

## OPERATION

### Vertical Integration in Manufacturing

The Group continues to follow the long-term strategy of vertical integration in its manufacturing processes. Cost effective vertical integration has proven its merits of flexibly allocating and committing resources among our various production bases, assuring production quality, shortening production lead-time, maintaining cost controls and achieving on-time delivery. These benefits have underpinned the success of the Group in the past and will continue to form the foundation for future growth.

### Quality Control

The 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-oriented. Research and development are mostly performed in-house to reduce product development time. During the year under review, over 150 models of clocks and over 45 models of lighting products have been developed and launched to the market under our private labels or our owned brand names with marked success.

### Sales and Marketing

As part of our aggressive expansion strategy, the Group continues to strengthen our sales and marketing team in the US, the United Kingdom (the "UK") and Germany to develop new market segments. Each overseas 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 the US 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.

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

## PRODUCTS (Cont'd)

### LCD Products

The turnover of LCD products was HK\$11,452,000, representing significant increase of more than 4 times over the last year. The Management will strive to deploy more research and development resources on designs and versatility of this product line and also improve its productivity by lowering production cost.

### Lighting Products

With growing concerns on environmental protection and quality consciousness, the Management will continue to improve lighting models of high efficiency and longer lifetime, as well as develop more varieties of energy saving lighting apparatus. The turnover of lighting products was HK\$10,605,000, representing an increase for more than 120.7% over the last year.

Together with the years of manufacturing experiences, the Company has developed a standardized quality assurance system in order to meet the relevant safety requirements in overseas and the PRC market. For example, our lighting products quality is highly recognized by complying with the mandatory requirements of recognised TUV tests.

### 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 operations ranging from workmanship, material control, cost control, inventory control to products 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.

### Ferdinand International (Marketing) Limited ("FIM")

After acquiring the business of a previously well-known, UK-based clock company, Kundo Staiger UK Limited ("KS"), by the Group in May 2001, the strong and extensive customers network of KS has brought positive contributions to the Group.

FIM, the wholly-owned subsidiary of the Group in the UK, will continue to put more sales and marketing efforts to expand the business to other geographical regions covering Denmark, Finland, Sweden, Norway, Iceland, Belgium, Ireland, Netherlands, Portugal and Spain. In the year ahead, FIM will assist to launch and promote lighting products in the UK market and the Management is confident that FIM will broaden future developments.

## SUBSIDIARIES & ASSOCIATE (Cont'd)

### Wehrle Uhrenfabrik GmbH (“Wehrle”)

Our wholly-owned subsidiary in Germany, Wehrle continues to focus on turning from losses to profits by developing new products, widening customers base, restructuring management and reducing costs. The relocation of the major manufacturing operations from Germany to the Group’s factory in Shenzhen has been completed. In order to utilize the relocated production facilities and equipment effectively, the Management arranges the production staff to receive on-job training on technical skills by our Wehrle technical professionals.

The Group will further streamline operation activities and restructure its management in Wehrle in order to strengthen it as one of our trading arms in developing Germany market. It is expected 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 surfaces. 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 year. The total turnover of this product line was HK\$13,833,000 against last year’s HK\$12,326,000, representing an increase of 12.2%.

### Right Time Group, Inc. (“Right Time”)

As part of our market expansion strategy, Right Time has been set up in the US for about 3 years. The main purpose of Right Time is to serve as a key communication bridge between Hong Kong head office and customers in North America. During the year under review, Right Time recorded only a moderate increase in turnover owing to unfavorable market conditions in the US.

However, the Group believes that market potential in the US is still promising in the near future. Apart from selling the low-ranked “Klik” clocks, it is proposed to introduce our high-ranked brand “Wehrle” to diversify the existing market segment and capture more market share in the US. The Management will remain alert to the anticipation of a worldwide economic rebound and adopt strategies that provide prompt response to market changes.

### Precision Group Limited (“Precision”)

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

The performance of Precision for the year recorded a satisfactory result even facing with external keen competition. In line with the worldwide consciousness of saving energy and the trend to use environmental friendly products, the Group will 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.

## SUBSIDIARIES & ASSOCIATE (Cont'd)

### Phorm Designs, Inc. ("Phorm")

Phorm previously specialized in product design, development and marketing and ceased operation since 1999 and the Group made a full provision in the same year. The liquidation process was finally completed and Phorm was dissolved in December 2001.

## EMPLOYEES

As at 31 March 2002, the Group had 1,847 (2001: 2,039) employees spreading among Hong Kong, the PRC, the US, Germany and the UK. Industrial relationship has 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 of the Company.

## LIQUIDITY & FINANCIAL RESOURCES

As at 31 March 2002, the Group had total outstanding debts and finance lease obligations of HK\$37,482,000 (2001: HK\$24,528,000), of which HK\$34,503,000 (2001: HK\$21,680,000) was secured bank loans, HK\$2,335,000 (2001: HK\$1,532,000) was secured overdrafts, and HK\$644,000 (2001: HK\$1,316,000) was obligation under finance leases. The amount repayable within one year accounted for 75.6% (2001: 96.9%) of the total borrowings as at 31 March 2002. Our gearing ratio was at a healthy level of 4.6% (2001: 0.4%). The computation is based on long term borrowings of the Group divided by shareholder's fund as at 31 March 2002.

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

## CHARGES ON GROUP'S ASSETS

The Group's investment properties with a value of HK\$8,000,000 (2001: HK\$8,600,000), bank deposits of HK\$2,540,000 (2001: HK\$5,400,000) and certain of the Group's leasehold land and buildings, and plant and machinery 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 HKSAR 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 Renminbi ("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 generated resources and banking and credit facilities provided by banks in Hong Kong and the PRC. All borrowings are denominated in Hong Kong dollars, the US dollars and RMB. Borrowing methods used by the Group mainly include trust receipt loans, overdrafts facilities and bank loans. The interest rates of most of these borrowings are fixed by reference to the Hong Kong Dollar Prime Rate or foreign currency's Trade Finance Rates.

## CONTINGENT LIABILITIES

As at 31 March 2002, the Group did not have contingent liabilities except bills discounted to banks with recourse amounting to approximately HK\$517,000 (2001: HK\$76,000).

LIANG Jin You  
*Chairman*

Hong Kong, 23 July 2002