the sales and marketing department, its working capital was greatly raised.

The Group will further enhance its management on Wehrle and is confident that its performance will be improved in the forthcoming year.

Ultra Good Electroplating Limited ("Ultra Good")

Ultra Good's business is to apply electroplating layers onto plastic or metal surface. The electroplating layers include copper, nickel, chrome and gold. It serves the Group as well as outside customers.

Ultra Good's production technology and workmanship are the key in determining the product quality.

Ultra Good recorded a satisfactory result during the financial year 2001. The total turnover of this product line was HK$12,326,000 against last year's HK$9,421,000, representing an increase of 30%.

SUBSIDIARIES & ASSOCIATE *(Cont'd)*

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

As a newly set up subsidiary, though Right Time made little contribution to the profit of the Group, it has successfully launched the Group's clock products into the USA market. With the management's determination in boosting sales in the North American regions, Right Time will position itself as the channel for exploring the USA market and the Management is confident that Right Time will be able to create a favourable opportunity to enhance sales of branded products for the Group.

Precision Group Limited ("Precision")

Precision is our lighting product division and it mainly engages in the manufacturing of energy saving lamps and its related parts and components. Its factory is located in Shenzhen, the PRC.

The performance of Precision for the year continues to be discouraging as it is still suffering from prolonged keen price competition. However, as it is the global trend to use environmental friendly products and the use of energy saving lamps has become more and more popular in the lighting product market, the Group shall continue to improve and upgrade the functions of the lighting products and apply tighter control over cost and labour in order to increase Precision's profitability.

Phorm Designs, Inc. ("Phorm")

Phorm specializes in product design, development and marketing, whilst the manufacturing is handled by the Group's factory in Shenzhen, the PRC.

In view of Phorm's failure in paying the outstanding amount of approximately US$600,000 due to the Group, a stipulated judgement was obtained in the United States District Court. Phorm has ceased business operation and is currently under liquidation. The Group made a full provision in 1999.

The Group has recovered US$200,000 in cash and has obtained certain patents and trademarks from Phorm. At present, all the foreclosure procedures of Phorm have been completed and it is expected that the liquidation process of Phorm will be completed soon.

EMPLOYEES

As at 31 March 2001, the Group had 2,039 employees spreading from Hong Kong to the PRC, USA and Germany. Industrial relationship had been well maintained.

The Group has adopted an extensive training policy for its employees. It has also sponsored senior executives for higher education programs.

The Group has adopted a share option scheme whereby certain employees of the Group may be granted options to acquire shares.

LIQUIDITY & FINANCIAL RESOURCES

As at 31 March 2001, the Group had a total outstanding debt and finance lease obligation of HK$24,528,000 (2000: HK$12,249,000), of which HK$21,681,000 (2000: HK$10,842,000) was secured bank loan, HK$1,531,000 (2000: HK$751,000) was secured overdrafts, and HK$1,316,000 (2000: HK$656,000) was obligation under finance leases. Our gearing ratio was at a healthy level of 0.4% (2000: 0.3%). The computation is based on long term borrowings of the Group divided by shareholder's fund as at 31 March 2001.

The Group's financial position remains strong, which will provide us with good financial capacity to either expand our existing operation or to diversify into other strategic growth business.

CHARGES ON GROUP'S ASSETS

The Group's investment properties with a value of HK$8,600,000 (2000: HK$9,000,000), certain of the Group's land and buildings and plant and machinery with a total net book value of approximately HK$33,772,000 (2000: HK$31,405,000) and deposit of HK$5,400,000 (2000: HK$5,400,000) were pledged to secure general banking facilities granted to the Group.

FOREIGN EXCHANGE EXPOSURE

The Group mainly earns revenue and incurs costs in US dollars and Hong Kong dollars. Foreign exchange exposure of the Group is minimal so long as the Hong Kong SAR Government's policy to link the Hong Kong dollars to the US dollars remains in effect.

Since the Group's principal manufacturing operations are in the PRC and most of the operating expenses are denominated in RMB, the management is aware of possible exchange rate exposure. As a hedging strategy, the management emphasizes on using RMB borrowings to finance the Group's PRC operation and capital expenditure.

TREASURY POLICIES

The Group generally finances its operation with internally generated resources and banking and credit facilities provided by banks in Hong Kong. Borrowing methods used by the Group mainly include trust receipt loans, overdrafts facilities and bank loans. The interest rates of most of these are fixed by reference to the Hong Kong Dollar Prime Rate or foreign currency's Trade Finance Rates.

CONTINGENT LIABILITIES

As at 31 March 2001, the Group did not have contingent liabilities except bills discounted to banks with recourse amounting to approximately HK$76,000 (2000: HK$1,209,000).

LIANG Jin You
Chairman

Hong Kong, 26 July 2001