

## TO ALL SHAREHOLDERS

On behalf of the Board of Directors of the Company (the "Board"), I am pleased to present to shareholders the Annual Report of Artfield Group Limited and its subsidiaries (collectively the "Group") for the year ended 31 March 2002.

## DIVIDENDS

The Board does not recommend the payment of any dividend for the year ended 31 March 2002 (2001: Nil).

## RESULTS

For the year ended 31 March 2002, the performance of the Group was affected by the continuous sluggish economy and the September 11 terrorist attack in the United States (the "US"), thus the turnover was recorded approximately HK\$272,556,000, representing a decrease of 4.1% compared with last year. The net loss from ordinary activities attributable to shareholders amounted to HK\$2,806,000 (2001: net profit of HK\$4,330,000).

## BUSINESS REVIEW AND PROSPECT

### Clocks and Other Office Related Products

Influenced by the wave of global economic recession and uncertainties, most overseas customers with the "wait and see" attitude became conservative in placing their orders which in turn triggered off weak export demands of clocks.

Due to this harsh environment, the performance of manufacturing and marketing of clocks, being the core business segment of the Group, was not immune from sluggish market conditions and suffered setbacks, accounting for approximately 13.9% drop in turnover from previous year. Geographically, owing to unfavorable market conditions in the US, sales to North America decreased by 22.7%. In order to minimize the adverse conditions in the US market, the Management has implemented flexible marketing programs and reinforced the sales efforts in other countries, leading to satisfactory results in Europe. Moreover, through the acquisition of the business of a previously well-known UK-based clock company, Kundo Staiger UK Limited, by the Group in May 2001, turnover of clocks and other office related products segment to Europe's market recorded growth of 8.8%.

In spite of the difficult year that the Group has just overcome, the Group will continue to place strong emphasis on product research and development so as to develop more non-conventional timepiece designs and functions. In addition, the Management will further strengthen its intelligence on market development and product positioning in order to quickly respond to the ever-changing market movements and provide value-to-money products to completely fulfill customers' needs in different countries.

Apart from upgrading our product offerings, the Group persists in stringent cost control to minimize unnecessary expenses and maintain its competitiveness in the long run.

## BUSINESS REVIEW AND PROSPECT (Cont'd)

### Lighting Products

The Group's lighting product segment, Precision Group Limited, achieved a favourable result, with its turnover increased remarkably by 120.7% compared with last year. The profit of the lighting segment amounted to HK\$577,000 (2001: loss of HK\$517,000). Leveraging our solid experiences in the industry with advance in technical professionalism, our market shares sustained a steady growth.

The Group will continue to invest in advanced machinery and equipment to enhance the product quality and operational efficiency. The Management will also reinforce its sales and marketing efforts in strengthening the sales network in overseas markets and the People's Republic of China (the "PRC") market. For instance, in order to extend the market coverage into the PRC, the Management plans to set up our own booths in malls of major cities such as Beijing, Shanghai and Guangzhou to promote our famous brand "Memolux". In view of this, the Management believes that the lighting segment will have a promising future and will bring better returns to the Group.

### Electroplating Services

Despite stiff price competition in the market, the turnover of Ultra Good Electroplating Limited ("Ultra Good"), our 79.75% owned subsidiary, increased by approximately 12.2% to HK\$13,833,000. The expertise in materials planning and effective production management enables Ultra Good to achieve satisfactory results in efficiency and cost reduction. Recently, Ultra Good has added the third electroplating production line, which will increase its capacity to gain the advantages of economies of scale. The Group is also dedicated to creating a reputation with its customers that Ultra Good is a provider of high-quality products and services at competitive prices.

### Trading

In the stagnant economic environment, the market demands of the commodities such as steel, aluminium ingot, wood and textile chemicals were generally weak. Nevertheless, the turnover of trading segment of the Group recorded a slight increase of 3.4% over the last year. The Management is confident that the rapid development of the PRC will definitely offer plenty of opportunities and increase demands of trading commodities in the year ahead.

## PROSPECT

In view of overall economy perspective, it was no doubt that year 2001 was tough and challenging. The tragic event of September 11 has accelerated the pace of recession. Nevertheless, according to the recent US economist statistics, there were signs of recovery in the US and everyone hopes that the global economy will rebound in the second half of this year.

As one of the leading key players in clock industry, the Group keeps eyes on strengthening the product and marketing developments by sharing the synergies of our solid foundations in the clock business and extensive sales network. For evaluating the diversity of customers' tastes in different geographical segments, the Management will strengthen the communication linkages between in-house designers, marketing professionals and our sales teams in overseas subsidiaries by quarterly meetings and periodical customer contacts. This can provide a platform to differentiate our branded and OEM products, as well as to create a distinguished perception of our products from other competitors and formulate effective marketing programs.

## PROSPECT (Cont'd)

With regard to the consolidation of the Group's one of the largest business divisions, the manufacturing of lighting products, the Management considers to establish a new production plant in the PRC this year. This proposal not only assists to increase the production capabilities of light tube and finished lighting products but also to expand the existing production scale to enhance the long-term vertical integration strategy adopted by the Group. The Management believes that this plan will enhance economies of scale and increase its competitive advantages.

On the other hand, for the business of electroplating services, the Group believes that it still has a good potential for growth. In order to increase the operation efficiency and return on investments, the Management is now reviewing the feasibility of investing in additional electroplating production lines apart from the existing 3 lines to meet the growing market demands.

For wood production development, the wood factory of the Group in Gao Ming City, the PRC has been fully operated for about 2 years. Together with the valuable experiences in mastering wood craft skills and technology, the Management plans to equip more advanced production machinery and wood cutting facilities. The main purposes are to broaden product varieties and produce multi-purposed wood products, such as wooden household products, wooden stationery set and wooden medal to suit the diversified market requirements.

Furthermore, the Group has understood that developing comprehensive sales network is essential to reach our target customers. The Management will penetrate the market boundaries by increasing cooperation with retailers, sales agents and OEM customers around different regions to promote our innovative products and expand the popularity of our medium and high branded products such as "Artex" and "Wehrle" clocks. Taking the PRC market as an example, the Group will extend its sales network covering some major regional centers such as Beijing, Shanghai and Guangzhou City.

With the PRC's accession to the World Trade Organisation, the huge market potential and robust economic growth of the PRC will certainly stimulate our growth. Therefore it is the Group's major marketing policy to expand its market share in the PRC. With the Management's abundant experiences in establishing our solid foundation in the PRC market for several years, in addition to our experienced marketing team in the PRC, the turnover of the PRC market is promising, which accounted for 41.7% of the Group total sales during the year under review. The Management will endeavour to strengthen the marketing and promotion strategies and expand its sales network in the PRC market. It is expected that the booming market opportunities will bring positive contributions to the Group.

Apart from the above development plans, the Group will continue to enhance management quality and monitor the internal control system by exercising stringent cost containment measures, upgrading quality standard and improving the overall efficiency of the operation. To minimize the costs of operation, the relocation of the major manufacturing operations in Germany to the PRC is completed. A new plant was set up in Shenzhen and has begun initial production. It is expected that the advanced production technique will assist the quality assurance of products and cost efficiency.

Looking ahead, the Management is prudently optimistic towards the future prospect. With the aims to capture more market share and more profits in the industry, the Group will continuously evaluate its business portfolios and performances of the existing business operations. The Management expects this continuous exercise will facilitate the Group to effectively reallocate resources into more profitable business and phase out less attractive ones to sharpen its competitive edges.

# CHAIRMAN'S STATEMENT

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## PROSPECT *(Cont'd)*

The Management will cautiously consider any opportunity to strategically diversify the businesses in the way of acquiring other profitable business or investing in new projects with good potential returns. Referring to the recent government policy of Hong Kong Special Administrative Region (the "HKSAR"), the chief executive strongly emphasizes on developing Hong Kong as a preferred international and regional logistics hub and a supply-chain base. Leveraging our extensive trading and distribution network in the PRC, the Group will consider the opportunity to develop the logistics and distribution business between Hong Kong and the PRC. The potential growth of logistics business is expected to be significant. In overall, the Group will endeavour to achieve its corporate objectives of maximizing the Group's profitability and delivering enhanced value to shareholders and services to customers in the years ahead.

## 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, 23 July 2002