ARTEL

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: 931)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2007

The board (the "**Board**") of directors (the "**Directors**") of Artel Solutions Group Holdings Limited (the "**Company**") announces the audited consolidated financial results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2007, together with the comparative figures for the previous year prepared in accordance with generally accepted accounting principles in Hong Kong as follows:

Consolidated Income Statement

		Year ended 31 December	
		2007	2006
	Notes	***HK$'000***	*HK$'000*
Turnover	*3*	**40,067**	36,334
Cost of sales	*4*	**(37,923)**	(34,924)
Gross profit		**2,144**	1,410
Other operating income	*5*	**467**	3,278
Distribution costs		**–**	(94)
Administrative expenses		**(3,028)**	(23,861)
Allowance for doubtful debts		**–**	(103,400)
Allowance for rebates receivables		**–**	(6,109)
Write-down of inventories		**–**	(46,932)
Finance costs	*6*	**(46)**	(472)
Share of results of associates		**(245)**	(547)
Loss on disposal of interests in associates		**(374)**	–
Loss on disposal of interest in a subsidiary		**(2)**	–
Impairment loss recognised in respect of plant and equipment		**–**	(5,698)
Loss before taxation	*7*	**(1,084)**	(182,425)
Taxation	*8*	**(187)**	1,300
Loss for the year attributable to equity holders of the Company		**(1,271)**	(181,125)
Dividend	*9*	**–**	–
Loss per share (HK cents)	*10*		
– Basic		**(0.08)**	(11.3)

* *for identification purposes only*

Consolidated Balance Sheet

At 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
Non-current assets			
Plant and equipment		**13**	265
Interests in associates		**–**	245
		13	510
Current assets			
Trade receivables, prepayments, deposits and other receivables	*11*	**1,579**	1,326
Amount due from an associate		**–**	874
Bank balances and cash		**4,845**	2,680
		6,424	4,880
Current liabilities			
Trade payables, accrued charges and other payables	*12*	**12,140**	71,536
Amounts due to directors		**318,184**	198
Bank overdrafts and borrowings		**2,031**	259,378
Provision for taxation		**187**	–
		332,542	331,112
Net current liabilities		**(326,118)**	(326,232)
Net liabilities		**(326,105)**	(325,722)
Capital and reserves			
Share capital		**16,023**	16,000
Reserves		**(342,128)**	(341,722)
Capital deficiencies		**(326,105)**	(325,722)

Notes:

1. Basis of preparation

The Company is a limited liability company incorporated in the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited (the **"Stock Exchange"**).

The Company is an investment holding company and the principal activities of the Group are trading of computer components and the provision of e-enabling solutions and technical services.

The consolidated financial statements are presented in Hong Kong dollars which is the functional currency of the Company.

In preparing the consolidated financial statements, the Directors have given careful consideration to the future liquidity of the Group in light of its net liabilities of approximately HK$326 million as at 31 December 2007.

On 15 January 2008, the Company and Mr. Kan Che Kin, Billy Albert (**"Mr. Kan"**) entered into a subscription agreement (the **"Subscription Agreement"**) pursuant to which the Company had conditionally agreed to issue and Mr. Kan had conditionally agreed to subscribe for the convertible notes (the **"Convertible Notes"**) of the Company in an aggregate principal amount of HK$358 million. Immediately upon completion of the Subscription Agreement on 13 February 2008, the Group became almost debt-free, save for the current liabilities such as trade payables, other borrowings and other payables. In addition, given the irredeemable and compulsory conversion nature of the Convertible Notes, the Convertible Notes were classified as "equity" instead of "liabilities". Accordingly, the Group had net assets immediately after completion of the Subscription Agreement.

In view of the foregoing, the Directors are satisfied with the financial position of the Group and consider the preparation of the consolidated financial statements on a going concern basis as appropriate.

2. Significant Accounting Policies

The consolidated financial statements have been prepared on the historical cost basis.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (**"HKFRSs"**) issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the **"Listing Rules"**) and by the Hong Kong Companies Ordinance.

In the current year, the Group has applied, for the first time, a number of new standards, amendment and interpretations (**"new HKFRSs"**) issued by the HKICPA. The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standards, amendment or interpretations in issue as at 31 December 2007 that are not yet effective. The Directors anticipate that the application of these standards, amendment or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 23 (Revised)	Borrowing Costs
HKFRS 8	Operating Segments
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements
HK(IFRIC)-Int 13	Customer Loyalty Programmes
HK(IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The Group is required to initially apply HK(IFRIC)-Int 11, HK(IFRIC)-Int 12 and HK(IFRIC)-Int 14 in its annual consolidated financial statements beginning on 1 January 2008, and to initially apply HKAS 1 (Revised), HKAS 23 (Revised), HKFRS 8 and HK(IFRIC)-Int 13 in its annual consolidated financial statements beginning on 1 January 2009.

3. Turnover and segment information

Turnover represents the aggregate of the net amounts received and receivable for goods sold and services provided to outside customers, less trade discounts and returns, for the year.

(a) Business segments

An analysis of the Group's results by business segment, its primary segment, is as follows:

	Distribution of computer components and information technology products		**Provision of integrated e-enabling solutions**		**Consolidated**	
	2007	2006	**2007**	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
TURNOVER						
External sales	**39,244**	36,334	**823**	–	**40,067**	36,334
RESULT						
Segment result	**463**	(180,303)	**72**	(2,459)	**535**	(182,762)
Other operating income					**467**	3,278
Unallocated corporate expenses					**(1,419)**	(1,922)
Finance costs					**(46)**	(472)
Share of results of associates					**(245)**	(547)
Loss on disposal of interests in associates					**(374)**	–
Loss on disposal of interest in a subsidiary					**(2)**	–
Loss before taxation					**(1,084)**	(182,425)
Taxation					**(187)**	1,300
Loss for the year					**(1,271)**	(181,125)

	Distribution of computer components and information technology products		Provision of integrated e-enabling solutions		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Assets						
Segment assets	**13**	265	**411**	–	**424**	265
Unallocated corporate assets					**6,013**	5,125
Consolidated total assets					**6,437**	5,390
Liabilities						
Segment liabilities	**6,474**	65,498	**329**	–	**6,803**	65,498
Unallocated corporate liabilities					**325,739**	265,614
Consolidated total liabilities					**332,542**	331,112
Other Information						
Allowance for doubtful debts	**–**	102,249	**–**	1,151	**–**	103,400
Allowance for rebates receivables	**–**	4,801	**–**	1,308	**–**	6,109
Impairment loss recognised in respect of plant and equipment	**–**	5,698	**–**	–	**–**	5,698
Write-down of inventories	**–**	46,932	**–**	–	**–**	46,932
Capital additions	**14**	9	**–**	–	**14**	9
Depreciation	**1**	2,551	**–**	–	**1**	2,551

(b) Geographical segments

The Group's operations are substantially located in Hong Kong and the People's Republic of China (the **"PRC"**) throughout current and prior years. An analysis of the Group's segment information by geographical segments is set out as follows:–

	2007	2006
	HK$'000	*HK$'000*
Turnover by geographical market:–		
PRC	**9,806**	30,969
Hong Kong	**30,261**	5,365
	40,067	36,334
Carrying amount of segment assets analysed by location of assets:–		
PRC	**379**	379
Macau	**872**	1,060
Hong Kong	**5,186**	3,951
	6,437	5,390
Additions to plant and equipment analysed by location of assets:–		
Hong Kong	**14**	9

4. Cost of sales

	2007	2006
	HK$'000	*HK$'000*
Cost of sales comprises:		
Cost of goods sold	**37,923**	34,956
Rebates	**–**	(32)
	37,923	34,924

5. Other operating income

	2007	2006
	HK$'000	*HK$'000*
Gain on disposal of plant and equipment	**325**	–
Interest income on bank deposits	**20**	159
Sales deposit and interest payable waived	**–**	2,482
Sundry income	**122**	637
	467	3,278

6. Finance costs

Finance costs comprise bank charges only during the current and prior years.

7. Loss before taxation

Loss before taxation has been arrived at after charging/(crediting):

	2007	2006
	HK$'000	*HK$'000*
Auditors' remuneration	**320**	320
Depreciation of plant and equipment	**1**	2,551
Change in fair value of derivative financial instruments	**–**	(1,057)
Impairment loss recognised in respect of interest in a jointly controlled entity	**–**	195
(Gain)/loss on disposal of plant and equipment	**(325)**	14
Operating lease rentals in respect of rented premises	**285**	1,396
Staff costs:		
Directors' remuneration		
– fees	**133**	566
– other emoluments	**85**	630
– retirement benefits scheme contributions	**–**	5
	218	1,201
Staff costs excluding Directors' remuneration	**363**	4,365
Retirement benefits scheme contributions, excluding amounts included in Directors' remuneration	**12**	35
	375	4,400
Total staff costs	**593**	5,601

8. Taxation

	2007	2006
	HK$'000	*HK$'000*
The taxation charge/(credit) comprises:		
Current tax		
Hong Kong Profits Tax	**187**	–
Deferred tax	**–**	(1,300)
	187	(1,300)

Hong Kong Profits Tax has been provided for at the rate of 17.5% on the estimated assessable profits of certain subsidiaries operating in Hong Kong for the year.

No provision for Hong Kong Profits Tax has been made in the consolidated financial statements in preceding year as the Group did not have any assessable profit.

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.

9. Dividend

No dividend was paid or proposed during the year 2007, nor has any dividend been proposed since the balance sheet date.

10. Loss per share

The calculation of the basic and diluted loss per share of the Company (the "**Share**") attributable to equity shareholders of the Company for the year is based on the loss for the year of HK$1,271,000 (2006: HK$181,125,000) and on the weighted average number of 1,600,383,014 (2006: 1,600,000,000) Shares in issue.

The computation of diluted loss per Share in both years has not assumed the exercise of the then Company's outstanding share options as the exercise price of each Share is higher than the average market price per Share before the suspension of trading in Shares on the Stock Exchange in September 2006.

The aforementioned share options were exercised/cancelled/lapsed during the year and the Company had no dilutive potential Shares as at 31 December 2007.

11. Trade receivables, prepayments, deposits and other receivables

	2007	2006
	HK$'000	*HK$'000*
Trade receivables	**507,295**	506,884
Less: Allowance for doubtful debts	**(506,884)**	(506,884)
	411	–
Prepayments, deposits and other receivables	**1,168**	1,326
	1,579	1,326

The credit terms of the Group range from 30 to 180 days. The aged analysis of trade receivables (based on invoice date and before allowance for doubtful debts) as at 31 December 2007 and 2006 is as follows:

	2007	2006
	HK$'000	*HK$'000*
Aged:		
0 to 30 days (not past due nor impaired)	**411**	–
Over 180 days (past due and fully impaired)	**506,884**	506,884
Total trade receivables	**507,295**	506,884

Movements of the allowance for doubtful debts during the current and prior years were as follows:–

	2007	2006
	HK$'000	*HK$'000*
At 1 January	**506,884**	403,484
Provided for the year	**–**	103,400
At 31 December	**506,884**	506,884

The Directors consider the carrying amounts of trade and other receivables approximate their fair values.

12. Trade payables, accrued charges and other payables

The aged analysis of trade payables as at 31 December 2007 and 2006 is as follows:–

	2007	2006
	HK$'000	*HK$'000*
Aged:		
0 to 30 days	**329**	–
Over 1 year	**6,474**	65,498
Total trade payables	**6,803**	65,498
Accrued charges and other payables	**5,337**	6,038
	12,140	71,536

On 11 July 2006, one of the major suppliers of the Group, Intel Semiconductor Limited ("**Intel**"), served a statutory demand against the Group to recover the amounts due from the Group. In September 2007, the amount due to Intel was assigned to Mr. Kan.

The carrying amounts of trade payables are primarily denominated in Hong Kong dollars and United States dollars.

The Directors consider the carrying amounts of trade and other payables approximate their fair values.

DIVIDEND

The Directors do not recommend any payment of final dividend for the year ended 31 December 2007.

BUSINESS REVIEW

During the year, the Group has expanded its sales team in order to expand its client base and devoted substantial effort in expanding its product range by sourcing supplies from new suppliers. The Group recorded a turnover of approximately HK$40 million in 2007, representing an increase of approximately 10% of revenue compared with 2006.

The Group recorded a gross profit of approximately HK$2 million in 2007, representing an increase of approximately 52% compared with 2006.

The Group, in summary, recorded a loss of approximately HK$1 million in 2007.

PROSPECTS

The financial position of the Group has been improved after the change in the controlling shareholder of the Company (the "**Shareholder**") and the completion of the debt assignments regarding the amounts due to banks and a major supplier from the Group during the year and the subsequent issuance of the Convertible Notes in February 2008.

The Group is looking for new business opportunities that afford better returns for the Shareholders, including but not limited to the computer-related products. In conclusion, the Group will seize the golden opportunity offered by the booming market in Hong Kong and the continuous economic growth in the PRC. It is expected that a number of promising business may be introduced and the Directors believe the Group will turnaround and restore to grow in the future.

EVENTS AFTER THE BALANCE SHEET DATE

On 15 January 2008, the Company and Mr. Kan entered into the Subscription Agreement pursuant to which the Company had conditionally agreed to issue and Mr. Kan had conditionally agreed to subscribe for the zero-coupon and non-redeemable Convertible Notes in an aggregate principal amount of HK$358 million.

The subscription price of the Convertible Notes of HK$358 million was satisfied in part of approximately HK$318 million by setting off the full amount of (i) the bank overdraft and borrowings of approximately HK$256 million and the debt of approximately HK$59 million due to Intel which had been assigned to Mr. Kan; and (ii) the loan of approximately HK$3 million advanced by Mr. Kan, against such amount of the subscription price of the Convertible Notes on a dollar for dollar basis. The remaining balance of approximately HK$40 million was settled in cash, which would be used as working capital of the Group.

The completion of the Subscription Agreement took place on 13 February 2008 and the Convertible Notes were issued by the Company to Mr. Kan pursuant to the Subscription Agreement on the same date.

On 18 February 2008, Mr. Kan exercised his conversion rights attached to the Convertible Notes in relation to the conversion of an aggregate principal amount of HK$30,000,000 of the Convertible Notes and an aggregate of 777,202,072 Shares were allotted and issued to Mr. Kan.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review

The Group recorded a loss of approximately HK$1 million in 2007.

During the year, the Group's turnover was approximately HK$40 million (2006: approximately HK$36 million), representing an increase of approximately 10% compared with 2006.

Gross profit of approximately HK$2 million was recorded in 2007. It represented an increase of approximately 52% compared with 2006.

Liquidity, financial resources and gearing ratio

The Group had total cash and bank balances of approximately HK$5 million as at 31 December 2007 (2006: approximately HK$3 million). Balance of bank overdrafts and short-term borrowings were approximately HK$2 million as at 31 December 2007 (2006: approximately HK$259 million). The gearing ratio of the Group as at 31 December 2007 calculated as a ratio of total interest-bearing loans to total assets was approximately 32% (2006: approximately 4,812%). Net liabilities were approximately HK$326 million (2006: approximately HK$326 million).

The Group recorded total current asset value of approximately HK$6 million as at 31 December 2007 (2006: approximately HK$5 million) and total current liability value of approximately HK$333 million (2006: approximately HK$331 million). The current ratio of the Group, calculated by dividing the total current asset value by the total current liability value, was about 0.02 as at 31 December 2007 (2006: approximately 0.01).

The Group recorded a loss in 2007 and this attributed to a decrease in Shareholders' funds to a negative value of approximately HK$326 million as at 31 December 2007 (2006: a negative value of approximately HK$326 million).

Foreign exchange exposure

Transactions of the Group were mainly denominated either in Hong Kong dollars or United States dollars. In view of the stability of the exchange rate between these currencies, the Directors did not consider that the Group was significantly exposed to foreign exchange risk for the year.

Treasury policies

The Group's major borrowings are in Hong Kong dollars and with fixed interest rates. The Group currently does not have a foreign currency and interest rate hedging policy. However, the management of the Group monitored foreign exchange and interest rate exposure from time to time and will consider hedging significant foreign currency and interest rate exposure should the need arise.

Pledge of assets

The Group had no pledged assets as at 31 December 2007.

Investments

The Group had not held any significant investment for the year ended 31 December 2007.

Material acquisitions and disposals of subsidiaries or associated companies

In June 2007, the Group disposed of all interests in its associated company, Jet Fidelity Holdings Company Limited which wholly-owned two companies, namely Jet Fidelity Limited and Synergrator Logistics (HK) Limited, at an aggregate consideration of approximately HK$500,000, resulting in a loss on disposal of associated companies of approximately HK$374,000 for the year ended 31 December 2007. Save as disclosed, the Group had no material acquisition or disposal of subsidiaries or associated companies for the year ended 31 December 2007.

Segmental information

Details of segmental information for the year ended 31 December 2007 are set out in Note 3 to this announcement.

Contingent liabilities

The Group had no significant contingent liabilities as at 31 December 2007.

Staff and remuneration policies

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 options 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 principal responsibilities of the audit committee of the Company (the "**Audit Committee**") include the revision and supervision of the Group's financial reporting process and internal control. The Audit Committee has reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2007 and was of the opinion that the audited consolidated financial statements have been properly prepared in accordance with the statutory requirements and applicable accounting standards.

The Audit committee currently comprises three independent non-executive Directors, namely Mr. Li Siu Yui, Mr. Ip Woon Wai and Mr. Lee Kong Leong.

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

During the year ended 31 December 2007, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE REPORT

The Company has complied with the code provisions as set out in the Code on Corporate Governance Practices under Appendix 14 to the Listing Rules throughout the year ended 31 December 2007 except the followings:

1. Under the Code Provision A.1.1, the Board should meet regularly and Board meetings should be held at least four times a year at approximately quarterly intervals. During the year, due to the financial difficulties faced by the Group and resignations of some Directors, only one full Board meeting was held during the year.

2. Under the Code Provision A.2.1, the roles of chairman and chief executive officer should be separate. Due to the fact that Mr. Yu Pen Hung (**"Mr. Yu"**) possesses extensive experience in the information technology business which is invaluable for the Group and the Board had confidence in Mr. Yu and believed that the dual role is beneficial to the Group, the roles of chairman and chief executive officer of the Company were held by Mr. Yu during the year until Mr. Kan was appointed as the chairman of the Company on 10 October 2007.

3. Under the Code Provision A.3 and pursuant to Rule 3.10 of the Listing Rules, every Board must include at least three independent non-executive Directors. After the resignations of Dr. Liu James Juh and Ms. Hu Gin Ing in March 2007, the Board only had one independent non-executive Director until the appointments of Mr. Li Siu Yui and Mr. Ip Woon Lai as independent non-executive Directors on 10 October 2007.

4. Under the Code Provisions A.4.1 and A.4.2, non-executive Director should be appointed for a specific term and each Director should be subject to retirement by rotation at least once every three years. The independent non-executive Directors are not appointed for specific terms but are subject to retirement by rotation and re-election in accordance with the Company's articles of association at least once every three years.

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held on 22 May 2008, details of which are set out in the notice of annual general meeting of the Company which will be published in due course.

By order of the Board
Kan Che Kin, Billy Albert
Chairman

Hong Kong, 21 April 2008

As at the date of this announcement, the Board comprises five executive Directors, namely Mr. Kan Che Kin, Billy Albert, Mr. Yu Pen Hung, Mrs. Kan Kung Chuen Lai, Ms. Li Shu Han, Eleanor Stella and Mr. Li Kai Yien, Arthur Albert and three independent non-executive Directors, namely Mr. Li Siu Yui, Mr. Ip Woon Lai and Mr. Lee Kong Leong.