



# ARTEL SOLUTIONS GROUP HOLDINGS LIMITED

宏通集團控股有限公司\*

(Incorporated in the Cayman Islands with limited liability)

## 2003 INTERIM RESULTS

The Board of Directors of Artel Solutions Group Holdings Limited (the "Company") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2003 (the "Period"). The results had been reviewed by the Group's auditors, Deloitte Touche Tohmatsu, and the Company's audit committee.

### CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 30 June	
		2003	2002
		(Unaudited)	(Unaudited)
	Notes	HK\$'000	HK\$'000
Turnover	2	1,170,044	787,778
Cost of sales		(1,119,480)	(728,593)
Gross profit		50,564	59,185
Other operating income		2,016	2,926
Distribution costs		(5,074)	(4,180)
Administrative expenses		(17,292)	(14,245)
Profit from operations	3	30,214	43,686
Finance costs		(6,913)	(2,983)
Profit before taxation		23,301	40,703
Taxation	4	(2,826)	(6,000)
Net profit for the period		20,475	34,703
Dividends	5	-	11,200
Earnings per share (HK cents)-basic	6	1.3	2.2

#### Notes:

#### 1. Basis of Preparation and Accounting Policies

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 (the "Listing Rules") and with Statement of Standard Accounting Practice ("SSAP") No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants ("HKSA"). The condensed financial statements have been prepared under the historical cost convention.

In the current period, the Group has adopted SSAP No. 12 (Revised) "Income taxes", for the first time, issued by the HKSA. SSAP 12 (Revised) has introduced a new basis of accounting for income taxes (including both current tax and deferred tax) and additional disclosure requirements which have been adopted in the condensed financial statements, but has had no significant impact on the results of the current or prior periods. Accordingly, no prior period adjustment has been required.

Other than the above, the accounting policies adopted are consistent with those followed in the Group's annual audited financial statements for the year ended 31 December 2002.

#### 2. Segment Information

##### (a) Business segments

The Group's primary format for reporting segment information is business segments.

For the six months ended 30 June 2003:

	Distribution of computer components and information technology products (Unaudited) HK\$'000	Provision of integrated e-enabling solutions (Unaudited) HK\$'000	Consolidated (Unaudited) HK\$'000
TURNOVER			
External sales	1,151,486	18,558	1,170,044
SEGMENT RESULT	30,672	634	31,306
Other operating income			2,016
Unallocated corporate expenses			(3,108)
Profit from operations			30,214
Finance costs			(6,913)
Profit before taxation			23,301
Taxation			(2,826)
Profit attributable to shareholders			20,475

For the six months ended 30 June 2002:

	Distribution of computer components and information technology products (Unaudited) HK\$'000	Provision of integrated e-enabling solutions (Unaudited) HK\$'000	Consolidated (Unaudited) HK\$'000
TURNOVER			
External sales	759,357	28,421	787,778
Segment RESULT	35,005	6,912	41,917
Other operating income			2,926
Unallocated corporate expenses			(1,157)
Profit from operations			43,686
Finance costs			(2,983)
Profit before taxation			40,703
Taxation			(6,000)
Profit attributable to shareholders			34,703

##### (b) Geographical segments

	Six months ended 30 June	
	2003	2002
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Turnover by geographical market:		
The Peoples' Republic of China (the "PRC")	420,860	151,153
Hong Kong	749,184	636,625
	1,170,044	787,778
Contribution to gross profit by geographical market:		
PRC	18,695	18,559
Hong Kong	31,869	40,626
	50,564	59,185

#### 3. Profit from operations

	Six months ended 30 June	
	2003	2002
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Profit from operations has been arrived at after charging and (crediting):		
Depreciation of plant and equipment	434	349
Interest income	(921)	(1,567)

#### 4. Taxation

The charge represents provision for Hong Kong Profits Tax for the period of the Company and its subsidiaries. Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for the period.

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 period.

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

#### 5. Dividends

The Directors do not recommend the payment of an interim dividend in respect of the six months ended 30 June 2003. (2002:HK\$0.007)

#### 6. Earnings per share

The calculation of the earnings per share for the period is based on the net profit for the period of HK\$20,475,000 (2002:HK\$34,703,000) and 1,600,000,000 shares (2002: 1,600,000,000 shares) in issue during the period.

### MANAGEMENT DISCUSSION AND ANALYSIS

#### Review of Group Performance and Operations

For the six months ended 30 June 2003, the Group's unaudited turnover amounted to HK\$1,170 million (2002: HK\$788 million) representing an increase of 48% over the same period of last year. Gross profit was HK\$51 million (2002: HK\$59 million) representing a decrease of 14% over the same period of last year. Net profit attributable to shareholders amounted to HK\$20.5 million (2002: HK\$34.7 million) representing a decrease of 41% as compared to the same period of last year.

During the period under review, the demand for IT products still maintained a steady growth in the Asia Pacific region especially in the PRC market and the Company's turnover had achieved meaningful growth. However, the global economic downturn and the occurrence of the SARS epidemic in the second quarter had affected the gross profit margin of the Company's distribution business. The Company adapted to maintain the market share of the distribution of Intel's products in the Asia Pacific region as well as diversifying its product lines by the distribution of other high profit margin IT products during the period.

#### Prospects

##### Thin Film Transistor Liquid Crystal Display ("LCD")

##### Market

The LCD industry recorded an impressive growth in the first half of 2003. According to DisplaySearch, worldwide LCD monitor penetration rate reached 37% by the first quarter, up from 26% in 2002, and is expected to further improve to 40% by the end of 2003. Global LCD TV shipments are expected to reach approximately 4 million in 2003.

In the PRC, LCD monitor shipments are expected to increase from 2 million in 2003 to 7.5 million in 2005, with 15% share of monitor market being boosted to 38%.

Like the major markets such as the US, Japan and Europe adopting digital TV broadcasting, China has begun trial broadcasts in some 40 cities and regions. TV digitization is expected to become country-wide in 2010.

The PRC's State Administration of Radio, Film and Television plans to transmit high-definition digital programs of the Beijing Olympics to the world in 2008. Since flat panel TVs receive digital signals better than traditional TVs, the group anticipates the demand for LCD TV will be considerable before the Beijing Olympics.

##### Chi Mei's Technical Innovation and Cost Leadership

The Group's vendor, Chi Mei Corporation ("Chi Mei") ranked fifth LCD panel maker globally in 2002. Chi Mei's two leading edge technologies: one-drop-fill process and spin-less coating are critical for reduction of production cycle time and improvements in efficiency and yield rate, particularly for large-sized panels. Meanwhile, Chi Mei has the lowest cost structure in Taiwan's LCD sector with its strong vertical integration.

##### Exploring the LCD Market

The Group has been granted the distribution rights for the "CMV" brand LCD monitors and white-box (no brand) LCD monitors from Chi Mei. "CMV" is positioned for consumer channel selling to Genuine Intel Dealers and system integrators, and white-box LCD is targeted for personal computer ("PC") original equipment manufacturers ("OEMs"). To increase LCD revenue, the Group also bundles LCD monitors together with Intel's products for PC OEMs.

Since the Group launched the "CMV" LCD monitors in the second quarter, the awareness of "CMV" has been increasing and become one of the top ten favorite brands in the PRC.

In view of substantial growth potential in the LCD TV market and the increasing number of local LCD TV suppliers, the Group further strengthens its cooperation with Chi Mei in LCD products distribution in China. The Group plans to strategically explore the LCD TV downstream market by distributing semi-knocked down LCD TV modules to consumer electronics OEMs and LCD TVs to consumer electronics resellers.

##### Networking Products

In the third quarter, the Group entered into agreements with two well-known Taiwanese networking product suppliers - Xinetron Company Limited and SparkLAN Communications Incorporation, for the distribution rights of networking and wireless LAN products respectively in China.

While the Group expects the profit contribution from networking and wireless products distribution not to be very significant in the first year of operation, their prospects appear very promising.

According to China Internet Network Information Centre, the number of Internet users in the second quarter of 2003 rose 34% year on year with broadband users jumping 185% to 7 million. International Data Centre estimates the PRC wireless LAN equipment revenue has a compound annual growth rate of 26% from 2002 to 2007.

##### Build-to-order Notebook Barebone

In the second quarter, the Group started to bundle mobile processor and notebook barebone for PC OEMs in the PRC. The Group expects coming PC replacement cycle and new launch of Intel's Centrino technology to lead to solid growth in notebook PCs.

##### Liquidity and Financial Resources

Net current assets of the Group amounted to approximately HK\$393 million as at 30 June 2003 (2002: HK\$382 million). Included in current assets were pledged bank deposits and cash and bank balances of HK\$129 million (2002: HK\$242 million). Bank overdrafts and short-term bank borrowings as at 30 June 2003 amounted to HK\$426 million (2002:HK\$425 million). The short-term bank borrowings were principally denominated in Hong Kong dollars and US dollars and most of them are HIBOR rate based.

The Group does not have any long term liability. The gearing ratio of the Group, as calculated by dividing the net interest bearing debts by the net asset value of the Group, is 0.75:1 as at 30 June 2003 (2002: 0.47:1). The bank borrowings were applied to finance the purchase of inventory to meet the rising sales volume.

The current ratio of the Group, calculated by dividing the total current asset value by the total current liability value as at 30 June 2003 was 1.9 (2002: 1.5) and is maintained at a healthy level.

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.

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.

##### Use of Net Proceeds from Initial Public Offering

The proceeds from the initial public offering after netting off related expenses, were approximately HK\$179 million. As at 30 June 2003, approximately HK\$106 million of the net proceeds had been applied by the Group as general working capital. Approximately another HK\$3 million was applied to the development and expansion of the Group's distribution and logistics network in the PRC. The remaining net proceeds were placed as fixed deposits with well-known banks in Hong Kong.

##### Employees

As at 30 June 2003, the Group had about 80 full time employees in both Hong Kong and PRC. The employees are remunerated based on individual's performance, professional experiences and prevailing industry practices. 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.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2003.

##### AUDIT COMMITTEE

The Audit Committee has reviewed with management and the external auditors the accounting principles and practices adopted by the Group and discussed financial reporting matters including the review of the unaudited interim financial statements.

##### CODE OF BEST PRACTICE

None of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the accounting period covered by this interim report, 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 of Hong Kong Limited.

##### PUBLICATION OF INTERIM RESULTS ON THE STOCK EXCHANGE'S WEBSITE

A detailed results announcement containing all the information required by paragraphs 46(1) to 46(6) of Appendix 16 to the Listing Rules of The Stock Exchange will be published on the Stock Exchange's Website in due course.

By Order of the Board

Yu Pen Hung

Chairman

Hong Kong, 22 September 2003

\* For identification purpose only