



ARTFIELD GROUP LIMITED

(Incorporated in Bermuda with limited liability)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2002

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 2002 as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		(Unaudited)	
		Six months ended	
		30 September	
		2002	2001
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
TURNOVER	2	130,168	140,856
Cost of sales		<u>(101,845)</u>	<u>(110,895)</u>
Gross profit		28,323	29,961
Other income		1,723	3,472
Administrative expenses		(20,440)	(25,512)
Selling and distribution costs		<u>(6,757)</u>	<u>(6,360)</u>
PROFIT FROM OPERATING ACTIVITIES	3	2,849	1,561
Finance costs	4	(972)	(971)
Share of loss of a jointly-controlled entity		<u>(48)</u>	<u>(102)</u>
PROFIT BEFORE TAX		1,829	488
Tax	5	<u>(167)</u>	<u>(454)</u>

PROFIT BEFORE MINORITY INTERESTS		1,662	34
Minority interests		<u>(279)</u>	<u>(309)</u>
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<u>1,383</u>	<u>(275)</u>
EARNINGS/(LOSS) PER SHARE	6		
Basic		<u>HK0.57 cent</u>	<u>HK(0.11) cent</u>
Diluted		<u>HK0.56 cent</u>	<u>N/A</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, 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 2002 except for the adoption of the following revised and new SSAPs which are effective for accounting periods commencing on or after 1 January 2002:

SSAP 1 (Revised)	:	Presentation of financial statements
SSAP 11 (Revised)	:	Foreign currency translation
SSAP 15 (Revised)	:	Cash flow statements
SSAP 25 (Revised)	:	Interim financial reporting
SSAP 34	:	Employee benefits

The adoption of the revised and new SSAPs has had no material effect on the results of the current period or prior financial year.

Certain comparative figures have been reclassified to conform with the current period’s presentation.

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					
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Segment revenue:										
Sales to external customers	<u>76,065</u>	<u>74,673</u>	<u>5,830</u>	<u>4,450</u>	<u>41,429</u>	<u>54,471</u>	<u>6,844</u>	<u>7,262</u>	<u>130,168</u>	<u>140,856</u>
Segment results	<u>3,550</u>	<u>266</u>	<u>480</u>	<u>770</u>	<u>512</u>	<u>1,648</u>	<u>1,430</u>	<u>1,589</u>	<u>5,972</u>	<u>4,273</u>
Interest and dividend income									4	232
Net unallocated expenses									(3,127)	(2,944)
Profit from operating activities									2,849	1,561
Finance costs									(972)	(971)
Share of loss of a jointly-controlled entity	(48)	(102)	-	-	-	-	-	-	(48)	(102)
Profit before tax									1,829	488
Tax									(167)	(454)
Profit before minority interests									1,662	34
Minority interests									(279)	(309)
Net profit/(loss) from ordinary activities attributable to shareholders									<u>1,383</u>	<u>(275)</u>

(b) Geographical segments:

	North America		Europe		Hong Kong		Elsewhere in the People's Republic of China ("PRC")		Others		(Unaudited) Consolidated	
					Six months ended 30 September							
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	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>45,749</u>	<u>42,871</u>	<u>27,746</u>	<u>26,150</u>	<u>10,930</u>	<u>12,575</u>	<u>42,843</u>	<u>55,501</u>	<u>2,900</u>	<u>3,759</u>	<u>130,168</u>	<u>140,856</u>
Segment results	<u>1,588</u>	<u>(1,469)</u>	<u>1,239</u>	<u>1,464</u>	<u>2,403</u>	<u>2,198</u>	<u>625</u>	<u>2,053</u>	<u>117</u>	<u>27</u>	<u>5,972</u>	<u>4,273</u>

3. PROFIT FROM OPERATING ACTIVITIES

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

	(Unaudited) Six months ended 30 September	
	2002	2001
	HK\$'000	HK\$'000
Cost of inventories sold	98,401	107,083
Cost of services provided	3,532	4,893
Staff costs	21,035	23,153
Depreciation	4,749	5,688
Amortisation of goodwill	83	–
Amortisation of patents and trademarks	135	49
Write-back of provision for inventories	(88)	(1,081)
Gain on disposal of investments held for disposal	–	(662)
Write-back of provision for bad and doubtful debts	–	(356)
Dividend income from investments held for disposal	–	(106)
Net rental income	(469)	(560)
Interest income	(4)	(126)

4. FINANCE COSTS

	(Unaudited) Six months ended 30 September	
	2002	2001
	HK\$'000	HK\$'000
Interest expense on:		
Bank loans and overdrafts wholly repayable within five years	783	871
Bank loans repayable beyond five years	148	–
Finance leases	41	100
	<u>972</u>	<u>971</u>

5. TAX

Hong Kong profits tax has been provided at the rate of 16% (2001: 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.

	(Unaudited) Six months ended 30 September	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Group:		
Hong Kong	115	384
Elsewhere	52	70
	<hr/>	<hr/>
Tax charge for the period	167	454
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6. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the net profit from ordinary activities attributable to shareholders for the period of HK\$1,383,000 (2001: net loss of HK\$275,000) and the weighted average number of 242,807,500 (2001: 242,807,500) ordinary shares in issue during the period.

The calculation of diluted earnings per share for the six months ended 30 September 2002 is based on the net profit from ordinary activities attributable to shareholders for the period of HK\$1,383,000. The weighted average number of ordinary shares used in the calculation was the 242,807,500 ordinary shares in issue during the period ended 30 September 2002, as used in the basic earnings per share calculation, and the weighted average number of 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 ended 30 September 2002.

No diluted loss per share was shown for the six months ended 30 September 2001 as the effect of the Company's share options outstanding during the period was anti-dilutive. In addition, the exercise price of the warrants granted and outstanding during the period, was higher than the average market price of the Company's shares and, accordingly, there was no dilutive effect on the basis loss per share.

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended 30 September 2002 (2001: Nil).

BUSINESS REVIEW

For the six months ended 30 September 2002, the Group recorded a turnover of HK\$130,168,000 (2001: HK\$140,856,000), representing a decrease of 8% as compared to the corresponding period last year, mainly due to prolonged slowdown of the worldwide economy. Despite such difficult operating environment, net profit from ordinary activities attributable to shareholders improved to HK\$1,383,000 (2001: net loss of HK\$275,000). The turnaround of the operating result was primarily resulted from the Group's effective cost control scheme over the period.

Clock and Other Office Related Products

During the period under review, clock and other office related products continued to be the core business of the Group, accounting for 58% (2001: 53%) of the Group's total turnover. Amid the slack consumer market and fierce price competition among industry rivals, the performance of clock business recorded a modest increase of 2% to HK\$76,065,000 (2001: HK\$74,673,000) in sales turnover. To strive for more orders across different regions, the Group, to a certain extent, adjusted the selling price downward to meet the customers' request. In other words, the profit margin has been inevitably squeezed by the prevailing market environment.

Facing the drastic competition and sluggish market condition, the Management is committed to minimizing the negative economic impacts of the US market by exploring new market segments and further extending its distribution networks into other unexplored markets in Europe and the PRC regions. In addition, the Group believes that strengthening product development capabilities and maintaining cost competitiveness are vital to increase its competitive edge against other rivals nowadays. Therefore, our in-house research and development team always closely follows the latest market trends and endeavours to design more value-buying products with innovative features in order to stimulate the buyers' sentiment. Along with our effective marketing strategies, the Management will continue to strengthen the promotional campaign so as to increase the popularity of our branded products across different countries.

Apart from the clock business, the Group will also deploy more resources to upgrade the existing manufacturing facilities of our wholly-owned wood factory in Gao Ming city, the PRC. The main focus will be put on diversifying the product category of our wood-related products from simply manufacture of wooden clock cases to development of other office accessories such as wooden stationery set and wooden medal. The Management believes that enriched product varieties and broaden market coverage will bring positive contribution to the Group in the future.

Lighting Products

The Group's lighting product segment achieved a satisfactory result with turnover increasing from HK\$4,450,000 to HK\$5,830,000 during the period under review. The lighting product segment continued to generate satisfactory contribution to the Group.

This positive performance was mainly resulting from the Group's continuous enhancement in product performance and initiatives to raise operation efficiency. To support the long-term growth of lighting business, the Group continues to improve production technologies and product quality so as to establish long-term customer satisfaction to our products and maintain our corporate reputation in the industry. With our reinforced sales and marketing efforts in the PRC market, it is believed that the Group will capture the growing opportunities ahead.

Electroplating Services

Turnover from the electroplating services was approximately HK\$6,844,000 (2001: HK\$7,262,000), representing a slight decrease of 6% as compared with the same period last year. In view of increasing competitions, the Management endeavours to enhance production efficiency, workmanship guarantee and materials planning with the aim to maintain its market position in the electroplating industry.

Trading

During the period under review, the turnover of trading business of the Group amounted to HK\$41,429,000 (2001: HK\$54,471,000). With signs of acceleration of the PRC economy, the Management is prudently optimistic towards the growing opportunities of the trading business in the long term and therefore expands the current trading operations to develop the trading and distribution business network of commodities between Hong Kong and the PRC.

On 16 August 2002, Artfield Company Limited (“ACL”), a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company, entered into a Sale and Purchase Agreement with an independent third party (the “Vendor”) for the acquisition of all the issued shares of Lens Trading Inc. (“Lens”), a company incorporated in the British Virgin Islands, pursuant to which ACL agreed to purchase from the Vendor the entire interests in Lens for an aggregate consideration of HK\$20,000,000. The principal business activity of Lens is the provision of logistics and distribution business of trading commodities between Hong Kong and the PRC.

Through this acquisition, the Management believes that it will enhance the stability of earning trading income to the Company and minimize the operational risks in the trading of metal commodity business. Along with the long-term vertical integration strategy adopted by the Group, it will also enhance the management of trading and distribution business as well as to minimize the overall operation costs thus to improve profit margin in the trading business. The Board believes that this transaction represents a promising opportunity for the Company to broaden its earning base and expand its trading business into an area, which in certain aspects, complements its existing operations in the future. It is expected that the trading and distribution business will be able to contribute to the Group in the long run.

PROSPECT

Although the US economy is showing signs of improvement, the pace of recovery is slower than expected. Clouded with the fog of uncertainty about the US outlook, the Group continues the cautious approach in formulating business strategies and financial management for the coming year.

With a robust economic growth of the PRC market and rising living standards, the purchasing power of the population in the PRC generates a great momentum for the Group to expand the business in the PRC market. With regard to different marketing positioning, the Group keeps focus on promoting our branded clock products such as “Klik”, “Artex”, “Wehrle” and lighting products “Memolux” in order to cater for the demand of different market segments. It is believed that the Group will soon reap its efforts and capture enormous business opportunities in the PRC market.

Besides, in anticipation of the continuing competitions, the Group will continue to exercise stringent cost control management, minimize the inventory level and rationalize the operation structure. In addition, leveraging with our well-established vertical integration system, the Group will further improve the materials planning, operation efficiency, production quality and delivery up to the optimization level.

Looking forward, the Management is prudently optimistic about the Group’s continuing growth in business because of the gradual recovery of world economy and the booming economic growth of the PRC. In this regard, the Management will devote to pursuing our existing long-term diversification strategy but cautious to divert our resources for expansion.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 September 2002, the Group had total outstanding debts and finance lease obligations of HK\$42,552,000 (31 March 2002: HK\$37,482,000), of which HK\$37,156,000 (31 March 2002: HK\$34,503,000) was secured bank loans, HK\$3,721,000 (31 March 2002: HK\$2,335,000) was secured overdrafts, and HK\$1,675,000 (31 March 2002: HK\$644,000) was obligations under finance leases. The maturity profile of the Group's total borrowings as at 30 September 2002 is analysed as follows:

Within one year	78.2%
In the second year	2.5%
In the third to fifth years, inclusive	4.1%
Beyond five years	15.2%
Total	<u>100.0%</u>

Our gearing ratio was at a healthy level of 4.6% (31 March 2002: 4.6%). The computation is based on long term borrowings of the Group divided by shareholder's fund as at 30 September 2002.

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 2002, the Group's banking facilities were supported by investment properties, bank deposits of HK\$2,540,000 (31 March 2002: HK\$2,540,000), certain of the Group's leasehold land and buildings, and plant and machinery and corporate guarantees from the Company and certain subsidiaries of the Company.

CONTINGENT LIABILITIES

As at 30 September 2002, the Group did not have contingent liabilities except bills discounted to banks with recourse amounting to approximately HK\$7,915,000 (31 March 2002: HK\$517,000).

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 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 are fixed with reference to the Hong Kong Dollar Prime Rate or foreign currency's Trade Finance Rates.

EMPLOYEES

As at 30 September 2002, the Group had a total of 2,488 (2001: 2,233) employees of which 71 were based in Hong Kong, 2,395 based in the PRC and 22 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 THE COMPANY'S LISTED SECURITIES

No purchase, sale or redemption of the Company's listed securities has been made by the Company or any of its subsidiaries during the six months ended 30 September 2002.

AUDIT COMMITTEE

The Audit Committee meets regularly with senior management to review the accounting principles and practices adopted by the Group and discuss auditing, internal control and financial reporting matters including the review of this unaudited condensed consolidated interim financial statements.

COMPLIANCE WITH CODE OF BEST PRACTICE

All of the recommendations and guidelines of the Code of Best Practice (the "Code") issued by The Stock Exchange of Hong Kong Limited (the "Stock Exchange") 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 Rules Governing the Listing of Securities on the Stock Exchange will be published on the website of the Stock Exchange in due course.

By order of the Board
LIANG Jin You
Chairman

Hong Kong, 18 December 2002

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