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 2006

RESULTS

The board (the "Board") of directors (the "Directors") of Artel Solutions Group Holdings Limited (the "Company") announces the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2006, 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	
		2006	2005
	Notes	***HK$'000***	*HK$'000*
Turnover	*3*	**36,334**	1,198,229
Cost of sales	*4*	**(34,924)**	(1,170,757)
Gross profit		**1,410**	27,472
Other operating income	*5*	**3,278**	5,536
Distribution costs		**(94)**	(6,192)
Administrative expenses		**(23,861)**	(29,143)
Allowance for doubtful debts		**(103,400)**	(401,972)
Allowance for rebates receivables	*6*	**(6,109)**	(92,705)
Write-down of inventories		**(46,932)**	(66,283)
Finance costs	*7*	**(472)**	(18,568)
Share of results of associates		**(547)**	(93)
Impairment loss recognised in respect of plant and equipment		**(5,698)**	–
Impairment loss recognised in respect of goodwill of associates		**–**	(13,768)
Loss before taxation	*8*	**(182,425)**	(595,716)
Taxation	*9*	**1,300**	(734)
Loss for the year attributable to equity holders of the Company		**(181,125)**	(596,450)
Dividend	*10*	**–**	–
Loss per share (HK cents)	*11*		
– Basic		**(11.3)**	(37.3)

* *for identification purposes only*

Consolidated Balance Sheet

	Notes	**2006** *HK$'000*	2005 *HK$'000*
Non-current assets			
Plant and equipment		**265**	8,519
Interests in associates		**245**	792
Interest in a jointly controlled entity		**–**	195
		510	9,506
Current assets			
Inventories		**–**	54,868
Trade receivables, rebates receivables, prepayments, deposits and other receivables	*12*	**1,326**	109,570
Amount due from an associate		**874**	874
Pledged bank deposits		**–**	43,797
Bank balances and cash		**2,680**	7,676
		4,880	216,785
Current liabilities			
Trade payables, sales deposits, accrued charges and other payables	*13*	**71,536**	138,187
Amount due to a director		**198**	195
Bank overdrafts and borrowings		**259,378**	230,149
Derivative financial instruments		**–**	1,057
		331,112	369,588
Net current liabilities		**(326,232)**	(152,803)
Total assets less net current liabilities		**(325,722)**	(143,297)
Non-current liability			
Deferred taxation		**–**	1,300
Net liabilities		**(325,722)**	(144,597)
Capital and reserves			
Share capital		**16,000**	16,000
Reserves		**(341,722)**	(160,597)
Capital deficiencies		**(325,722)**	(144,597)

Notes:

1. **Basis of preparation**

The Company is a limited company incorporated in the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). As at 31 December 2006, its parent and ultimate holding company was E-Career Investments Limited, a limited company incorporated in the British Virgin Islands.

The Company is an investment holding company.

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 2006.

On 25 July 2007, the Company was notified by Mr. Kan Che Kin, Billy Albert ("Mr. Kan") that he had entered into the sale and purchase agreement with Mr. Yu Pen Hung ("Mr. Yu") (the then chairman of the Company and an executive Director) and E-Career Investments Limited, the then major shareholder of the Company holding 75% of the Company's issued share capital and a company wholly owned by Mr. Yu, in relation to the acquisition of 1,200,000,000 shares of the Company (the "Sale Shares") from E-Career Investments Limited for a consideration of HK$16,000,000. Completion of the acquisition of the Sale Shares took place on 25 July 2007. In August 2007, Mr. Kan acquired the bank overdrafts and borrowings due to the Group's bank creditors, which aggregate balance was approximately HK$256 million as at 12 December 2005, for a consideration of HK$30,300,000 by way of assignment. In September 2007, Mr. Kan acquired the amount due to Intel Semiconductor Limited ("Intel"), which balance was approximately US$7,567,000 as at 11 July 2006, for a consideration of US$840,000 by way of assignment.

Following the completion of the aforesaid debt assignments, the Group's indebtedness to the banks and Intel were assigned to Mr. Kan.

Mr. Kan became the Company's major shareholder who intends to maintain the listing status of the Company on the Stock Exchange and the Group will continue with its existing businesses. Mr. Kan was appointed as an executive Director and the chairman of the Company on 10 October 2007. The Directors are of the opinion that Mr. Kan will provide the necessary funding to the Group so that it will be able to continue with its existing businesses and to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

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, which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. 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 that have been issued but 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 (Amendment)	Capital Disclosures[1]
HKFRS 7	Financial Instruments: Disclosures[1]
HKFRS 8	Operating Segments[2]
HK(IFRIC) – INT 7	Applying the Restatement Approach under HKAS29 Financial Reporting in Hyperinflationary Economies[3]
HK(IFRIC) – INT 8	Scope of HKFRS 2[4]
HK(IFRIC) – INT 9	Reassessment of Embedded Derivatives[5]
HK(IFRIC) – INT 10	Interim Financial Reporting and Impairment[6]
HK(IFRIC) – INT 11	HKFRS 2 – Group and Treasury Share Transactions[7]
HK(IFRIC) – INT 12	Service Concession Arrangements[8]

[1] Effective for annual periods beginning on or after 1 January 2007.
[2] Effective for annual periods beginning on or after 1 January 2009.
[3] Effective for annual periods beginning on or after 1 March 2006.
[4] Effective for annual periods beginning on or after 1 May 2006.
[5] Effective for annual periods beginning on or after 1 June 2006.
[6] Effective for annual periods beginning on or after 1 November 2006.
[7] Effective for annual periods beginning on or after 1 March 2007.
[8] Effective for annual periods beginning on or after 1 January 2008.

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 is as follows:

For the year ended 31 December 2006:

	Distribution of computer components and information technology products *HK$'000*	**Provision of integrated e-enabling solutions** *HK$'000*	**Consolidated** *HK$'000*
TURNOVER			
External sales	**36,334**	**–**	**36,334**
RESULT			
Segment result	**(180,303)**	**(2,459)**	**(182,762)**
Other operating income			**3,278**
Unallocated corporate expenses			**(1,922)**
Finance costs			**(472)**
Share of results of associates			**(547)**
Loss before taxation			**(182,425)**
Taxation			**1,300**
Loss for the year			**(181,125)**

As at 31 December 2006:

	Distribution of computer components and information technology products *HK$'000*	Provision of integrated e-enabling solutions *HK$'000*	Consolidated *HK$'000*
Assets			
Segment assets	**265**	**–**	**265**
Unallocated corporate assets			**5,125**
Consolidated total assets			**5,390**
Liabilities			
Segment liabilities	**65,498**	**–**	**65,498**
Unallocated corporate liabilities			**265,614**
Consolidated total liabilities			**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	**9**	**–**	**9**
Depreciation	**2,551**	**–**	**2,551**

For the year ended 31 December 2005:

	Distribution of computer components and information technology products *HK$'000*	Provision of integrated e-enabling solutions *HK$'000*	Consolidated *HK$'000*
TURNOVER			
External sales	1,165,871	32,358	1,198,229
RESULT			
Segment result	(552,683)	(11,917)	(564,600)
Other operating income			5,536
Unallocated corporate expenses			(4,223)
Finance costs			(18,568)
Impairment loss recognised in respect of goodwill of associates			(13,768)
Share of results of associates			(93)
Loss before taxation			(595,716)
Taxation			(734)
Loss for the year			(596,450)

As at 31 December 2005:

	Distribution of computer components and information technology products *HK$'000*	Provision of integrated e-enabling solutions *HK$'000*	Consolidated *HK$'000*
Assets			
Segment assets	164,626	2,459	167,085
Unallocated corporate assets			59,206
Consolidated total assets			226,291
Liabilities			
Segment liabilities	131,833	–	131,833
Unallocated corporate liabilities			239,055
Consolidated total liabilities			370,888
OTHER INFORMATION			
Allowance for doubtful debts	390,864	11,108	401,972
Allowance for rebates receivables	86,395	6,310	92,705
Impairment loss recognised in respect of goodwill of associates	–	–	13,768
Write-down of inventories	66,283	–	66,283
Capital additions	207	–	207
Depreciation	2,962	10	2,972

(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:–

	2006 ***HK$'000***	2005 *HK$'000*
Turnover by geographical market:–		
PRC	**30,969**	972,284
Hong Kong	**5,365**	225,945
	36,334	1,198,229
Carrying amount of segment assets analysed by location of assets:–		
PRC	**379**	116,769
Macau	**1,060**	–
Hong Kong	**3,951**	109,522
	5,390	226,291
Additions to plant and equipment analysed by location of assets:–		
Hong Kong	**9**	207

4. Cost of sales

	2006	2005
	HK$'000	*HK$'000*
Cost of sales comprises:		
Cost of goods sold	**34,956**	1,173,997
Rebates	**(32)**	(3,240)
	34,924	1,170,757

5. Other operating income

	2006	2005
	HK$'000	*HK$'000*
Sales deposit and interest payable waived	**2,482**	–
Interest income on bank deposits	**159**	2,059
Discounts received on early repayment of short-term banking borrowings	**–**	3,378
Promotional services income	**–**	13
Sundry income	**637**	86
	3,278	5,536

6. Allowance for rebates receivables

Since October 2005, the Group's ability to make purchases from its major supplier has been substantially impaired. Accordingly, such rebates receivables have been fully impaired in the consolidated financial statements because it is unlikely that the rebates receivables can be utilised in the future.

7. Finance costs

	2006	2005
	HK$'000	*HK$'000*
Interest on bank overdrafts and short-term bank borrowings wholly repayable within five years	**–**	18,476
Bank charges	**472**	92
	472	18,568

8. Loss before taxation

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

	2006 *HK$'000*	2005 *HK$'000*
Auditors' remuneration	**320**	1,050
Depreciation of plant and equipment	**2,551**	2,972
Change in fair value of derivative financial instruments	**(1,057)**	7,067
Impairment loss recognised in respect of interest in a jointly controlled entity	**195**	–
Loss on disposal of plant and equipment	**14**	29
Operating lease rentals in respect of rented premises	**1,396**	3,478
Rental deposits written off	**–**	104
Staff costs:		
Directors' remuneration		
– fees	**566**	600
– other emoluments	**630**	2,140
– retirement benefits scheme contributions	**5**	13
	1,201	2,753
Staff costs excluding directors' remuneration	**4,365**	9,411
Retirement benefits scheme contributions, excluding amounts included in directors' remuneration	**35**	194
	4,400	9,605
Total staff costs	**5,601**	12,358

9. Taxation

	2006 *HK$'000*	2005 *HK$'000*
The taxation (credit) charge comprises:		
Deferred tax	**(1,300)**	734

No provision for Hong Kong Profits Tax has been made in the consolidated financial statements in both years 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.

10. Dividend

No dividend was paid or proposed during the year 2006, nor has any dividend been proposed since the balance sheet date.

11. Loss per share

The calculation of the basic and diluted loss per share attributable to equity shareholders of the Company for the year is based on the loss for the year of HK$181,125,000 (2005: HK$596,450,000) and on the 1,600,000,000 (2005: 1,600,000,000) shares in issue.

The computation of diluted loss per share in both years does not assume the exercise of the Company's outstanding share options as the exercise price of those options is higher than the average market price for shares during both years before the suspension of trading in shares of the Company in September 2006.

12. Trade Receivables, Rebates Receivables, Prepayments, Deposits and Other Receivables

	2006	2005
	HK$'000	*HK$'000*
Trade receivables	**506,884**	499,830
Less: Allowance for doubtful debts	**(506,884)**	(403,484)
	–	96,346
Rebates receivables *(note)*	**–**	7,351
Prepayments, deposits and other receivables	**1,326**	5,873
	1,326	109,570

Note: The rebates receivables include amount of HK$98,814,000 (2005: HK$92,705,000) relating to an allowance for rebates receivables.

The credit terms of the Group range from 30 to 180 days. The aged analysis of trade receivables for the two years ended 31 December 2006 and 2005 is as follows:

	2006	2005
	HK$'000	*HK$'000*
Aged:		
0 to 30 days	**–**	9,360
31 to 60 days	**–**	1,139
61 to 90 days	**–**	7,202
91 to 180 days	**–**	78,645
Total trade receivables	**–**	96,346

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

13. Trade Payables, Sales Deposits, Accrued Charges and Other Payables

The aged analysis of trade payables for the two years ended 31 December 2006 and 2005 is as follows:

	2006	2005
	HK$'000	*HK$'000*
Aged:		
0 to 30 days	**–**	4,646
31 to 60 days	**–**	–
61 to 90 days	**–**	–
91 to 120 days	**–**	127,187
121 to 360 days	**–**	–
Over 1 year	**65,498**	–
Total trade payables	**65,498**	131,833
Sales deposits	**–**	2,848
Accrued charges and other payables	**6,038**	3,506
	71,536	138,187

One of the major suppliers, Intel, served a statutory demand against the Group to recover the amounts due by the Group. In September 2007, the amount due to Intel was assigned to Mr. Kan. Details of the debt assignment are disclosed in Note 1 to this announcement.

The Directors consider the carrying amount of trade payables approximates its fair value.

QUALIFICATIONS ON INDEPENDENT AUDITOR'S REPORT

Extracts from the Report of the Independent Auditors of the Company, PKF, are set out as below:

"Basis of qualified opinion

Scope limitation – Prior year audit scope limitation affecting opening balances

The Company's consolidated financial statements for the year ended 31 December 2005 were audited by Deloitte Touche Tohmatsu ("Deloitte"). The Company's auditor's report dated 27 April 2006 on the Company's consolidated financial statements for the year ended 31 December 2005 was qualified on account of a scope limitation in respect of a batch of inventories of HK$36 million which were stated in the Company's consolidated balance sheet as at 31 December 2005 net of an allowance of HK$35 million. Deloitte was unable to obtain sufficient information and explanations from the Directors to assess the reasonableness of their basis of provision and were unable to satisfy themselves as to whether any further allowance was required to state the aforesaid inventories at the lower of cost and net realisable value at 31 December 2005.

We were also unable to obtain sufficient information and explanations from the Directors regarding the assessment of the reasonableness of the aforementioned basis of provision and were unable to satisfy ourselves as to whether any further allowance was required. Any adjustments found to be necessary in respect of the above as at 31 December 2005 would have had a consequential impact on the comparative balances of inventories and thus net liabilities of the Group as at 31 December 2005 and the loss of the Group for the year ended 31 December 2006 and the related disclosures in the consolidated financial statements.

Disagreement about accounting treatment – Prior year disagreement about accounting treatment affecting opening balances

The Company's consolidated financial statements for the year ended 31 December 2005 were audited by Deloitte. The Company's auditor's report dated 27 April 2006 on the Company's consolidated financial statements for the year ended 31 December 2005 was qualified on account of a disagreement about accounting treatment in respect of trade receivables with aggregate amount of approximately HK$87 million, which were stated in the Company's consolidated balance sheet as at 31 December 2005 net of allowance for doubtful debts of approximately HK$403 million. Deloitte opined full allowance should have been made in the consolidated financial statements for these trade receivables as the Group had substantially suspended trading with these customers since October 2005 and no settlements from them were noted thereafter.

The Group provided full allowance for the aforementioned trade receivables during the year ended 31 December 2006 in the absence of settlement till the date of this report. In our opinion, full allowance should have been made for these trade receivables during the year ended 31 December 2005. Should the allowance for doubtful provision of approximately HK$87 million have been fully provided during the year ended 31 December 2005, the comparative balances of trade receivables and net liabilities of the Group as at 31 December 2005 would be decreased and increased by approximately HK$87 million respectively and the loss of the Group for the year ended 31 December 2006 would be decreased by approximately HK$87 million.

Qualified opinion arising from limitation of scope and disagreement about accounting treatment

In our opinion, the consolidated financial statements give a true and fair view of the state of the Group's affairs as at 31 December 2006 and of the cash flows of the Group for the year then ended and except for the effect on the consolidated financial statements of the matter described in the basis for qualified opinion paragraphs, the consolidated financial statements give a true and fair view of the Group's loss for the year ended 31 December 2006, in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Without qualifying our opinion, we draw attention to note 2(d) to the consolidated financial statements which indicates that the Group incurred a net loss of HK$181,125,000 for the year ended 31 December 2006 and as of that date, the Group's current liabilities exceeded its current assets by HK$326,232,000, and the Group's liabilities exceeded its total assets by HK$325,722,000. These conditions, along with other matters as set forth in note 2(d) to the consolidated financial statements, indicate the existence of material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

In respect alone of the limitation on our work described in the basis for qualified opinion paragraphs, we have not obtained all the information and explanations that we considered necessary for the purpose of our audit."

DIVIDEND

The Directors do not recommend the payment of a final dividend for the year 2006.

BUSINESS REVIEW

2006 was a challenging year for the Group. The financial situation of the Group continued to deteriorate in 2006 and the Group had difficulties in repaying the amounts due to banks and a major supplier. Without the necessary working capital support, the Group substantially reduced its scale of operations and recorded a turnover of HK$36 million only in 2006, representing a decrease of approximately 97% of revenue compared with 2005.

The Group recorded a gross profit of approximately HK$1 million in 2006, representing a decrease of approximately 95% compared with 2005.

In light of the current market situation and the aging analysis, the Group had made the provision of trade receivables and long-aged stocks amounted to approximately HK$103 million and HK$47 million respectively in 2006, which was based on the Directors' best estimation.

The Group, in summary, recorded a loss of approximately HK$181 million in 2006 and was in substantial financial difficulties.

PROSPECTS

The Group's business began to stabilize in 2007. 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.

In addition to expansion of the product range and customer base in the trading business, the Group is actively pursuing a number of e-enabling solution projects with higher profit margins.

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. The Directors believe the Group will turnaround and restore to grow in the future.

EVENTS AFTER THE BALANCE SHEET DATE

In July 2007, Mr. Kan acquired 75% of the then issued share capital of the Company from E-Career Investments Limited, a company wholly-owned by Mr. Yu. Details of the acquisition are disclosed in Note 1 to this announcement. In October 2007, Mr. Kan, through CIMB-GK Securities (HK) Limited, made cash offers (the "Offers") to acquire all the issued shares of the Company (other than those already owned by him or parties acting in concert with him) and to cancel all the Company's outstanding share options (the "Share Options"). Details of the Offers are set out in the composite document of the Company dated 10 October 2007. During the Offers, two holders of the Share Options exercised their rights under the Share Options to subscribe for 2,330,000 shares of the Company. Holders of the Share Options to subscribe for 29,945,000 shares of the Company accepted the Offers. Following close of the Offers on 31 October 2007, Mr. Kan's interest in the Company's issued share capital increased to approximately 75.99% as at the date of this announcement. All outstanding Share Options as at 31 October 2007 have lapsed. It is the intention of Mr. Kan to place down his shareholding in the Company before the resumption of trading in the shares of the Company in order to maintain the 25% minimum public float as required in the Listing Rules.

In August 2007, Mr. Kan acquired the bank overdrafts and borrowings due to the Group's bank creditors, which aggregate balance was approximately HK$256 million as at 12 December 2005 for a consideration of HK$30,300,000 by way of assignment. In September 2007, Mr. Kan acquired the amount due to Intel, which balance was approximately US$7,567,000 as at 11 July 2006, for a consideration of US$840,000 by way of assignment.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review

Working against the challenging year of 2006, the Group was adversely affected by the lack of working capital from banks to finance its trading operation. The Group recorded a loss of approximately HK$181 million for the year 2006.

During the year, the Group's turnover was approximately HK$36 million (2005: approximately HK$1,198 million), representing a decrease of approximately 97% compared with the previous year.

Gross profit of approximately HK$1 million was recorded for the year 2006. It represented a 95% decrease of gross profit compared with 2005.

The Group had made a significant amount of allowance and write-down during the year 2006. Details were set out below:

- *Trade Receivables*

  The Group had made an allowance for doubtful debts for trade receivables of approximately HK$103 million during the year. The trade receivables were regarded as doubtful because they had exceeded the Group's credit period. There was also no subsequent settlement since year end.

- *Inventories*

  The Group had made a write-down of inventories of approximately HK$47 million during the year. The write-down was mainly attributable to the aging analysis and the market situation of the inventories.

The Group further made an allowance for rebates receivables of approximately HK$6 million and an impairment loss of approximately HK$6 million was recognised in respect of plant and equipment during the year.

Liquidity, financial resources and gearing ratio

The Group had total cash and bank balances (including pledged bank deposits) of approximately HK$3 million as at 31 December 2006 (2005: approximately HK$51 million). Balance of bank overdrafts and short-term borrowings were approximately HK$259 million as at 31 December 2006 (2005: approximately HK$230 million). 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 2006 calculated as a ratio of total bank loans to total assets was 4,812% (2005: 102%). Net liabilities were approximately HK$326 million (2005: approximately HK$145 million).

The Group recorded total current asset value of approximately HK$5 million as at 31 December 2006 (2005: approximately HK$217 million) and total current liability value of approximately HK$331 million (2005: approximately HK$370 million). The current ratio of the Group, calculated by dividing the total current asset value by the total current liability value, was about 0.01 as at 31 December 2006 (2005: approximately 0.6).

The Group recorded a loss in 2006 and this attributed to a decrease in shareholders' funds to a negative value of approximately HK$326 million as at 31 December 2006 (2005: a negative value of approximately HK$145 million).

Treasury policies

The Group's major borrowings are in US dollars and HK dollars. All borrowings are based on LIBOR or Hong Kong best lending rates. The Group's bank borrowings were assigned to Mr. Kan after the balance sheet date and the Group currently does not have a foreign currency and interest rate hedging policy. However, the management of the Group monitors foreign exchange and interest rate exposure 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 2006.

Investments

The Group had not held any significant investment for the year ended 31 December 2006.

Material acquisitions and disposals of subsidiaries or associated companies

The Group did not have any material acquisition or disposal of subsidiaries or associated companies during the year ended 31 December 2006.

Segmental information

Details of segmental information for the year ended 31 December 2006 are set out in Note 3 to this announcement.

Contingent liabilities

The Group had no significant contingent liabilities as at 31 December 2006.

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 review and supervision of the Group's financial reporting process and internal controls. The Audit Committee has reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2006.

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 2006, 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 throughout the year ended 31 December 2006 with the code provisions as set out in the Code on Corporate Governance Practices under Appendix 14 to the Listing Rules 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 resignation of some Directors, only three full Board meetings were held during the year.

2. Under the Code Provisions A.1.5 and A.1.6, minutes of Board meetings should be kept by a duly appointed secretary of the meeting and such minutes should record in sufficient detail the matters considered by the Board and decisions reached. During the year, due to insufficient manpower of the Group, minutes of Board meetings were not properly prepared and had not sent to the Directors for their comments.

3. Under the Code Provision A.2.1, the roles of chairman and chief executive officer should be separate. The positions of chairman and chief executive officer of the Company are held by Mr. Yu Pen Hung. The Board believes that such arrangement facilitates efficient and effective planning and implementation of business strategies. Mr. Yu possesses extensive experience in the information technology business which is invaluable for the Group. The Board has confidence in Mr. Yu and believes that the dual role is beneficial to the Group.

4. 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 resignation of Mr. Yim Hing Wah in September 2006, the Board consisted of only two independent non-executive Directors until the appointment of Mr. Lee Kong Leong as an independent non-executive Director on 7 December 2006.

5. 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 existing 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.

6. Under the Code Provision B.1.1, a remuneration committee should be established with specific written terms of reference which deal clearly with its authority and duties. The remuneration committee of the Company (the "Remuneration Committee") was formed in December 2005 which consisted of solely independent non-executive Directors. However, due to the resignation of Mr. Yim Hing Wah in September 2006 and the financial difficulties faced by the Group, the Remuneration Committee did not hold any meeting during the year to discharge its responsibilities in accordance with its terms of reference which are set out in accordance with the requirements of the Listing Rules.

7. Under the Code Provision C.3.1, full minutes of Audit Committee meetings should be kept by a duly appointed secretary of the meeting. During the year, due to insufficient manpower of the Group, minutes of Audit Committee meetings were not properly prepared and had not sent to the members of the Audit Committee for their comments.

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held on 20 December 2007, details of which will be 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, 14 November 2007

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.