



Artel Group
宏通集團
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)

2006 INTERIM RESULTS

The board of directors (the "Board") 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 2006 (the "period") together with the comparative figures for the previous corresponding period prepared in accordance with generally accepted accounting principles in Hong Kong.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the period ended 30 June 2006

| Notes | Six months ended 30 June | |
|--|---------------------------------|---------------------------------|
| | 2006 (Unaudited) HK\$'000 | 2005 (Unaudited) HK\$'000 |
| Turnover | 32,319 | 853,792 |
| Cost of sales | <u>(23,263)</u> | <u>(811,408)</u> |
| Gross profit | 9,056 | 42,384 |
| Other operating income | 160 | 6,381 |
| Distribution costs | (94) | (3,010) |
| Administrative expenses | <u>(11,081)</u> | <u>(13,390)</u> |
| (Loss)/Profit from operations | (1,959) | 32,365 |
| Finance costs | (13,586) | (9,190) |
| Share of results of associates | — | 13 |
| Impairment loss recognized in respect of goodwill of associates | — | (10,605) |
| (Loss)/Profit before taxation | (15,545) | 12,583 |
| Taxation | <u>(2)</u> | <u>(4,185)</u> |
| (Loss)/Profit for the period attributable to equity shareholders of the Company | <u>(15,547)</u> | <u>8,398</u> |
| Dividend | <u>—</u> | <u>—</u> |
| (Loss)/Earnings per share | (0.97) | 0.5 |
| — Basic, HK cents | <u>(0.97)</u> | <u>0.5</u> |
| — Diluted, HK cents | <u>N/A</u> | <u>N/A</u> |

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2006

| Notes | 30 June 2006 (Unaudited) HK\$'000 | 31 December 2005 (Audited) HK\$'000 |
|--|--|--|
| | ASSETS & LIABILITIES | |
| Non-current assets | | |
| Plant and equipment | 7,000 | 8,519 |
| Interests in associates | 792 | 792 |
| Interest in jointly controlled entity | 195 | 195 |
| | <u>7,987</u> | <u>9,506</u> |
| Current Assets | | |
| Inventories | 54,527 | 54,868 |
| Trade receivables, rebates receivables, prepayments and deposits | 112,411 | 109,570 |
| Amount due from an associate | 874 | 874 |
| Pledged bank deposits | — | 43,797 |
| Bank balances and cash | 1,222 | 7,676 |
| | <u>169,034</u> | <u>216,785</u> |
| Current liabilities | | |
| Trade payables, sales deposits and accrued charges | 69,936 | 138,187 |
| Amount due to a director | 1,998 | 195 |
| Bank overdrafts and bank borrowings | 263,928 | 230,149 |
| Derivate financial instruments | — | 1,057 |
| | <u>335,862</u> | <u>369,588</u> |
| Net current liabilities | <u>(166,828)</u> | <u>(152,803)</u> |
| Total assets less current liabilities | <u>(158,841)</u> | <u>(143,297)</u> |
| Capital and reserves | | |
| Share capital | 16,000 | 16,000 |
| Reserves | <u>(176,141)</u> | <u>(160,597)</u> |
| Equity attributable to equity shareholders of the Company | <u>(160,141)</u> | <u>(144,597)</u> |
| Non-current liabilities | | |
| Deferred taxation | 1,300 | 1,300 |
| | <u>1,300</u> | <u>1,300</u> |
| | <u>(158,841)</u> | <u>(143,297)</u> |

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

In preparing the financial statements, the directors of the Company have given careful consideration to the future liquidity of the Group in light of its net current liabilities of approximately HK\$167 million and net liabilities of approximately HK\$159 million as at 30 June 2006.

However, restoring the liquidity and financial position of the Group is dependent upon the introduction of new equity capital and debts assignment by new investor. Provided that new equity capital can be injected into the Group, the directors of the Company are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements set out in Appendix 16 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost basis except for certain financial instruments which are measured at fair value.

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Group's annual audited financial statements for the year ended 31 December 2005 except in relation to the following amendments to and interpretation of HKFRSs issued by HKICPA that affect the Group and are adopted to the first time for the current period's financial statements:

| | |
|---------------------|---|
| HKAS 39 (Amendment) | The Fair Value Option ⁽¹⁾ |
| HKAS 39 & HKFRS 4 | Financial Instruments: Recognition and Measurement and Insurance Contracts — Financial Guarantee ⁽¹⁾ |
| HK(IFRIC) — Int 4 | Determining whether an Arrangement contains a Lease ⁽¹⁾ |
| HK(IFRIC) — Int 8 | Scope of HKFRS 2 ⁽²⁾ |

⁽¹⁾ Effective for annual periods beginning on or after 1 January 2006

⁽²⁾ Effective for annual periods beginning on or after 1 May 2006

The adoption of the above HKFRSs did not result in material impact on the accounting policies of the Group's condensed consolidated financial statements.

The Group has not early adopted certain accounting Standards or Interpretations that have been issued but not yet effective. The adoption of such Standards and Interpretations will not result in substantial changes to the Group's accounting policies.

3. SEGMENT INFORMATION

(a) Business segments

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

| | Distribution of computer components and information technology products | | Provision of integrated e-enabling solutions | | Consolidated | |
|---|---|---------------------------------|--|---------------------------------|--|---------------------------------|
| | Six months ended 30 June 2006 (Unaudited) HK\$'000 | 2005 (Unaudited) HK\$'000 | Six months ended 30 June 2006 (Unaudited) HK\$'000 | 2005 (Unaudited) HK\$'000 | Six months ended 30 June 2006 (Unaudited) HK\$'000 | 2005 (Unaudited) HK\$'000 |
| TURNOVER | | | | | | |
| External sales | <u>32,319</u> | 823,736 | <u>—</u> | 30,056 | <u>32,319</u> | 853,792 |
| SEGMENT RESULTS | <u>(1,781)</u> | 23,341 | <u>(15)</u> | 4,539 | <u>(1,796)</u> | 27,880 |
| Other operating income | | | | | — | 6,381 |
| Unallocated corporate expenses | | | | | <u>(163)</u> | (1,896) |
| (Loss)/Profit from operations | | | | | <u>(1,959)</u> | 32,365 |
| Finance costs | | | | | <u>(13,586)</u> | (9,190) |
| Share of results of associates | | | | | — | 13 |
| Impairment loss recognized in respect of goodwill of associates | | | | | — | (10,605) |
| (Loss)/Profit before taxation | | | | | <u>(15,545)</u> | 12,583 |
| Taxation | | | | | <u>(2)</u> | (4,185) |
| (Loss)/Profit for the period attributable to equity shareholders of the Company | | | | | <u>(15,547)</u> | <u>8,398</u> |

(b) Geographical segments

| | Six months ended 30 June | |
|--|---------------------------------|---------------------------------|
| | 2006 (Unaudited) HK\$'000 | 2005 (Unaudited) HK\$'000 |
| Turnover by geographical market | | |
| The People's Republic of China (the "PRC") | <u>32,319</u> | 701,128 |
| Hong Kong | <u>—</u> | 152,664 |
| | <u>32,319</u> | <u>853,792</u> |

4. DIVIDEND

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2006 (2005: Nil).

5. (LOSS)/EARNINGS PER SHARE

The calculation of the basic (loss)/earnings per share for the period is based on the net loss for the period of HK\$15,547,000 (2005: profit of HK\$8,398,000) and on the 1,600,000,000 (2005: 1,600,000,000) shares in issue.

Dilutive loss per share for the period was not presented because the exercise of the Company's share options will reduce loss per share which is anti-dilutive.

6. TRADE RECEIVABLES, PREPAYMENTS AND DEPOSITS

The credit terms of the Group range from 30 to 180 days. The aged analysis of trade receivables at the reporting date is as follows:

| | 30 June 2006 (Unaudited) HK\$'000 | 31 December 2005 (Audited) HK\$'000 |
|---|--|--|
| Aged: | | |
| 0 - 30 days | — | 9,360 |
| 31 - 60 days | — | 1,139 |
| 61 - 90 days | — | 7,202 |
| 91 - 180 days | — | 78,645 |
| More than 180 days | 103,440 | — |
| Total trade receivables | 103,440 | 96,346 |
| Rebates receivables | 7,351 | 7,351 |
| Prepayments, deposits and other receivables | 1,620 | 5,873 |
| | <u>112,411</u> | <u>109,570</u> |

7. TRADE PAYABLES, SALES DEPOSITS AND ACCRUED CHARGES

The aged analysis of trade payables at the reporting date is as follows:

| | 30 June 2006 (Unaudited) HK\$'000 | 31 December 2005 (Audited) HK\$'000 |
|----------------------|--|--|
| Aged: | | |
| 0 - 30 days | — | 4,646 |
| 31 - 90 days | — | — |
| 91 - 180 days | — | 127,187 |
| More than 180 days | 65,498 | — |
| Total trade payables | 65,498 | 131,833 |
| Sales deposits | 837 | 2,848 |
| Accrued charges | 3,601 | 3,506 |
| | <u>69,936</u> | <u>138,187</u> |

Note:

In December 2006, Intel Semiconductor (US) Ltd. ("Intel"), a major supplier of the Group, Fine Elite Limited ("Fine Elite"), a private company incorporated in the British Virgin Islands, a third party independent of the Group and is not connected person of the Group, and the Company have entered the deed of assignment and settlement deed in the sum of US\$7,567,165.75 (equivalent to HK\$59,023,893) of the debt subject to certain conditions precedent. Pursuant to the Agreement, the debt will not be assigned to Fine Elite unless the conditions are fulfilled.

8. CAPITAL COMMITMENTS

The Group has entered a shareholders' agreement with an independent third party to establish a joint venture in which the Group will invest approximately HK\$39,000,000 to develop distributing channel of internet protocol television in the PRC.

9. CONTINGENT LIABILITIES

As at 30 June 2006, the Group did not have any significant contingent liabilities.

10. POST BALANCE SHEET EVENTS

The Group have the following litigations after the period ended 30 June 2006:

- On 11 July 2006 and 16 August 2006, Intel Semiconductor (US) Ltd. ("Intel"), a major supplier of the Company, took statutory demand against Artel Macao Commercial Offshore Ltd, a company wholly owned subsidiary of the Company, and the Company respectively claiming outstanding accounts payables in the sum of US\$7,567,165.75 (equivalent to HK\$59,023,893) (the "Debt and Guarantee Debt").

In December 2006, Intel, Fine Elite Limited ("Fine Elite"), a private company incorporated in the British Virgin Islands, a third party independent of the Group and are not connected person of the Group, and the Company have entered the deed of assignment and settlement deed in the sum of US\$7,567,165.75 (equivalent to HK\$59,023,893) of the Debt and Guarantee Debt subject to certain conditions precedent. Therefore, Intel will not take any further legal action at the current stage.

- On 18 September 2006, former employees of the Company brought claims numbered LBTC 4162/2006 and LBTC4919/2006 against the Company at the Labour Tribunal (the "Tribunal") claiming arrears of payroll in the aggregate amount of HK\$365,739.83 and HK\$42,387.09 respectively.
- On 29 September 2006, a former Senior Vice President took against Artel Industries Ltd. claiming arrears of payroll in the aggregate amount of HK\$240,000.
- On 29 September 2006, A Plus Financial Press Limited brought an action in District Court under DCCC 4897/2006 against the Company claiming HK\$286,431 for services rendered. On 6 December 2006, the Company has received a purported Statutory Demand pursuant to Section 327(4)(a) of the Companies Ordinance by A Plus Financial Press Limited claiming the services rendered and the interest of judgment debt.
- On 4 October 2006, International Trademart Company Ltd. (the "Landlord") brought an action in the High Court under HCA 2211/2006 against Artel Industries Ltd. a company wholly owned subsidiary of the Company, claiming HK\$120,224.80 in respect of overdue office rental and management fee of the premises situated at Units 51, 51A, 53, 55 and 57, 8th Floor, HITEC, 1 Trademark Drive, Kowloon Bay, Kowloon, Hong Kong.
- Winding-up petition of 474/2006

On 7 September 2006, the Company received a petition for winding up of the Company (the "Petition") dated 5 September 2006, by HSH Nordbank AG, Hong Kong Branch (the "Petitioner"), due to the reason that the Company was unable to repay the outstanding debts of US\$8,807,366.07 (the "Debt") owed by two companies which the Company is a guarantor, the hearing of which is scheduled for 1 November 2006 and a summons dated 6 September 2006 for an application by the Petitioner to appoint provisional liquidators of the Company. The application for appointment of provisional liquidators was subsequently withdrawn on 19 September 2006 by way of consent summons between the parties.

On 1 November 2006, which the Petition was scheduled to be heard, immediately before the hearing for the Petition, the solicitors for both the Petitioner and the Company signed the consent summons (the "Consent Summons") for dismissal of the Petition. However, as the Petition had already been advertised, the Master hearing did not have jurisdiction to order a dismissal of the Petition and had to adjourn the case to 6 November 2006 before the Companies Judge. On 6 November 2006, upon the agreement of the Company and the Petitioner, and there being no objecting creditors, the Companies Judge ordered the Petition to be dismissed and an order had been sealed on 10 November 2006.

The reason of dismissal was that the Petitioner has entered into a debt assignment agreement (the "Agreement") with Fine Elite limited ("Fine Elite"), a private company incorporated in the British Virgin Islands, a third party independent of the Group and is not connected person of the Group, to assign the debt in the sum of approximately US\$8.8 million owed by the Company to the Petitioner subject to certain conditions precedent including but not limited to the resumption in trading in Shares. The Agreement was entered into between the Petitioner and Fine Elite, which the Company is not a party to the Agreement. The Company has not entered into any term or arrangement with Fine Elite and the Company has not given any security or guarantee to the Petition over the Debt.

Since in October 2006, HSH Nordbank AG Hong Kong Branch and other financial institutions have entered a debt assignment agreement with Fine Elite in the sum of approximately HK\$256 million and accrued interest subject to certain conditions precedent. Pursuant to the Agreement, the debt will not be assigned to third party unless the conditions is fulfilled. Therefore, HSH Nordbank AG Hong Kong Branch and the other financial institutions will not take any further legal action at the current stage. As at the date of this announcement, the liability of the Company to repay the Debt has been unchanged.

MANAGEMENT DISCUSSION AND ANALYSIS

Business and Financial review

Working against the challenging period for the six months ended 30 June 2006, the Group was adversely affected by lack of working capital from banks and a major supplier to finance the trading operation from February 2006. In addition, the fierce price competition in the computer component and information technology products market is harmed the gross profit of our products.

Thus, the Group recorded a loss of approximately HK\$15,547,000 for the six months ended 30 June 2006. The Group's turnover for the six months ended 30 June 2006 amounted to HK\$32,319,000, decreased 96% when comparing with last year's HK\$853,792,000. The Group recorded a gross profit of approximately HK\$9 million for six months ended 30 June 2006, representing a decrease of approximately 79% compared with 2005.

Liquidity and financial resources

The Group had total cash and bank balances of approximately HK\$1.2 million as at 30 June 2006 (31 December 2005: approximately HK\$51 million). Balance of bank overdrafts and short-term bank borrowings was approximately HK\$264 million as at 30 June 2006 (31 December 2005: approximately HK\$231 million).

The Group recorded total current asset value of approximately HK\$169 million as at 30 June 2006 (31 December 2005: approximately HK\$217 million) and total current liability value of approximately HK\$335 million (31 December 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 0.5 as at 30 June 2006 (31 December 2005: approximately 0.59).

Fine Elite, a third party independent investor of the Group, has entered debt assignment agreement with Intel, HSH Nordbank AG Hong Kong Branch and other financial institutions regarding to trade payable and bank borrowings. If the preceding conditions of the agreement are fulfilled, the debts will be assigned. It will reduce the current liabilities and improve the liquidity of the Group.

INTERIM DIVIDEND

The directors do not recommend the payment of an interim dividend in respect of the six months ended 30 June 2006.

EMPLOYEES

As at 30 June 2006, the Group had about 15 full time employees. The Group remunerated its employees mainly based on industry practice and 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.

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

The Company has not redeemed any of its listed securities during the period. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities during the period.

AUDIT COMMITTEE

The principal activities of the Audit Committee include the review and supervision of the Group's financial reporting process and internal controls. The Audit Committee has reviewed the financial statements of the Group for the six months ended 30 June 2006.

The Audit Committee comprises three independent non-executive directors, namely Dr. Liu James Juh, Ms. Hu Gin Ing and Mr. Lee Kong Leong.

REMUNERATION COMMITTEE

The Remuneration Committee, established in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules, consists of solely independent non-executive directors of the Company.

The Remuneration Committee is charged with the responsibility the specific remuneration packages of all executive directors and senior management, including benefits-in-kind, pension rights, and compensation payments, and to advise the Board on the remuneration of the directors and senior management, the Remuneration Committee takes into account the performance of the Group as well as individual directors and key executives.

CORPORATE GOVERNANCE

The Company has complied with all Code Provisions of the Code of Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules of the Stock Exchange throughout the six months ended 30 June 2006 except for the following deviations:

- The positions of chairman and chief executive officer of the Company are held by Mr. Yu Pen Hung. The Board believes that the holding both the positions of chairman and chief executive officer with the same person allows for more effective planning and execution of business strategies. Also, Mr. Yu possesses extensive valuable experience that is essential for the Group's operations. The Board has full confidence in Mr. Yu and believes that his dual roles will be beneficial to the Group.
- Under the Code provisions A.4.1 and A.4.2, non-executive Director should be appointed for a specific term and every Director should be subject to retirement by rotation at least once every three years. The existing independent non-executive directors of the Company are not appointed for specific terms but they are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Articles of Association of the Company (the "Articles of Association").
- According to the Articles of Association of the Company, not exceeding one-third of the Directors for the time being shall retire from office by rotation at each annual general meeting. However, pursuant to the Articles of Association, one-third of the Directors for the time being (or if their number is not a multiple of three, the number nearest to but not greater than one-third) should retire from office by rotation and be eligible for re-election at the annual general meeting of the Company.

QUALIFIED ACCOUNTANT

Pursuant to Rule 3.24 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"), the Company must appoint a full time qualified accountant. The Company has been actively seeking for suitable candidate(s) to fill the posts following the departure of Mr. Sze Lin Tang. However, as at the date of this report, the Company has failed to complete the appointment of the captioned posts. The Company will continue to use its best endeavours in finding suitable candidate(s), will keep its shareholders informed in respect of any appointment and will seek to comply with the Listing Rules as soon as possible.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules of the Stock Exchange. Having made specific enquiry of all directors, they have confirmed that they complied with the required standards as set out in the Model Code during the six months ended 30 June 2006.

REVIEW OF INTERIM RESULTS

The unaudited interim results of the Group for the six months ended 30 June 2006 have been reviewed by the Audit Committee.

PUBLICATION OF DETAILED RESULTS ON THE EXCHANGE'S WEBSITE

Detailed results containing all the information required by Appendix 16 of the Listing Rules of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") will be published on the Stock Exchange's website in due course.

By order of the Board
Artel Solutions Group Holdings Limited
Yu Pen Hung
Chairman

Hong Kong, 20 December 2006

As at the date of this announcement, the Board comprises Mr. Yu Pen Hung, Mr. Kwok Chung Yin and Ms. Ma Pun Sai Betsy being the executive directors, Dr. Liu James Juh, Ms. Hu Gin Ing and Mr. Lee Kong Leong being the independent non-executive directors.

* for identification purpose only