



ARTFIELD GROUP LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 1229)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 MARCH 2005

The board of directors (the “Board”) of Artfield Group Limited (the “Company”) would like to announce the audited consolidated results of the Company and its subsidiaries (together the “Group”) for the year ended 31 March 2005 as follows:

CONSOLIDATED INCOME STATEMENT

	<i>Notes</i>	2005	2004
		<i>HK\$'000</i>	<i>HK\$'000</i>
TURNOVER	2	238,300	229,925
Cost of goods sold and services provided		(182,124)	(180,553)
Gross profit		56,176	49,372
Other income		1,213	1,829
Selling and distribution costs		(12,018)	(12,136)
Administrative expenses		(43,530)	(48,722)
Other operating expenses		(1,688)	(3,064)
PROFIT/(LOSS) FROM OPERATIONS	3	153	(12,721)
Finance costs	4	(3,185)	(3,527)
Gain on disposal of subsidiaries		1,693	–
Share of results of associates		765	–
LOSS BEFORE TAXATION		(574)	(16,248)
Taxation	5	(1,755)	182
LOSS BEFORE MINORITY INTERESTS		(2,329)	(16,066)
Minority interests		(341)	(472)
NET LOSS FOR THE YEAR		(2,670)	(16,538)
LOSS PER SHARE	6		
Basic (<i>HK cents</i>)		(1.02)	(6.87)
Diluted		N/A	N/A

Notes:

1. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised HKFRSs and Hong Kong Accounting Standards (collectively “new HKFRSs”) which are effective for accounting periods beginning on or after 1 January 2005.

The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 March 2005. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

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 result information by business and geographical segments for the year ended 31 March 2005 is as follows:

(a) Business segments

	Clocks and other office related products		Lighting products		Trading		Electroplating services		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	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>158,369</u>	<u>145,208</u>	<u>26,868</u>	<u>15,199</u>	<u>41,647</u>	<u>56,210</u>	<u>11,416</u>	<u>13,308</u>	<u>238,300</u>	<u>229,925</u>
Segment results	<u>2,233</u>	<u>(5,763)</u>	<u>2,035</u>	<u>82</u>	<u>1,772</u>	<u>(302)</u>	<u>1,170</u>	<u>2,390</u>	<u>7,210</u>	<u>(3,593)</u>
Interest income									<u>442</u>	<u>27</u>
Net unallocated expenses									<u>(7,499)</u>	<u>(9,155)</u>
Profit/(loss) from operations									<u>153</u>	<u>(12,721)</u>
Finance costs									<u>(3,185)</u>	<u>(3,527)</u>
Gain on disposal of subsidiaries									<u>1,693</u>	<u>-</u>
Share of results of associates									<u>765</u>	<u>-</u>
Loss before taxation									<u>(574)</u>	<u>(16,248)</u>
Taxation									<u>(1,755)</u>	<u>182</u>
Loss before minority interests									<u>(2,329)</u>	<u>(16,066)</u>
Minority interests									<u>(341)</u>	<u>(472)</u>
Net loss for the year									<u>(2,670)</u>	<u>(16,538)</u>

(b) Geographical segments

	North America		Europe		Hong Kong		The People's Republic of China ("PRC")		Others		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	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	<u>81,344</u>	<u>78,034</u>	<u>83,364</u>	<u>66,801</u>	<u>15,779</u>	<u>20,276</u>	<u>44,209</u>	<u>59,056</u>	<u>13,604</u>	<u>5,758</u>	<u>238,300</u>	<u>229,925</u>

3. PROFIT/(LOSS) FROM OPERATIONS

The Group's profit/(loss) from operations has been arrived at after charging/(crediting):

	<u>2005</u>	<u>2004</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost of inventories sold	173,762	172,898
Cost of services provided	8,362	7,655
Staff costs (excluding directors' remuneration):		
Basic salaries and allowances	43,131	43,869
Retirement benefits scheme contributions	296	655
	<u>43,427</u>	<u>44,524</u>
Depreciation of property, plant and equipment	10,218	10,873
Amortisation of intangible assets (included in administrative expenses)	27	46
Amortisation of goodwill (included in other operating expenses)	996	996
Auditors' remuneration	400	400
Research and development expenditure	290	1,235
Minimum lease payments under operating leases for land and buildings	1,480	2,196
(Write back of)/provision for bad and doubtful debts	(326)	8
Surplus on revaluation of investment properties	–	(300)
Loss on disposal of property, plant and equipment	544	76
Impairment loss on property, plant and equipment	–	1,500
Impairment loss on goodwill	–	416
Unrealised holding loss on other investments	103	126
Exchange gains, net	(966)	(621)
Gross rental income	(517)	(926)
Less: Outgoings	109	109
Net rental income	<u>(408)</u>	<u>(817)</u>
Interest income	<u>(442)</u>	<u>(27)</u>

4. FINANCE COSTS

	<u>2005</u>	<u>2004</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on:		
Bank loans and overdrafts	3,089	3,393
Other loans wholly repayable within five years	34	50
Finance leases	62	84
	<u>3,185</u>	<u>3,527</u>

5. TAXATION

	<u>2005</u>	<u>2004</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong Profits Tax		
current year	401	545
overprovision in prior years	(226)	(250)
Tax in other jurisdictions		
current year	574	321
underprovision in prior years	162	–
Deferred taxation	<u>911</u>	<u>616</u>
	<u>844</u>	<u>(798)</u>
	<u>1,755</u>	<u>(182)</u>

Hong Kong Profits Tax is calculated at 17.5% (2004: 17.5%) of the estimated assessable profits arising in Hong Kong for the year.

Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

Pursuant to the laws and regulations in the PRC, certain Group's PRC subsidiaries are entitled to exemption from PRC income tax for two years commencing from their first profit-making year of operation and thereafter, these PRC subsidiaries will be entitled to a 50% relief from PRC income tax for the following three years.

6. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss for the year of HK\$2,670,000 (2004: net loss of HK\$16,538,000), and the weighted average number of 261,276,442 (2004: 240,619,686) ordinary shares in issue during the year.

No diluted loss per share for the years ended 31 March 2005 and 2004 has been presented as the warrants and share options outstanding during both years had an anti-dilutive effect on the basic loss per share for both years.

DIVIDENDS

The Board does not recommend the payment of any dividend for the year ended 31 March 2005 (2004: Nil).

FINANCIAL REVIEW

The Group recorded a turnover of approximately HK\$238,300,000 for the year ended 31 March 2005 (2004: HK\$229,925,000). It represents an increased of 3.6% or HK\$8,375,000 as compared with last year. Despite the fact that the Group still recorded a net loss of HK\$2,670,000 in the year under review, the results represent an improvement of HK\$13,868,000 from last year's performance. The loss was mainly attributable to the loss from the operations of the Group's overseas offices. The performance of each of the Group's businesses are set out in more details in the Management Discussion and Analysis of the annual report of the Company for the year ended 31 March 2005.

BUSINESS REVIEW AND PROSPECTS

Clock and Other Office Related Products

The Division achieved a turnover of HK\$158.4 million in the year under review, it represents an increase of HK\$13.2 million or 9.1% as compared with the same period last year.

Cost control underscored the Division's operations in the year under review. Starting from the second half of the financial year, targets were set to clamp down materials and production costs with strict responsibility and accountability system imposed, the actual achievement of the targets were closely monitored on a monthly basis.

The Division reported a segment trading profit of HK\$2,233,000 for the year ended 31 March 2005, the result was arrived at after taking into account the loss of the USA and Germany Offices in the amount of HK\$5,492,000. The segment trading result represents an increase of HK\$7,996,000 as compared with the same period last year.

Lighting Products

The Lighting Products Division reported a turnover of HK\$26.9 million in the year ended 31 March 2005. The result represents an increase of HK\$11.7 million or 76.8% as compared with the same period last year.

Before moving its production to the Gaoming factory in Foshan City, the PRC, the Division sub-contracted a part of its production to outsiders due to the small capacity at the Shenzhen factory which could have earned higher profit margin if produced in-house. The cost of removal has added further burden to the Division's profit performance for the year. The competition was severe in the year under review, which has led to a reduction in the selling price of the products, while the materials cost has been on the rise. All these factors have eroded the gross profit margin of the Division. However, the Division was still able to report a trading profit of HK\$2,035,000 in the year under review, as compared with HK\$82,000 in last financial year.

It is expected that the new factory facilities will give rise to the benefit of economy of scale and production efficiency, leading to cost effectiveness in production and boosting sales turnover.

Trading

The Division mainly engages in trading of metal in the PRC market. During the period under review, the business was inevitably affected by the PRC government's tightening of macro-economic policy. The Division reported a turnover of HK\$41.6 million with a segment trading profit of HK\$1,772,000 as compared with HK\$56.2 million and HK\$302,000 respectively in the same period last year.

In the short run, the management looks upon the business as an important source of marketing intelligence to the Group's other businesses in the PRC market, the management does not expect the Division to make substantial contribution to the Group's bottom-line in the near future.

Electroplating Services

The Electroplating Services Division recorded a turnover of HK\$11.4 million in the year ended 31 March 2005 as compared with HK\$13.3 million in the same period last year. It reported a segment trading profit of HK\$1,170,000 in the period under review as compared with HK\$2,390,000 in the same period last year.

Electroplating Services Division forms an integral part of the Group's vertically integrated manufacturing operation and it provides high quality electroplating services to other customers. The Division's factory has long been established in its present location. It has been accredited with ISO certification in 2001 and in full compliance with the local government's requirements with respect to environmental conservation. It also established long term relationship with suppliers for the supplying of restricted material such as potassium gold cyanide「氰化亞金鉀」 which is an important ingredient for the use in the electroplating process.

It is expected that the PRC government will further tighten up environmental protection measures with the effect of imposing further restrictions in operating electroplating services in the area. The Division will strengthen its competitive advantages in terms of its long establishment and good relationship with local government, ISO approved standard and high quality service, as well as the secured access to restricted materials.

Pharmaceutical Business

The Group acquired 49% share capital of Success Start Holdings Limited ("Success Start") on 15 March 2004. Success Start engages in the research and development, production and sales of medical products through Anxi Medicine-Make Co., Limited Fujian 福建省安溪制藥有限公司 ("Anxi Medicine") and bio-technological medical products through Beijing Xipu Biotechnology Limited 北京璽圃環球生物醫藥技術有限公司 ("Beijing Xipu"). The management remains confident that pharmaceutical industry will be the next high-growth industry in the PRC in the foreseeable future with attractive returns. The management will treat the investment as a valuable asset and a potential contributor to the Group's business in the future.

During the year under review, the sales turnover of Success Start increased by 83.9%, from HK\$13.0 million in the year ended 31 March 2004 to about HK\$24.0 million in the year ended 31 March 2005, and has successfully turned around from a loss into a profit position. Anxi Medicine has submitted two medical products, "Cefmetazole Raw Material Medicine"「頭孢米諾原料藥」 and "Sterilized Power of Injection"「無菌粉針」 for the approval of the State Food and Drug Administration (SFDA). It is expected that approval for the production of the products as well as the accreditation of the GMP standard will be granted in the near future. Anxi Medicine also will be the first entity in the PRC to apply for the production of the internationally most advanced medicine "Natamycin"「那他霉素」.

Beijing Xipu has successfully launched the new product, "Xi Pu Gluco Guard Yi Dao Ying Yan Su"「璽圃牌利唐康膠囊胰島素營養素」in the year under review and was well received by diabetic patients. The product has now been launched into major cities and provinces in the PRC. The product was also in the process of registration with the America's Food and Drug Administration (FDA) under registration No. 10307917240. Beijing Xipu has recently entered into agency agreements with renowned medicine companies in the PRC (except those companies in Beijing, Guangdong, Shangdong, Liaoning, Jilin, Heilongjian and Fujian) for the distribution of the product, concluding an annual sales in the amount of RMB3.5 million. It is expected that the sales of the product will increase substantially in the coming financial year.

EMPLOYEES

As at 31 March 2005, the Group had 2,394 (2004: 2,598) 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 AND FINANCIAL RESOURCES

As at 31 March 2005, the Group had total outstanding debts and finance lease obligations of HK\$32,392,000 (2004: HK\$63,231,000), of which HK\$24,575,000 (2004: HK\$54,612,000) was secured bank loans, HK\$6,589,000 (2004: HK\$6,374,000) was secured overdrafts, HK\$259,000 (2004: HK\$732,000) was unsecured other loans and HK\$969,000 (2004: HK\$1,513,000) was obligations under finance leases. The amount repayable within one year accounted for 80.0% (2004: 68.8%) of the total borrowings as at 31 March 2005. The maturity profile of the Group's total borrowings as at 31 March 2005 is analysed as follows:

	2005	2004
Within one year	80.0%	68.8%
In the second year	19.5%	12.1%
In the third to fifth years, inclusive	0.5%	10.3%
Beyond five years	-	8.8%
Total	<u>100.0%</u>	<u>100.0%</u>

Our gearing ratio was at a healthy level of 3.3% (2004: 10.9%). The computation is based on long-term borrowings of the Group divided by shareholders' fund as at 31 March 2005.

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

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 policy of the Government of Hong Kong Special Administrative Region 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 internal generated resources and banking and credit facilities provided by banks in Hong Kong, the PRC and the UK. All borrowings are denominated in Hong Kong dollars, US dollars, RMB and British pounds. Borrowing methods used by the Group mainly include trust receipt loans, overdraft facilities, invoice financing and bank loans. The interest rates of most of these borrowings are fixed by reference to the Hong Kong Dollars Prime Rate or foreign currency's Trade Finance Rates.

CONTINGENT LIABILITIES

As at 31 March 2005, the Group did not have contingent liabilities (2004: Nil).

CONNECTED TRANSACTIONS

On 8 September 2004, the Company entered into the sale and purchase agreement with Ms. Li Kwo Yuk ("Ms. Li"), a director of the Company, for the disposal of the entire interests in German Time Limited and Smart Best Development Limited, which are indirect wholly-owned subsidiaries of the Company, at a consideration of HK\$22,000,000.

Details of the disposal were disclosed in the Company's announcement dated 16 September 2004 and the Company's circular dated 2 October 2004 which had been dispatched to the shareholders of the Company.

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares during the year ended 31 March 2005.

CORPORATE GOVERNANCE

In the opinion of the directors, the Company has complied throughout the year ended 31 March 2005 with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Rules (the "Listing Rules") Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"), except that the independent non-executive directors of the Company have not been appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company's bye-laws.

The Company has adopted the Model Code (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the directors. All directors of the Company have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code throughout the year ended 31 March 2005.

AUDIT COMMITTEE

The Company has set up an audit committee (the "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. The members of the Audit Committee are Mr. LO Ming Chi, Charles, Mr. LO Wah Wai and Mr. ORR, Joseph Wai Shing, who are independent non-executive directors of the Company.

REMUNERATION COMMITTEE

The Company has set up a remuneration committee (the “Remuneration Committee”). The Remuneration Committee comprises three independent non-executive directors, Mr. LO Ming Chi, Charles, Mr. LO Wah Wai and Mr. ORR, Joseph Wai Shing. Mr. LO Ming Chi, Charles is the chairman of the Remuneration Committee. The Remuneration Committee has adopted terms of reference which are in line with the Code on Corporate Governance Practices issued by the Stock Exchange. The Remuneration Committee will meet at least once a year to review the remuneration policy and remuneration packages of the executive directors and members of the senior management.

PUBLICATION OF RESULTS ON THE WEBSITE OF THE STOCK EXCHANGE

The Company’s annual report containing all the information required by paragraphs 45(1) to 45(3) 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
Artfield Group Limited
LIANG Jin You
Chairman

Hong Kong, 21 July 2005

As at the date of this announcement, the executive directors of the Company are Mr. LIANG Jin You, Ms. LI Kwo Yuk, Mr. LEUNG Kin Yau, Mr. OU Jian Sheng, Mr. DENG Ju Neng and Mr. LIN Dong Hong. The independent non-executive directors are Mr. LO Ming Chi, Charles, Mr. LO Wah Wai and Mr. ORR, Joseph Wai Shing.

Please also refer to the published version of this announcement in China Daily.