



# ARTFIELD GROUP LIMITED

*(Incorporated in Bermuda with limited liability)*

## INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2003

The board of directors (the “Board”) of Artfield Group Limited (the “Company”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (together the “Group”) for the six months ended 30 September 2003 as follows:

### CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		<b>(Unaudited)</b> <b>Six months ended</b> <b>30 September</b>	
	<i>Notes</i>	<b>2003</b> <b>HK\$'000</b>	<b>2002</b> <b>HK\$'000</b>
<b>TURNOVER</b>	<b>2</b>	<b>110,840</b>	130,168
Cost of sales		<u>(79,282)</u>	<u>(101,845)</u>
Gross profit		<b>31,558</b>	28,323
Other income		<b>770</b>	1,723
Administrative expenses		<b>(24,407)</b>	(20,440)
Selling and distribution costs		<b>(5,125)</b>	(6,757)
Other operating expenses		<u><b>(529)</b></u>	<u>–</u>
<b>PROFIT FROM OPERATING ACTIVITIES</b>	<b>3</b>	<b>2,267</b>	2,849
Finance costs	<b>4</b>	<b>(1,674)</b>	(972)
Share of loss of a jointly-controlled entity		<u>–</u>	<u>(48)</u>
<b>PROFIT BEFORE TAX</b>		<b>593</b>	1,829
Tax	<b>5</b>	<u><b>(31)</b></u>	<u>(167)</u>
<b>PROFIT BEFORE MINORITY INTERESTS</b>		<b>562</b>	1,662
Minority interests		<u><b>(270)</b></u>	<u>(279)</u>
<b>NET PROFIT FROM ORDINARY ACTIVITIES</b> <b>ATTRIBUTABLE TO SHAREHOLDERS</b>		<u><b>292</b></u>	<u>1,383</u>
<b>EARNINGS PER SHARE</b>	<b>6</b>		
Basic		<u><b>HK0.12 cent</b></u>	<u>HK0.57 cent</u>
Diluted		<u><b>HK0.12 cent</b></u>	<u>HK0.56 cent</u>

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. PRINCIPAL ACCOUNTING POLICIES AND BASIS OF PREPARATION

The unaudited condensed consolidated financial statements have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) No. 25 “Interim Financial Reporting”, issued by the Hong Kong Society of Accountants (“HKSA”), and the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

The accounting policies and basis of preparation used in the preparation of these interim financial statements are the same as those used in the annual financial statements for the year ended 31 March 2003 except that the Group has adopted the revised SSAP No. 12 (revised) “Income Taxes” issued by the HKSA which is effective for accounting periods commencing on or after 1 January 2003. The effect of such changes to the results for the period are not material.

### 2. TURNOVER AND SEGMENT INFORMATION

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts, and income from the provision of electroplating services.

An analysis of the Group’s turnover and contribution to results by business and geographical segments are as follows:

#### (a) Business segments

	Clock and other office related products		Lighting products		Trading		Electroplating services		(Unaudited) Consolidated	
					Six months ended 30 September					
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:										
Sales to external customers	<u>72,449</u>	76,065	<u>6,535</u>	5,830	<u>25,261</u>	41,429	<u>6,595</u>	6,844	<u>110,840</u>	130,168
Segment results	<u>4,035</u>	3,550	<u>432</u>	480	<u>306</u>	512	<u>1,800</u>	1,430	<u>6,573</u>	5,972
Interest income									11	4
Net unallocated expenses									<u>(4,317)</u>	<u>(3,127)</u>
Profit from operating activities									2,267	2,849
Finance costs									<u>(1,674)</u>	<u>(972)</u>
Share of loss of a jointly-controlled entity	-	(48)	-	-	-	-	-	-	<u>-</u>	<u>(48)</u>
Profit before tax									593	1,829
Tax									<u>(31)</u>	<u>(167)</u>
Profit before minority interests									562	1,662
Minority interests									<u>(270)</u>	<u>(279)</u>
Net profit from ordinary activities attributable to shareholders									292	1,383

#### (b) Geographical segments

Geographical segments											(Unaudited) Consolidated	
North America		Europe		Hong Kong		Mainland China		Others				
Six months ended 30 September												
2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Segment revenue:												
Sales to external customers												
39,637	45,749	32,302	27,746	7,441	10,930	28,735	42,843	2,725	2,900	110,840	130,168	

### 3. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting):

	<b>(Unaudited)</b> <b>Six months ended</b> <b>30 September</b>	
	<b>2003</b>	<b>2002</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Cost of inventories sold	74,744	98,313
Cost of services provided	4,538	3,532
Staff costs	22,466	21,035
Depreciation	4,728	4,749
Amortisation of goodwill	498	83
Amortisation of patents and trademarks	23	135
Net rental income	(451)	(469)
Interest income	(11)	(4)
	<b><u>          </u></b>	<b><u>          </u></b>

### 4. FINANCE COSTS

	<b>(Unaudited)</b> <b>Six months ended</b> <b>30 September</b>	
	<b>2003</b>	<b>2002</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Interest expense on:		
Bank loans, overdrafts and other loans wholly repayable within five years	1,500	783
Bank loans repayable beyond five years	135	148
Finance leases	39	41
	<b><u>          </u></b>	<b><u>          </u></b>
	<b><u>1,674</u></b>	<b><u>972</u></b>

### 5. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profits arising in Hong Kong during the period.

Taxes on profits assessable elsewhere have been calculated at the applicable rates of tax prevailing in the jurisdictions in which the subsidiaries operated during the period based on existing legislation, interpretations and practices in respect thereof.

	<b>(Unaudited)</b> <b>Six months ended</b> <b>30 September</b>	
	<b>2003</b>	<b>2002</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Group:		
Hong Kong	(12)	115
Elsewhere	43	52
	<b><u>          </u></b>	<b><u>          </u></b>
Tax charge for the period	<b><u>31</u></b>	<b><u>167</u></b>

### 6. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the period of HK\$292,000 (2002: HK\$1,383,000) and the weighted average number of 240,699,872 (2002: 242,807,500) ordinary shares in issue during the period.

The calculation of diluted earnings per share is based on the net profit from ordinary activities attributable to shareholders for the period of HK\$292,000 (2002: HK\$1,383,000). The weighted average number of ordinary shares used in the calculation was the 240,699,872 (2002: 242,807,500) ordinary shares in issue, as used in the basic earnings per share calculation, and the weighted average number of 4,244,404 (2002: 5,334,838) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options outstanding during the period.

### INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended 30 September 2003 (2002: Nil).

### BUSINESS REVIEW

For the six months ended 30 September 2003, the Group recorded a turnover of approximately HK\$110,840,000, as compared to HK\$130,168,000 for the same period last year. In view of the adverse and turbulent operating environment, the net profit from ordinary activities attributable to shareholders amounted to approximately HK\$292,000 (2002: HK\$1,383,000).

## **Clock and Other Office Related Products**

During the period under review, the clock and other office related product segments, accounting for approximately 65% (2002: 58%) of the Group's turnover, recorded a modest decrease of 5% to HK\$72,449,000 (2002: HK\$76,065,000). Influenced by the outbreak of Iraq war and the severe acute respiratory syndrome ("SARS") epidemic, the global economy was further hampered. Sales to the United States (the "US") and Hong Kong decreased by approximately 14% and 26% respectively compared to the same period last year. On the contrary, sales contributions from Europe market recorded a satisfactory increase of about 20%.

In order to enhance our sales and market positions as well as maintain competitive advantages in the clock industry, the Group consistently emphasizes on product development, market expansion and cost management. The Management intends to restructure and strengthen its sales and marketing operations by recruiting several experienced sales management executives for formulation of effective marketing strategies. The Management considers that an experienced sales and marketing team will facilitate the promotion of sales of the Group and enhance the capability to quickly response to the customers' requirements and the market movements.

Apart from the clock business, the Group keeps eyes on developing wooden product offerings such as office stationery sets, music boxes, photo frames, medals and jewellery boxes. The Group has been setting up a new factory premise in Gao Ming, the People's Republic of China (the "PRC") which occupies floor area of approximately 7,500 square meters. The Management believes that the new production facilities will increase the overall production capacity and upgrade the Group's ability in manufacturing different kinds of new wooden products. The enriched product varieties will bring positive contribution to the Group in foreseeable future.

## **Lighting Products**

The Group's lighting product segment achieved a satisfactory result with turnover increasing from HK\$5,830,000 to HK\$6,535,000 during the period under review. The lighting product segment continues to generate satisfactory contribution to the Group.

The increase in overall turnover was mainly attributable to the Group's strategies to develop lighting products to Europe market in recent years. By entering into an exclusive sales agency agreement with a distribution agency in the United Kingdom (the "UK"), it assists our promotion and distribution of our lighting products to Europe market. Against keen competition, the Group will continue to improve production technologies and maintain stringent quality control up to international quality standard. The Management will endeavor to capture more sales orders not only from the existing Europe market but also the US and the PRC markets ahead.

## **Electroplating Services**

Turnover from the electroplating services was approximately HK\$6,595,000 (2002: HK\$6,844,000), representing a slight decrease of about 4% as compared with the same period last year. In view of limitations of the existing facilities, the Management considers to install additional automatic electroplating production lines apart from existing facilities in order to increase the operation efficiency. Leveraging with our specialized electroplating techniques and quality recognition of our electroplating products, the Management believes that it can maintain our competitiveness in the market.

## **Trading**

The result of trading segment was affected due to the adverse effects brought about by the SARS in Asian region. The turnover of trading business recorded a decrease of about 39% to HK\$25,261,000 (2002: HK\$41,429,000).

However, following rapid urbanization and stable economic growth of the PRC market, the Management believes that the market demands of metal commodities will increase. Supported by the existing trading and distribution networks, the Group will grasp plenty opportunities sprang from the PRC market ahead.

## **PROSPECT**

After passing the tough time of Iraq-US war and SARS epidemic, the global economy is in recovery stage. In order to minimize the adverse effects from any unstable economic climate, the Group will continue to undertake cost control measures and re-evaluation of operation structure with the ultimate goals to enhance operation efficiency, allocate resources effectively and increase overall profitability.

The PRC's accession to the WTO coupled with the signing of Closer Economic Partnership Arrangement generates a great momentum for the Group to develop our businesses in the PRC market. Capitalizing on our extensive knowledge and solid experiences in clock and lighting industry, the Group will devote more efforts to extend its market presence into some rapid economic growth cities including Beijing, Shanghai, and Guangzhou City which mainly cover over 69 sales points. By establishing our overseas offices in the US, the UK, Germany and the PRC in the past years, the Group enjoys the extensive distribution networks and is able to aggressively promote our OEM and branded products in these countries.

To target high ranked markets, the Management will emphasize on promoting our branded clock product "Wehrle" in the coming years. Having completed the relocation of the manufacturing operation of our wholly-owned subsidiary in Germany to our factory in Shenzhen, the PRC, the machineries together with the techniques are fully incorporated in production in an efficient and cost-effective manner. Further, the Group will devote more resources in strengthening the recognition of our well-renowned brand name "Wehrle" in the worldwide market. Apart from that, the Group will also penetrate lighting products into the US and the PRC markets via our distribution channels. In overall, the Group will strengthen its client base worldwide and capture enormous business opportunities from the booming China markets and recovering overseas markets.

To keep our competitiveness in the market, the Group will continue to exercise stringent cost control management, minimize inventory level and streamline operation structure. In addition, by improving production technologies and upgrading equipment, the Group will further improve the materials planning, operation efficiency and production quality in the long run.

Finally, the Management will continue its operation rationalization processes to enhance our efficiency and reduce costs in the coming year. Looking ahead, the Group is prudently optimistic towards the future prospect.

## LIQUIDITY AND FINANCIAL RESOURCES

As at 30 September 2003, the Group had total outstanding debts and finance lease obligations of HK\$64,282,000 (31 March 2003: HK\$53,889,000), of which HK\$54,903,000 (31 March 2003: HK\$42,118,000) was secured bank loans, HK\$7,467,000 (31 March 2003: HK\$9,058,000) was secured overdrafts, HK\$526,000 (31 March 2003: HK\$832,000) was unsecured other loans and HK\$1,386,000 (31 March 2003: HK\$1,881,000) was obligations under finance leases. The maturity profile of the Group's total borrowings as at 30 September 2003 is analysed as follows:

Within one year	81.4%
In the second year	3.5%
In the third to fifth years, inclusive	4.9%
Beyond five years	10.2%
Total	<u>100.0%</u>

Our gearing ratio was at a healthy level of 5.9% (31 March 2003: 8.4%). The computation is based on long-term borrowings of the Group divided by shareholder's fund as at 30 September 2003.

The Group's sound financial position 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

As at 30 September 2003, the Group's investment properties with a value of HK\$7,700,000 (31 March 2003: HK\$7,700,000), other investment of HK\$2,540,000 (31 March 2003: Nil), bank deposits of nil (31 March 2003: HK\$2,907,000) 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.

## CONTINGENT LIABILITIES

As at 30 September 2003, the Group did not have material contingent liabilities (31 March 2003: Nil).

## 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 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, US dollars or RMB. 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 with reference to the Hong Kong Dollar Prime Rate or foreign currency's Trade Finance Rates.

## **EMPLOYEES**

As at 30 September 2003, the Group had a total of 2,535 (2002: 2,488) employees of which 68 were based in Hong Kong, 2,448 based in the PRC and 19 spread among the US, the UK and Germany.

The Group had 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 option to acquire shares.

## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY**

During the period, the Company repurchased certain of its ordinary shares of HK\$0.10 through The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The aggregate price paid for the repurchases, including its related expenses amounted to HK\$291,000. All of these shares had been cancelled. Details of the repurchases are as follows:

<b>Month of Repurchase</b>	<b>Number of shares repurchased</b>	<b>Price per share</b>		<b>Total price paid HK\$'000</b>
		<b>Highest HK\$</b>	<b>Lowest HK\$</b>	
May 2003	506,000	0.57	0.56	291
	<u>506,000</u>			<u>291</u>

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the period.

## **AUDIT COMMITTEE**

The Audit Committee meets regularly with senior management to review the accounting principles and practices adopted by the Group and to discuss auditing, internal control and financial reporting matters including the review of this unaudited condensed consolidated interim financial statements. The members of the Committee are Mr. LO Ming Chi, Charles and Mr. CHEUNG Doi Shu, both of whom are the independent non-executive directors of the Company.

## **COMPLIANCE WITH CODE OF BEST PRACTICE**

All of the recommendations and guidelines of the Code of Best Practice issued by the Stock Exchange (the "Code") have been complied with by the Company, except that independent non-executive directors are not appointed for specific terms as recommended by the Code. According to the Bye-laws of the Company, one-third of the directors of the Company will retire by rotation every year and their appointments will be reviewed when they are due for re-election which, in the opinion of the directors, meets the same objectives.

## **PUBLICATION OF RESULTS ON THE WEBSITE OF THE STOCK EXCHANGE**

All the information required by paragraphs 46(1) to 46(6) of Appendix 16 of the Listing Rules will be published on the website of the Stock Exchange in due course.

By Order of the Board  
**LIANG Jin You**  
Chairman

Hong Kong, 17 December 2003

"Please also refer to the published version of this announcement in The Standard".