



ARTEL SOLUTIONS GROUP HOLDINGS LIMITED

宏通集團控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

2001 ANNUAL RESULT

RESULTS

The Board of Directors of Artel Solutions Group Holdings Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2001, together with the comparative figures for the previous year prepared in accordance with generally accepted accounting principles in Hong Kong as follows:

	Year ended 31 December	
	2001	2000
	HK\$'000	HK\$'000
Turnover (Note 2)	1,415,004	978,667
Cost of sales (Note 3)	(1,245,462)	(865,204)
Gross profit	169,542	113,463
Other revenue (Note 4)	5,157	3,010
Distribution costs	(5,785)	(6,420)
Administrative expenses	(21,149)	(13,634)
Profit from operations (Note 5)	147,765	96,419
Finance costs (Note 6)	(7,478)	(588)
Profit before taxation	140,287	95,831
Taxation (Note 7)	(23,007)	(14,883)
Net profit for the year	117,280	80,948
Dividends (Note 8)	60,000	—
Earnings per share (HK cents) (Note 9)		
Basic	8.7	6.3

Notes:

1. Group reorganization and basis of preparation of financial statements

The Company was incorporated in the Cayman Islands on 5 December 2000 as an exempted company with limited liability under the Companies Law (2001 Second Revision) Chapter 22 of the Cayman Islands.

Pursuant to a group reorganization ("Group Reorganization") of the Group in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the Group on 29 August 2001. The shares of the Company have been listed on the Main Board since 24 October 2001.

The Group resulting from the Group Reorganization is regarded as a continuing entity. Accordingly, these financial statements have been prepared on the merger accounting basis as if the Company had always been the holding company of the Group.

Further details of the Group Reorganization are set out in the prospectus issued by the Company dated 12 October 2001.

2. Turnover

Turnover represents the amounts received and receivable for goods sold and services provided to outsider customers, less trade discounts and returns during the year.

The Group's turnover and contribution to gross profit for the year analysed by principal activity and geographical market are as follows:

	2001	2000
	HK\$'000	HK\$'000
Turnover by principal activity:		
Distribution of computer components and information technology products	1,356,234	882,590
Provision of integrated e-enabling solutions	58,770	96,077
	1,415,004	978,667
Turnover by geographical market:		
The Peoples' Republic of China (the "PRC")	278,311	191,262
Hong Kong	1,136,693	787,405
	1,415,004	978,667
Contribution to gross profit by principal activity:		
Distribution of computer components and information technology products	151,627	90,961
Provision of integrated e-enabling solutions	17,915	22,502
	169,542	113,463
Contribution to gross profit by geographical market:		
PRC	56,245	38,634
Hong Kong	113,297	74,829
	169,542	113,463

An analysis of the Group's turnover and contribution to the operating profit by business segment is as follows:

For the year ended 31 December 2001:

	Distribution of computer components and information technology products	Provision of integrated e-enabling solutions	Combined
	HK\$'000	HK\$'000	HK\$'000
REVENUE			
External sales	1,356,234	58,770	1,415,004
RESULT			
Segment result	130,983	11,689	142,672
Other revenue			5,157
Unallocated corporate expenses			(64)
Profit from operations			147,765
Finance costs			(7,478)
Profit before taxation			140,287
Taxation			(23,007)
Profit attributable to shareholders			117,280

For the year ended 31 December 2000:

	Distribution of computer components and information technology products	Provision of integrated e-enabling solutions	Combined
	HK\$'000	HK\$'000	HK\$'000
REVENUE			
External sales	882,590	96,077	978,667
RESULT			
Segment result	85,171	21,872	107,043
Other revenue			3,010
Unallocated corporate expenses			(13,634)
Profit from operations			96,419
Finance costs			(588)
Profit before taxation			95,831
Taxation			(14,883)
Profit attributable to shareholders			80,948

3. Cost of Sales

	2001	2000
	HK\$'000	HK\$'000
Cost of sales comprises:		
Purchase cost of goods sold	1,319,137	911,624
Rebates	(73,675)	(46,420)
	1,245,462	865,204

4. Other revenue

	2001	2000
	HK\$'000	HK\$'000
Interest on bank deposits	3,767	3,010
Sundry income	1,390	—
	5,157	3,010

5. Profit from operations

Profit from operations has been arrived at after charging:

	2001	2000
	HK\$'000	HK\$'000
Auditors' remuneration	650	307
Depreciation of plant and equipment	759	151
Loss on disposal of plant and equipment	67	49
Operating lease rentals in respect of rented premises	1,393	518
Staff costs:		
Directors' remuneration		
— fees	160	—
— other emoluments	5,719	5,918
	5,879	5,918
Staff costs excluding directors' remuneration	11,811	8,670
Retirement benefits scheme contributions, excluding amounts included in directors' remuneration	220	—
	17,910	14,588

6. Finance costs

	2001	2000
	HK\$'000	HK\$'000
Interest on:		
Bank overdraft and short-term bank borrowings wholly repayable within five years	4,545	588
Other borrowing costs	994	—
Total borrowing costs	5,539	588
Bank charges	1,939	—
	7,478	588

7. Taxation

	2001	2000
	HK\$'000	HK\$'000
The charge comprises:		
Hong Kong Profits Tax:		
Current year	22,710	14,883
Underprovision in prior year	297	—
Taxation attributable to the Company and its subsidiaries	23,007	14,883

Hong Kong Profits Tax is calculated at 16% of the estimated assessable profit for the year.

No Provision for PRC income tax has been made in respect of the Company's PRC subsidiary as the PRC subsidiary incurred losses during the year.

No provision for deferred taxation has been recognized in the financial statements as the amount involved is insignificant.

8. Dividends

No dividend has been paid or declared by the Company during the year. An interim dividend of HK\$60,000,000 was declared by a subsidiary, Artel Industries Limited (formerly known as Arcon Industries Limited) before the Group Reorganization.

A final dividend of HK cents 2 (2000: Nil) per share has been proposed by the directors and is subject to approval by the shareholders in general meeting.

9. Earnings per share

The calculation of the earnings per share for the year is based on the net profit for the year of HK\$117,280,000 (2000: HK\$80,948,000) and on the weighted average of 1,342,246,575 (2000: 1,280,000,000) shares that would have been in issue throughout the year on the assumption that the Group Reorganization has been completed as at 1 January 2000.

DIVIDEND

The Board has recommended the payment of a final dividend of HK cents 2 per share. Subject to the approval of shareholders in the Annual General Meeting, the final dividend will be paid on or before 15 June 2002 to registered shareholders.

BUSINESS AND OPERATION REVIEW

The year 2001 continued to be a good year for the Group's business and performance. Turnover increased by approximately 45% from approximately HK\$979 million to HK\$1,415 million. Net profit for the year increased by approximately 45% from approximately HK\$81 million to HK\$117 million.

The Group has achieved a significant growth in its distribution business, in particular for the sale of boxed central processing units ("CPU") supplied by Intel. The growth of boxed CPU sales was largely attributable to the increasing demand in Hong Kong and China markets as well as the strengthening of the channel network of the Group in the PRC. The boxed CPU are mainly sold to the clone Personal Computer ("PC") makers and the Do-It-Yourself market in the PRC. In 2001, the Group continued to be one of the major distributors, in terms of unit volume and dollar value, of Intel's boxed CPU in the Asia Pacific region.

Apart from distribution business, the Group has also developed its e-enabling solutions business. The Group observes that there will be a surging demand for e-enabling solutions, in particular wireless and mobile solutions, in the coming years. The Group has therefore formed a special team to focus on the provision of mobile and wireless solutions and some projects with PRC telecommunications and airport companies are under discussion.

FUTURE PLAN AND PROSPECT

The computer component and networking product market in the Greater China region, especially in the PRC, is expected to grow significantly in the coming few years. Due to the PRC's entry into the WTO, it is anticipated that there will be an increasing number of computer hardware and software vendors trying to penetrate the PRC market. The Group will be best positioned to work with these companies by forming strategic alliances such that they may leverage on the established distribution network of the Group. In return, the Group may broaden its product scope and revenue sources and enhance its technical capability.

Starting from January 2002, in addition to boxed CPU, the Group has been granted the distribution right by Intel to sell Intel CPU in tray package ("tray CPU") in the PRC. The target customers of tray CPU are regional and small original equipment manufacturers of PC in the PRC. The Group believes that the tray CPU sales in the PRC will increase significantly in 2002 which will give an additional stable source of revenue to the Group. The Group is also confident that it can obtain a significant market share in the PRC tray CPU market.

In 2002, the Group has formulated its marketing strategies to improve its brand name recognition. In January 2002, the Group started to distribute its own brand name "Arcon" motherboards via a co-operative arrangement with a major motherboard manufacturer in Taiwan. Under the co-operative arrangement, the motherboard manufacturer undertakes to design and manufacture the Arcon motherboards while the Group will distribute the Arcon motherboards to the PRC market.

The Group believes that with the development of the new generation mobile communication technology, consumers and enterprises will soon be able to shop, do business and access information by mobile communication. Mobile and wireless business will become the latest mode of operation for enterprises. To cater for this business trend and in an effort to provide enterprises with a comprehensive mobile solution, the Group, apart from cooperating with Intel in the area of wireless application, is also forming business alliances with other system developers of mobile business application solutions.

MANAGEMENT DISCUSSION AND ANALYSIS

Group Reorganization

Apart from the Group Reorganization in preparation for the listing of the Company's shares on the Main Board of the Stock Exchange, there are no material acquisitions or disposal of subsidiaries and associated companies during the year. Details of the Group Reorganization are set out in the prospectus issued by the Company dated 12 October 2001.

Operation Review

The Group's turnover was approximately HK\$1,415 million for the year ended 31 December 2001, representing an increase of approximately 45% over the previous year. The increase was mainly due to the surge in market demand for CPU and motherboards in Hong Kong and the PRC. Approximately 96% and 4% of the total turnover was generated from the Group's distribution business and e-enabling solutions business respectively.

Operating expenses increased from approximately HK\$20 million in 2000 to approximately HK\$27 million in 2001, which was mainly due to the increase in the salary expenses as a result of increase in the number of employees to cope with the business growth.

Increase in the finance cost from approximately HK\$588,000 in 2000 to approximately HK\$7,478,000 in 2001 was mainly due to increase in bank loan interest to finance the increase in the Group's purchases.

As a result of the increased turnover and improved gross profit margin, profit before taxation increased from approximately HK\$96 million in 2000 to approximately HK\$140 million in 2001.

Increase in taxation from HK\$15 million in 2000 to HK\$23 million in 2001 was in line with the increase in the profit before taxation.

As a result, the net profit for the year attributable to shareholders increased from approximately HK\$81 million in 2000 to approximately HK\$117 million in 2001, representing approximately an increase of 45%.

Liquidity and Financial Resources

The Group had total cash and bank balances (including pledged bank deposits) of approximately HK\$167 million as at 31 December 2001 (2000: HK\$60 million). After deducting short-term bank loans and overdrafts of approximately HK\$91 million as at 31 December 2001 (2000: Nil), the Group recorded a net cash balance of approximately HK\$76 million as at 31 December 2001 as compared to HK\$60 million as at 31 December 2000. The short-term bank loans were applied to finance the purchase of the stocks of the Group. The gearing ratio of the Group, as calculated by dividing the total interest bearing debts by the net asset value of the Group, is 0.25:1 as at 31 December 2001. As there were no interest bearing debts as at 31 December 2000, no gearing ratio is presented for that year.

The Group recorded total current asset value of approximately HK\$629 million as at 31 December 2001 (2000: HK\$431 million) and total current liability value of approximately HK\$269 million as at 31 December 2001 (2000: HK\$308 million). The current ratio of the Group, calculated by dividing the total current asset value by the total current liability value, is 2.3 as at 31 December 2001 (2000: 1.4). The improvement of the current ratio was mainly due to the profit earned and retained during the year, a large reduction of account payables and the retention of the net proceeds obtained by the Group upon the listing of the Company's shares on the Stock Exchange in October 2001.

The Group recorded an increase in shareholders' equity from approximately HK\$124 million as at 31 December 2000 to approximately HK\$362 million as at 31 December 2001

Treasury Policies

The Group generally finances its operations with internally generated resources and banking facilities provided by banks in Hong Kong. The bank facilities are mainly trust receipt loans and invoice finance of tenor up to 120 days from the invoice date. The bank interest rates are mainly fixed by reference to either the Hong Kong Prime rate or the Hong Kong Interbank Borrowing rate for Hong Kong dollar loans and by reference to Singapore or London Interbank Borrowing rate for United States dollar loans.

Bank deposits of the Group are either in Hong Kong dollars or United States dollars.

Transactions of the Group are mainly denominated either in Hong Kong or United States dollars. The risk of exposure to fluctuations in exchange rates is therefore low. The Group did not do any hedging for the foreign currency transactions during the year.

Charges on Assets

In accordance with the terms of the distribution agreement entered into between the Group and a major supplier, the Group has granted the major supplier a security interest in the inventories supplied and in any proceeds (including accounts receivable) as security for any outstanding amount due by the Group. In addition, certain of the Group's bank deposits were pledged to its bankers to secure certain banking facilities granted to the Group.

Investments

The Group did not hold any significant investments nor had any major capital expenditure during the year.

Contingent Liabilities

As at 31 December 2001, the Group did not have any significant contingent liabilities.

Employees

As at 31 December 2001, the Group had 70 full time employees.

The Group remunerated its employees mainly based on the industry practice, individual's performance and experience. Apart from the basic remuneration, discretionary bonus and share option may be granted to eligible employees by reference to the Group's performance as well as individual's performance. Other benefits include medical and retirement schemes.

AUDIT COMMITTEE

The Company established an audit committee (the "Committee") on 29 August 2001. The Group's financial statements for the year ended 31 December 2001 have been reviewed by the Committee. The principal activities of the Committee include the review and supervision of the Group's financial reporting process and internal controls.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

The Company did not redeem any of the Company's shares during the above financial year. Neither the Company nor any of its subsidiaries had purchased or sold any of the Company's shares during the year.

CORPORATE GOVERNANCE

The Directors are of the opinion that the Company has been in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange throughout the year after the Listing of the Company's shares on the Stock Exchange.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 24 May 2002 to 30 May 2002, both days inclusive, during which period no transfer of shares will be effected. All transfer documents accompanied by the relevant share certificates must be lodged with the Company's Branch Registrar in Hong Kong, Standard Registrars Limited at 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong not later than 4:00 p.m. on 23 May 2002 in order to qualify for the proposed final dividend.

PUBLICATION OF RESULTS ON THE STOCK EXCHANGE'S WEBSITE

The Company's annual report containing all the information required by paragraphs 45(1) to 45(3) of Appendix of the Rules Governing the Listing of Securities on the Stock Exchange will be published on the Stock Exchange's website in due course.

ACKNOWLEDGEMENT

On behalf of the Board, I would like to take this opportunity to extend my gratitude to all my fellow directors and staff for their valuable commitment and hard work. I would like also to express my sincere thanks to our business partners for their supports in the past years.

By Order of the Board
Yu Pen Hung
Chairman

Hong Kong, 24 April 2002

* For identification only

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the annual general meeting of Artel Solutions Group Holdings Limited (the "Company") will be held at Room 315, HITEC, 1 Trademart Drive, Kowloon Bay, Hong Kong on Thursday, 30 May 2002 at 3:30 pm to transact the following ordinary business:

- to receive and consider the audited consolidated financial statements and reports of the directors (the "Directors") and auditors of the Company for the year ended 31 December 2001;
- to declare a final dividend for the year ended 31 December 2001 of HK cents 2 per share (each a "Share") of HK cent 1 each in the capital of the Company;
- to re-elect Directors and to authorise the board of Directors ("Board of Directors") to fix the Directors' remuneration;
- to re-appoint auditors and to authorise the Board of Directors to fix their remuneration;

and, as special business, to consider and, if thought fit, passing the following resolutions as ordinary resolutions:

- "THAT:
 - subject to paragraph (c) below, pursuant to the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the exercise by the Directors during the Relevant Period of all the powers of the Company to allot, issue and deal with unissued Shares of the Company and to make or grant offers, agreements and options, including warrants to subscribe for Shares, which might require the exercise of such powers be and the same is hereby generally and unconditionally approved;
 - the approval in paragraph (a) above shall authorise the Directors during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;
 - the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to options or otherwise) by the Directors pursuant to the approval in paragraph (a) above, otherwise than pursuant to (i) a Rights Issue; or (ii) the exercise of any options granted under the share option scheme of the Company; or (iii) any scrip dividend or similar arrangements providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the articles of association of the Company in force from time to time; or (iv) any issue of Shares upon the exercise of rights of subscription or conversion under the terms of any warrants of the Company or any securities which are convertible into Shares, shall not exceed the aggregate of:
 - 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this resolution; and
 - (if the Directors are so authorised by a separate ordinary resolution of the shareholders of the Company) the nominal amount of any share capital of the Company repurchased by the Company subsequent to the passing of this resolution (up to a maximum equivalent to 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this resolution),and the authority pursuant to paragraph (a) of this resolution shall be limited accordingly; and
- for the purposes of this resolution:

"Relevant Period" means the period from the date of the passing of this resolution until whichever is the earliest of:

- the conclusion of the next annual general meeting of the Company;
 - the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company, Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of Cayman Islands (the "Companies Law") or any other applicable law of Cayman Islands to be held; and
 - the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the Directors by this resolution;
- "Rights Issue" means an offer of Shares, or offer or issue of warrants, options or other securities giving rights to subscribe for Shares open for a period fixed by the Directors to holders of Shares on the register on a fixed record date in proportion to their then holdings of Shares (subject to such exclusion or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements, or having regard to any restrictions or obligations under the laws of, or the requirements of, or the expense or delay which may be involved in determining the existence or extent of any restrictions or obligations under the laws of, or the requirements of, any jurisdiction outside Hong Kong or any recognised regulatory body or any stock exchange outside Hong Kong)."

- "THAT: the Directors be and they are hereby authorised to exercise the authority referred to in paragraph (a) of resolution no. 5 above in respect of the share capital of the Company referred to in sub-paragraph (bb) of paragraph (c) of such resolution."

By order of the Board of Directors
Yu Pen Hung
Chairman

Hong Kong, 24 April 2002

Registered office:
Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681 GT
George Town Grand Cayman

Head office and Principal place
of business in Hong Kong:
Unit 1299, HITEC
1 Trademart Drive
Kowloon Bay
Hong Kong

Notes:

- A member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies to attend and, subject to the provisions of the articles of association of the Company, vote in his stead. A proxy need not be a member of the Company.
- In order to be valid, the form of proxy must be deposited together with a power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power or authority, at the offices of the Company's Hong Kong branch share registrar, Standard Registrars Limited, 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong not later than 48 hours before the time of the meeting or adjourned meeting.
- In relation to proposed resolution no. 3 above, Mr Yu Chi Ming, Frederick will retire from his office of Director at the above meeting pursuant to article 87 of the articles of association of the Company and, being eligible, offer himself for re-election.
- In relation to proposed resolutions nos. 5 and 7 above, approval is being sought from the shareholders for the grant to the Directors of a general mandate to authorise the allotment and issue of Shares under the Listing Rules. The Directors have no immediate plans to issue any new Shares other than Shares which may fall to be issued under the share option scheme of the Company or any scrip dividend scheme which may be approved by the shareholders.
- In relation to proposed resolution no. 6 above, the Directors wish to state that they will exercise the powers conferred thereby to purchase Shares in circumstances which they deem appropriate for the benefit of the shareholders. An explanatory statement containing the information necessary to enable the shareholders to make an informed decision to vote on the proposed resolution as required by the Listing Rules will be set out in a separate document to be despatched to the shareholders with the annual report for the year ended 31 December 2001.