



ARTEL SOLUTIONS GROUP HOLDINGS LIMITED

宏通集團控股有限公司*

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 0931)

2003 ANNUAL RESULTS

RESULTS

The board of directors (the "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 2003, 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	
	2003	2002
	HK\$'000	HK\$'000
Turnover (Note 2)	2,202,933	2,122,190
Cost of sales (Note 3)	(2,110,412)	(2,002,008)
Gross profit	92,521	120,182
Other operating income (Note 4)	13,137	4,963
Distribution costs	(8,690)	(8,363)
Administrative expenses	(29,199)	(30,508)
Profit from operations (Note 5)	67,769	86,274
Finance costs (Note 6)	(14,940)	(10,403)
Profit before taxation	52,829	75,871
Taxation (Note 7)	(2,549)	(9,868)
Net profit for the year	50,280	66,003
Dividends (Note 8)	–	20,800
Earnings per share (HK cents) (Note 9)		
Basic	3.1	4.1
Diluted	3.1	N/A

Notes:

1. Adoption of new accounting standard

In the current year, the Group has adopted, for the first time, the following Hong Kong Financial Reporting Standard ("HKFRS") issued by the Hong Kong Society of Accountants ("HKSA"), the term of HKFRS is inclusive of Statements of Standard Accounting Practice ("SSAP") and Interpretations approved by the HKSA:

SSAP 12 (Revised) Income Taxes

Income Taxes

The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. The adoption of this standard has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

2. Turnover and segment information

Turnover represents the amounts received and receivable for goods sold and services provided to outside 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:

	2003	2002
	HK\$'000	HK\$'000
Turnover by principal activity		
Distribution of computer components and information technology products	2,101,947	2,043,011
Provision of integrated e-enabling solutions	100,986	79,179
	2,202,933	2,122,190
Turnover by geographical market		
The People's Republic of China (the "PRC")	1,020,999	610,040
Hong Kong	1,181,934	1,512,150
	2,202,933	2,122,190
Contribution to gross profit by geographical market		
PRC	52,374	46,746
Hong Kong	40,147	73,436
	92,521	120,182

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 2003

	Distribution of computer components and information technology products	Provision of integrated e-enabling solutions	Consolidated
	HK\$'000	HK\$'000	HK\$'000
TURNOVER			
External sales	2,101,947	100,986	2,202,933
RESULTS			
Segment results	43,575	14,321	57,896
Other operating income			13,137
Unallocated corporate expenses			(3,264)
Profit from operations			67,769
Finance costs			(14,940)
Profit before taxation			52,829
Taxation			(2,549)
Profit attributable to shareholders			50,280

For the year ended 31 December 2002

	Distribution of computer components and information technology products	Provision of integrated e-enabling solutions	Consolidated
	HK\$'000	HK\$'000	HK\$'000
TURNOVER			
External sales	2,043,011	79,179	2,122,190
RESULTS			
Segment results	71,572	12,150	83,722
Other operating income			4,963
Unallocated corporate expenses			(2,411)
Profit from operations			86,274
Finance costs			(10,403)
Profit before taxation			75,871
Taxation			(9,868)
Profit attributable to shareholders			66,003
3. Cost of sales		2002	2002
		HK\$'000	HK\$'000
Cost of sales comprises:			
Cost of goods sold		2,196,802	2,067,705
Rebates		(86,390)	(65,697)
		2,110,412	2,002,008
4. Other operating income		2003	2002
		HK\$'000	HK\$'000
Agency fee income		9,800	–
Gain on disposal of plant and equipment		13	3
Interest on bank deposits		1,283	2,600
Sundry income		2,041	2,360
		13,137	4,963
5. Profit from operations		2003	2002
		HK\$'000	HK\$'000
Profit from operations has been arrived at after charging:			
Auditors' remuneration		730	730
Depreciation of plant and equipment		935	770
Operating lease rentals in respect of rented premises		3,905	3,039
Staff costs:			
Directors' remuneration			
– fees		480	480
– other emoluments		6,125	8,360
– retirement benefit scheme contributions		35	36
		6,640	8,876
Staff costs excluding directors' remuneration		15,135	14,702
Retirement benefit scheme contributions, excluding amounts included in directors' remuneration		273	193
		15,408	14,895
Total staff costs		22,048	23,771
6. Finance costs		2003	2002
		HK\$'000	HK\$'000
Interest on bank overdrafts and short-term bank borrowings wholly repayable within five years		11,777	7,237
Bank charges		3,163	3,166
		14,940	10,403
7. Taxation		2003	2002
		HK\$'000	HK\$'000
Hong Kong Profits Tax			
Current year		2,314	11,540
Under(over)provision in previous years		235	(1,672)
Taxation attributable to the Company and its subsidiaries		2,549	9,868
Hong Kong Profits Tax is calculated at 17.5% (2002: 16%) of the estimated assessable profit for the year.			
No provision for taxation has been made in respect of the Company's subsidiaries operating in other jurisdictions as they did not have assessable profits for both years.			
At the balance sheet date, there were no other significant temporary difference.			
8. Dividends		2003	2002
		HK\$'000	HK\$'000
Interim dividend		–	11,200
Final dividend proposed		–	9,600
		–	20,800

Notes:

- (a) No dividend for 2003 has been paid or declared by the Company during the year. The Directors do not recommend the payment of a final dividend for the year ended 31 December 2003.
- (b) In 2002, an interim dividend at HK\$0.007 per share was paid and a final dividend at HK\$0.006 per share was proposed.

9. Earnings per share

The calculation of the basic earnings per share for the year is based on the net profit for the year of HK\$50,280,000 (2002: HK\$66,003,000) and on the 1,600,000,000 shares in issue.

The calculation of the diluted earnings per share is based on the net profit for the year of HK\$50,280,000 and on the weighted average of 1,602,729,443 shares in issue and issuable on the assumption that the outstanding options are exercised on the date on which they are granted.

DIVIDEND

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2003.

BUSINESS REVIEW

The Group's turnover for 2003 was HK\$2,203 million, representing an increase of 4%, as compared with HK\$2,122 million for the same period last year. The slight increase was mainly attributable to the impact resulted from the occurrence of the SARS epidemic during the year. The net profit for the year decreased from HK\$66 million to HK\$50 million as the rebate from Intel remained low.

Distribution of Intel Products

The year of 2003 was a challenging year for the computer component distribution business due to the outbreak of SARS and the low Intel rebate. After the spread of SARS was under control, fierce competition among distributors caused the drop in selling prices. As a result of the decrease in Intel rebate and selling prices, the Group's gross profit margin dropped from 5.7% to 4.2%.

For the past few years, sales of Intel products contributed more than 95% of total turnover and recorded robust growth annually. In order to reduce the reliance on Intel product lines and in light of the growing digital home market, the Group has strategically planned to diversify to the distribution of thin film transistor liquid crystal display ("LCD") products that command higher profit margins.

During the year under review, distribution of Intel products was still the Group's core business, contributing around 90% of total turnover. The Group believes that profit margins of Intel products bottomed in 2003 and will be improved in 2004 with Intel's new sales rebate policy for distributors globally.

Distribution of LCD Monitors

The cooperation with Chi Mei Corporation ("Chi Mei") is another milestone since the establishment of the Group. After entering into agreement with Chi Mei, the distribution business is divided into two major areas: Intel products and Chi Mei's LCD products.

The Group has commenced to distribute Chi Mei's LCD monitors in China since March last year. This strategic move could further utilize the existing personal computer ("PC") component distribution channels including Genuine Intel Dealers, system integrators and PC original equipment manufacturers ("OEMs").

Despite the outbreak of SARS epidemic in the second quarter, the LCD monitor revenue was still growing rapidly in 2003, thanks to the replacement cycle of PCs, rising bundling rate and price cut of LCD monitors.

PROSPECTS

Looking forward, distribution of Intel products will remain the major source of profit contribution for the Group, particularly Intel boxed central processing units ("CPUs"). Given the stable growth of PC demand in the Mainland and Intel's role as a major player in the CPU market, the Group continues to be optimistic about the demand for Intel CPU.

Sunrise Industry

The year of 2003 was a fruitful year for the LCD products market, driven by strong demand for LCD monitors. With robust PC-driven demand, the sales of LCD monitors are expected to surge continuously in 2004. Global sales of LCD monitors will rise 48% to 71 million units in 2004, surpassing cathode-ray tube ("CRT") monitors for the first time.

In China, the shipments of LCD monitors rose 99.3% to 2.2 million units last year. In the next 5 years, the compound annual growth rate is expected to record 41.5%.

The replacement of CRT monitors should continue to be the growth driver boosting the Group's revenue and profit in the next few years, given the low penetration rate in the Mainland and continue price cut on LCD monitors.

There is no doubt that LCD TV is the fastest growing segment of LCD products market and more LCD TVs will be produced at the new fifth-generation and next-generation lines. The penetration rate of LCD TV will be determined by the adoption speed of digital broadcasting, the availability of digital TV programmes and the affordability of consumers.

Mainland shipments of LCD TVs are expected to reach 752,000 units by 2007 from 87,000 in 2003, representing a 71% compound annual growth rate according to iSuppli/Standford Resources. Nevertheless, CRT TV would continue to dominate the price-sensitive Mainland market in the coming years. While the Mainland LCD TV market has not yet been kicked off, PC makers, TV makers and other consumer electronics makers are positioning themselves for the explosive growth of demand in the Chinese flat-panel market.

China, a global production base for TVs, is forecasted to manufacture a total of 58 million sets in 2004, up 7.4% from 2003. Traditional CRT TVs now account for nearly all of China's production, of which around 40% of total production is for export. In view of the enormous potential in LCD TV market, the large scale domestic makers are investing heavily in flat-panel technology, especially LCD, in order to capitalize on the projected growth in global demand. However, domestic companies still lack the technology know-how on LCD TV panel and rely on foreign makers to supply panels for assembling LCD TVs. Amongst panel suppliers, South Korea and Taiwanese makers supply most of the world's LCD panels. Chinese companies use the panels in making flat-panel televisions and computer monitors, taking advantage of low-labour costs in the Mainland.

Currently, China has more than 100 million cable TV subscribers and 300 million TV sets. The digital broadcasting of the 2008 Beijing Olympic TV programs will speed up the replacement of CRT TV with flat-panel TV. Besides, price is another determining factor. Meanwhile, the price of LCD TVs are expected to have negative compound annual growth rate of 15%-24% because of lowering LCD panel production costs and intensifying competition.

In view of the potential robust demand for LCD TV and LCD panel in China, the Group successfully obtained the distribution right of LCD TVs and LCD panels in the Mainland and Hong Kong from Chi Mei in the fourth quarter of 2003 and the first quarter of 2004, respectively. It brings synergies for future business development. The Group not only further expands LCD product distribution business in LCD TV products but also diversifies into another surging market – consumer electronics OEM channel.

As our vendor, Chi Mei is one of the major panel suppliers in the world and OEM for many famous LCD TV makers in Japan and South Korea. The limited suppliers in the LCD panel industry as well as our vendor's strength in leading edge technology and highly vertical integrated production could lead the Group to leverage demand from Mainland LCD TV assemblers

Being the distributor of Intel CPUs and Chi Mei's LCD products, the Group would benefit from the new era of digitalization.

MANAGEMENT'S DISCUSSION AND ANALYSIS***Operations Review***

Working against the challenging year of 2003 with the outbreak of SARS epidemic, the Group managed to achieve a profit after taxation of approximately HK\$50 million for year 2003, representing a decrease of 24% from HK\$66 million of last year.

During the year under review, the Group's turnover was HK\$2,203 million (2002: HK\$2,122 million) representing a slight increase of 4% over last year. Turnover from the PRC market in 2003 was about 46% (2002: 29%) of total turnover. The increase was mainly due to the Group continues to expand its distribution and logistic networks in the PRC.

Gross profit was HK\$93 million for year 2003 (2002: HK\$ 120 million) representing a decrease of 23% over last year as the tight rebate policy from Intel.

Finance costs for 2003 increased to HK\$15 million from HK\$10 million of year 2002 mainly due to the increase in bank loan interests. However, operating costs for 2003 reduced to HK\$38 million from HK\$39 million of year 2002.

Liquidity and Financial Resources

The Group had total cash and bank balances (including pledged bank deposits) of approximately HK\$148 million as at 31 December 2003 (2002: 242million). Balance of short-term bank borrowings and overdrafts was approximately HK\$324 million as at 31 December 2003 (2002:HK\$425million). The short-term bank borrowings were applied to finance the purchase of inventory of the Group. The gearing ratio of the Group as at 31 December 2003 calculated as a ratio of total bank loans to total assets was 35% (2002:36%). Net assets were approximately HK\$426 million as at 31 December 2003 (2002:HK\$385 million).

The Group recorded total current asset value of approximately HK\$923 million as at 31 December 2003 (2002: HK\$1,185 million) and total current liability value of approximately HK\$500 million (2002:HK\$803 million). The current ratio of the Group, calculated by dividing the total current asset value by the total current liability value, improved to 1.9 as at 31 December 2003 (2002:1.5).

The Group had inventory of approximately HK\$332 million as at 31 December 2003 (2002:HK\$632 million) representing a decrease of 48% from last year.

The Group recorded an increase in shareholders' funds from approximately HK\$385 million as at 31 December 2002 to approximately HK\$426 million as at 31 December 2003.

Treasury Policies

The Group generally finances its operations with internally generated resources and banking facilities provided by banks in Hong Kong. The banking 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.

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 31 December 2003, approximately HK\$110 million of the net proceeds had been applied by the Group as general working capital. Approximately another HK\$3 million were 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.

Charges on Assets

In accordance with the terms of the distribution agreements 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 bank deposits of the Group 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 2003, the Group did not have any significant contingent liabilities.

Employees

As at 31 December 2003, the Group had 80 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 2002. The Group's financial statements for the year ended 31 December 2003 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 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 Company has compiled throughout the year ended 31 December 2003 with the Code of Best Practice 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").

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 16 of the Listing Rules 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.

BOARD OF DIRECTORS

As at the date of this announcement, the directors of the Company comprise three executive directors, namely, Mr. Yu Pen Hung, Mr. Yu Chi Ming, Frederick and Mr. Yen Chung Chuan, and two independent non-executive directors, namely, Dr. Liu James Juh and Ms. Hu Gin Ing.

By Order of the Board
Yu Pen Hung
Chairman

Hong Kong, 26 April 2004

* For identification purposes only