



ARTFIELD GROUP LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 1229)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2006

The board of directors (the “Board”) of Artfield Group Limited (the “Company”) would like to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 September 2006, together with the comparative figures, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 30 September	
		2006	2005
		(Unaudited)	(Unaudited)
	Notes	HK\$'000	HK\$'000
Turnover	4	89,348	124,526
Cost of goods sold and services provided		<u>(80,001)</u>	<u>(93,796)</u>
Gross profit		9,347	30,730
Other operating income		1,234	1,785
Selling and distribution expenses		(5,029)	(6,850)
Administrative expenses		(20,582)	(23,115)
Other operating expenses		—	(317)
Finance costs	5	(1,014)	(1,180)
Gain on disposal of subsidiaries		<u>4,558</u>	<u>—</u>
(LOSS)/PROFIT BEFORE TAX	6	(11,486)	1,053
Income tax expenses	7	<u>(1)</u>	<u>(54)</u>
NET (LOSS)/PROFIT FOR THE PERIOD		<u>(11,487)</u>	<u>999</u>
Attributable to:			
Equity holders of the Company		(11,982)	664
Minority interests		<u>495</u>	<u>335</u>
		<u>(11,487)</u>	<u>999</u>

(LOSS)/EARNINGS PER SHARE	8		
Basic (<i>HK cent</i>)		<u>(3.95)</u>	<u>0.25</u>
Diluted (<i>HK cent</i>)		<u>N/A</u>	<u>N/A</u>

CONDENSED CONSOLIDATED BALANCE SHEET

		As at 30 September 2006 (Unaudited) <i>HK\$'000</i>	As at 31 March 2006 (Audited) <i>HK\$'000</i>
	<i>Notes</i>		
Non-current assets			
Investment properties		4,884	6,426
Property, plant and equipment		54,585	56,499
Prepaid lease payments on land use rights		9,048	9,008
Intangible assets		46,440	—
Goodwill		3,963	—
Interests in associates		—	6,000
Deferred tax assets		135	135
		<u>119,055</u>	<u>78,068</u>
Current assets			
Inventories		73,388	79,118
Trade and bills receivables	10	55,207	55,637
Prepayments, deposits and other receivables		10,618	6,128
Prepaid lease payments on land use rights		220	220
Financial assets at fair value through profit or loss		2,343	2,343
Tax recoverable		372	86
Bank balances and cash		4,728	8,029
		<u>146,876</u>	<u>151,561</u>
Current liabilities			
Trade payables	11	24,976	28,553
Other payables and accruals		19,244	21,877
Tax payable		1,190	1,277
Obligations under finance leases — due within one year		438	598
Bank and other borrowings — due within one year		40,092	32,391
		<u>85,940</u>	<u>84,696</u>
Net current assets		<u>60,936</u>	<u>66,865</u>
Total assets less current liabilities		<u>179,991</u>	<u>144,933</u>

Capital and reserves		
Share capital	30,448	26,248
Reserves	141,602	106,591
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Equity attributable to equity holders of the Company	172,050	132,839
Minority interests	3,041	7,002
	<hr/>	<hr/>
	175,091	139,841
Non-current liabilities		
Obligations under finance leases — due after one year	393	586
Deferred tax liabilities	4,507	4,506
	<hr/>	<hr/>
	4,900	5,092
	<hr/>	<hr/>
	179,991	144,933
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NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Hong Kong Accounting Standard (“HKAS”) 34 “Interim financial reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention except for certain financial instruments and leasehold land and buildings, which are measured at fair values.

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 March 2006 except that the Group has adopted, for the front time for the current period’s financial statements, the new and revised Hong Kong Financial Reporting Standards (“HKFRSs”), HKASs and Interpretations (hereinafter collectively referred to as “New HKFRS”) issued by the HKICPA that are either effective for accounting periods beginning on or after 1 January 2006. The adoption of the new HKFRSs has no material impact on the accounting policies of the Group and the methods of computation in the Group’s condensed interim financial statements.

3. POTENTIAL IMPACT ARISING ON THE NEW ACCOUNTING STANDARDS NOT YET EFFECTIVE

The Group has not early applied the following New HKFRSs that have been issued but are not yet effective. The directors of the Company anticipate that the application of these New HKFRSs will have no material impact on the financial statements of the Group.

HKAS 1 Amendment	Capital Disclosures ¹
HKFRS 7	Financial Instruments Disclosures ¹
HK(IFRIC) — INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies ²
HK(IFRIC) — INT 8	Scope of HKFRS 2 ³
HK(IFRIC) — INT 9	Reassessment of embedded derivatives ⁴

¹ Effective for accounting period beginning on or after 1 January 2007

² Effective for accounting period beginning on or after 1 March 2006

³ Effective for accounting period beginning on or after 1 May 2006

⁴ Effective for accounting period beginning on or after 1 June 2006

4. TURNOVER AND SEGMENTAL 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 segment for the six months ended 30 September 2006 is as follows:

Business segments

	Clocks and other office related products		Lighting products		Trading		Electroplating services		(Unaudited) Total	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
	Six months ended 30 September									
Segment revenue:										
Sales to external customers	<u>66,166</u>	<u>88,938</u>	<u>4,136</u>	<u>9,337</u>	<u>13,969</u>	<u>16,987</u>	<u>5,077</u>	<u>9,264</u>	<u>89,348</u>	<u>124,526</u>
Segment results	<u>(10,397)</u>	<u>4,436</u>	<u>(1,114)</u>	<u>(677)</u>	<u>(1,155)</u>	<u>227</u>	<u>1,219</u>	<u>1,868</u>	<u>(11,447)</u>	<u>5,854</u>
Interest income									<u>33</u>	<u>56</u>
Unallocated income less expenses									<u>(3,616)</u>	<u>(3,677)</u>
Finance costs									<u>(1,014)</u>	<u>(1,180)</u>
Gain on disposal of subsidiaries									<u>4,558</u>	<u>—</u>
Profit before taxation									<u>(11,486)</u>	<u>1,053</u>
Taxation									<u>(1)</u>	<u>(54)</u>
Net (loss)/profit for the period									<u>(11,487)</u>	<u>999</u>

5. FINANCE COSTS

	Six months ended 30 September	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest on:		
Bank loans and overdrafts	973	1,177
Finance leases	41	3
	<u>1,014</u>	<u>1,180</u>

6. (LOSS)/PROFIT BEFORE TAX

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

	Six months ended 30 September	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Cost of inventories sold	77,047	89,955
Cost of services provided	2,954	3,841
Staff costs	21,783	22,534
Depreciation	4,360	4,451
Amortisation of lease prepayment on land use rights	66	109
Amortisation of intangible assets	120	14
Net rental income	(351)	(155)
Interest income	(33)	(56)
	<u>(33)</u>	<u>(56)</u>

7. INCOME TAX EXPENSES

	Six months ended 30 September	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Hong Kong Profits Tax	—	—
Tax in other jurisdictions	1	54
	<u>1</u>	<u>54</u>

Hong Kong Profits Tax is calculated at 17.5% (2005: 17.5%) of the estimated assessable profits arising in Hong Kong for the period.

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.

8. (LOSS)/EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net loss for the period of HK\$11,982,000 (2005: net profit for the period HK\$664,000), and the weighted average number of 303,560,551 (2005: 262,478,584) ordinary shares in issue during the period.

No diluted loss per share has been presented for the period ended 30 September 2006 as the warrants and share options outstanding during the period had an anti-dilutive effect on the basic loss per share.

There were no dilutive potential ordinary shares in issue during the period ended 30 September 2005 and, accordingly, no diluted earning per share was presented.

9. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately HK\$884,000 on acquisition of property, plant and equipment.

10. TRADE AND BILLS RECEIVABLES

Trading terms with customers are largely on credit, except for new customers where payment in advance is normally required. Invoices are normally payable within 30 days of issuance, except for certain well-established customers, where the terms are extended to 180 days.

The ageing of the Group's trade and bills receivables, based on the date of goods delivered, is analysed as follows:

	As at 30 September 2006 (Unaudited) HK\$'000	As at 31 March 2006 (Audited) HK\$'000
Within 90 days	23,378	24,214
Between 91 days to 365 days	24,688	29,166
Over 1 year	7,141	2,257
	<u>55,207</u>	<u>55,637</u>

11. TRADE PAYABLES

The ageing of the Group's trade payables, based on the date of goods received, is analysed as follows:

	As at 30 September 2006 (Unaudited) HK\$'000	As at 31 March 2006 (Audited) HK\$'000
Within 90 days	17,618	19,941
Between 91 days to 365 days	6,181	7,220
Over 1 year	1,177	1,392
	<u>24,976</u>	<u>28,553</u>

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Group has been experiencing a very tough operating environment in the first half of the financial year 2006 with a sharp escalation of materials price, surging labour cost and overheads, the appreciation of Renminbi ("RMB") and the effective of the restriction on the use of certain hazardous substance in electrical and electronic equipment directive ("ROHS Directive") from 1 July 2006 in the European Community. All these factors adversely affected the sales turnover of the Group's businesses.

The Group recorded a sales turnover of approximately HK\$89,348,000 for the six months ended 30 September 2006. It represents a reduction of HK\$35,178,000 or 28.2% as compared with the same period last year of HK\$124,526,000. The sales turnover of clocks and other office related products division decreased by HK\$22,772,000; lighting products division decreased by HK\$5,201,000; trading division decreased by HK\$3,018,000 and electroplating services division decreased by HK\$4,187,000.

The Group recorded a net loss of HK\$11,487,000 for the six months period ended 30 September 2006 as against a net profit of HK\$999,000 for the same period last year.

BUSINESS REVIEW

The performance of each of the Group's businesses for the six months ended 30 September 2006 are set out below:

Clock and Other Office Related Products Business

The clock and other related products division recorded a turnover of HK\$66.2 million in the six months period ended 30 September 2006, it represents a reduction of HK\$22.7 million or 25.6% as compared with the same period last year.

As a result of the lower sales turnover, the division reported a segment trading loss of HK\$10,397,000 as against a segment trading profit of HK\$4,436,000 in the same period last year. The results included the loss of the Germany office, Wehrle Uhrenfabrik GmbH, of HK\$1,327,000; the United Kingdom office, Ferdinand International (Marketing) Limited, of HK\$1,584,000. The inventory of the division decreased by about HK\$4.6 million as compared with the position at 31 March 2006 out of the Group's rigorous effort to dispose unused materials and to tightly control inventory level.

Despite a slow sales turnover in the first half of the year, the division expects a stronger second half attaining a sales turnover similar to that of last year.

Lighting Products Business

The Group has disposed the manufacturing operation of the lighting products division in June 2006. The disposal resulted a gain from the disposal of subsidiaries approximately HK\$4,558,000. Following disposal of the manufacturing operation of the lighting products business, the Group carries on the lighting products business on trading basis mainly through its overseas offices.

The lighting products division reported a sales turnover of HK\$4.1 million and a segment trading loss of HK\$1,114,000 in the six months period ended 30 September 2006 as compared with a sales turnover of HK\$9.3 million and a segment trading loss of HK\$677,000 in the same period last year.

Trading Business

The trading business division mainly engages in the trading of metal in the PRC market. During the period under review, the business division faced severe competition in the market place and the continuing tightening of macro-economic policy in the PRC. The division reported a sales turnover of HK\$14.0 million with a segment trading loss of HK\$1,155,000 in the six months ended 30 September 2006 as compared with a sales turnover of HK\$17.0 million and a segment trading profit of HK\$227,000 respectively in the same period last year.

The Management looks upon the business as an important source of marketing intelligence to the Group's other business 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 Business

The electroplating services division provides high quality electroplating services to the Group's clock and other office related products division as well as to other customers. The division operates independently to compete with other services providers in the market place. The division's factory has long been established in its present location. It has been accredited with ISO certification in 2001 and in 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.

The electroplating services division recorded a turnover of HK\$5.1 million in the six months period ended 30 September 2006 as compared with HK\$9.3 million in the same period last year. The division reported a segment trading profit of HK\$1,219,000 in the period under review as compared with HK\$1,868,000 in the same period last year.

The division foresees a further tightening of the environmental protection standards in the Pearl Delta Area of the PRC by the local government which will undoubtedly impose challenges to the division's operating environment in terms of operating cost and profitability.

Matrix Software Inc.

The Group acquired the entire issued share capital of Matrix Software Inc. in April 2006. Matrix Software Inc. engages in the marketing and development of online computer games, it owns an intellectual property right in the online computer game registered as "Shanghai Storm" in the PRC, Hong Kong and Macau and it is an MMORPG (massively multiplayer online role-playing game with a unique 3D game engine).

The online computer game is currently under testing stage. The Close Beta version is launched in Korea for internal testing, the Open Beta is scheduled to be launched January 2007 in Korea and February 2007 in the PRC, and will be expected to be commercialized in June 2007, and start to generate income.

PROSPECTS

The Group has undergone a most difficult operating environment in the first half of the financial year 2006 which was not seen in many years of the Group's past operation. However the Group sees the opportunity that lies ahead to turn its businesses into profit if it could successfully compete in the market place by leveraging its strength and core competence.

The Group realized that the cost of the products is of paramount importance to enable the Group to increase its sales and that the existing manufacturing operation may not be so well positioned to enable the Group to lead and compete in the market place. The Group will continue to review, stream-line and restructure its manufacturing operations, including looking into alternative source of sourcing the products, with a view to reducing the cost so as to improve the competitiveness of Group's products in the market place.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 September 2006, the Group had total outstanding debts and finance lease obligations of HK\$40,923,000 (31 March 2006: HK\$33,575,000), of which HK\$25,493,000 (31 March 2006: HK\$24,314,000) was secured bank loans, HK\$10,563,000 (31 March 2006: HK\$11,416,000) was secured overdrafts, HK\$2,394,000 (31 March 2006: HK\$567,000) was unsecured other loans and HK\$831,000 (31 March 2006: HK\$1,184,000) was obligations under finance leases. The amount repayable within one year accounted for 99.0% (31 March 2006: 98.3%) of the total borrowings as at 30 September 2006. The maturity profile of the Group's total borrowings as at 30 September 2006 is analysed as follows:

	As at 30 September 2006 (Unaudited)	As at 31 March 2006 (Audited)
Within one year	99.0%	98.3%
In the second year	0.7%	1.2%
In the third to fifth years, inclusive	0.3%	0.5%
Total	<u>100.0%</u>	<u>100.0%</u>

Our gearing ratio was at a healthy level of 0.2% (31 March 2006: 0.4%). The computation is based on long-term borrowings of the Group divided by shareholder's fund as at 30 September 2006.

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 2006, certain of the Group's leasehold land and buildings and plant and machinery, and financial assets at fair value through profit or loss of HK\$2,343,000 (31 March 2006: HK\$2,343,000), 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 Government of the Hong Kong Special Administrative Region'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 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, the US dollars, RMB and British pounds. Borrowing methods used by the Group mainly include trust receipt loans, overdrafts facilities, invoice financing 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 30 September 2006, the Group did not have contingent liabilities (2005: nil).

CAPITAL COMMITMENTS

At 30 September 2006, the Group has capital expenditure of about HK\$209,000 (2005: HK\$303,000) in respect of the acquisition of plant and equipment authorised but not contracted for.

INTERIM DIVIDEND

The Board does not recommend the payment of any dividend for the six months ended 30 September 2006 (2005: nil).

EMPLOYEES

As at 30 September 2006, the Group had 1,504 employees (2005: 2,019) 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.

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 six months ended 30 September 2006.

CORPORATE GOVERNANCE

The Company is committed to maintaining statutory and regulatory standards and adherence to the principles of corporate governance emphasizing on transparency, independence, accountability, responsibility and fairness.

The Company has complied throughout the six months ended 30 September 2006 with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules except for the following deviations:

Code Provision A.2.1 provides that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. LIANG Jin You is the chairman of the Company but there is no chief executive officer appointed to the Board. The Company might consider appointing a chief executive officer in the event it could locate appropriate personnel.

Code Provision A.4.1 provides that non-executive directors should be appointed for a specific term, subject to re-election. The independent non-executive directors of the Company were not appointed for a specific term but are subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the provisions of the Company's bye-laws.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted 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 six months ended 30 September 2006.

AUDIT COMMITTEE

The audit committee of the Company consists of three independent non-executive directors, namely Mr. LO Ming Chi, Charles, Mr. LO Wah Wai and Mr. ORR, Joseph Wai Shing. The audit committee has reviewed with the management the accounting principles and policies adopted by the Group and discussed internal controls and financial reporting matters including the review of the unaudited interim financial statements for the six months ended 30 September 2006.

REMUNERATION COMMITTEE

The remuneration committee of the Company comprises three independent non-executive directors, Mr. LO Ming Chi, Charles, Mr. LO Wah Wai and Mr. ORR, Joseph Wai Shing. The remuneration committee has adopted terms of the reference, which are in line with the Corporate Governance Code.

By Order of the Board
Artfield Group Limited
LIANG Jin You
Chairman

Hong Kong, 8 December 2006

As at the date to 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, Mr. CHEN Vee Yong, Frederick and Mr. LEE Sang Yoon. 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 The Standard.