Artel Group
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ARTEL SOLUTIONS GROUP HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)
(Stock Code: 931)

2006
Annual Report

Contents

Corporate Information

BOARD OF DIRECTORS
Executive Directors
Mr. Kan Che Kin, Billy Albert *(Chairman)*
Mr. Yu Pen Hung *(Chief Executive Officer)*
Mrs. Kan Kung Chuen Lai
Ms. Li Shu Han, Eleanor Stella
Mr. Li Kai Yien, Arthur Albert

Independent Non-Executive Directors
Mr. Li Siu Yui
Mr. Ip Woon Lai
Mr. Lee Kong Leong

AUDIT COMMITTEE
Mr. Li Siu Yui *(Chairman)*
Mr. Ip Woon Lai
Mr. Lee Kong Leong

REMUNERATION COMMITTEE
Mr. Kan Che Kin, Billy Albert *(Chairman)*
Mr. Li Siu Yui
Mr. Ip Woon Lai

NOMINATION COMMITTEE
Mr. Kan Che Kin, Billy Albert *(Chairman)*
Mr. Li Siu Yui
Mr. Ip Woon Lai

COMPANY SECRETARY & QUALIFIED ACCOUNTANT
Ms. Seto Ying

LEGAL ADVISER
Kirkpatrick & Lockart Preston Gates Ellis

INDEPENDENT AUDITOR
PKF

AUTHORISED REPRESENTATIVES
Mr. Kan Che Kin, Billy Albert
Ms. Seto Ying

PRINCIPAL BANKERS
Hang Seng Bank Limited
Bank of China (Hong Kong) Limited

REGISTERED OFFICE
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG
Flat 18, 1st Floor
Flourish Industrial Building
33 Sheung Yee Road
Kowloon Bay, Kowloon
Hong Kong

PRINCIPAL SHARE REGISTRAR
Butterfield Fund Services (Cayman) Limited

HONG KONG BRANCH SHARE REGISTRAR
Tricor Standard Limited
26th Floor, Tesbury Centre
28 Queen's Road East, Wanchai
Hong Kong

WEBSITE
www.finance.thestandard.com.hk/en/0931artelsolutions/index.asp

STOCK CODE
931

Chairman's Statement

On behalf of the board (the "Board") of directors (the "Directors") of Artel Solutions Group Holdings Limited (the "Company" or "Artel"), I now present the annual report of the Company and its subsidiaries (the "Group") for the year ended 31 December 2006.

OUR VISION

Artel is committed to serve the genuine need for computing, multimedia and networking solutions in the high-tech community. We are dedicated to provide cutting edge solutions and digital products as well as reliable services to our customers in reaching their business goals.

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 approximately 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.

Kan Che Kin, Billy Albert
Chairman

Hong Kong, 14 November 2007

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 decrease of approximately 95% 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 approximately 4,812% (2005: approximately 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 Che Kin, Billy Albert ("Mr. Kan"), the chairman of the Company, 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 7 to the consolidated financial statements.

CONTINGENT LIABILITIES

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

STAFF AND REMUNERATION POLICIES

As at 31 December 2006, the Group had 5 employees (2005: 35 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 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.

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Kan Che Kin, Billy Albert ("Mr. Kan")

Mr. Kan, aged 55, joined the Board on 10 October 2007 and is the chairman of the Company and an executive Director. He graduated from the University of East Anglia with a Bachelor of Science degree. Mr. Kan is an associate member of the Institute of Chartered Accountants in England and Wales, the Hong Kong Institute of Certified Public Accountants and Hong Kong Securities Institute. Mr. Kan had worked with Deloitte Touche Tohmatsu and KPMG and is equipped with extensive experience in accounting, taxation and corporate finance. In addition, Mr. Kan has over 20 years of experience in serving on the board of directors of financial institutions and listed companies in Hong Kong, including Security Pacific Finance Limited, Burlingame International Company Limited (now renamed Interchina Holdings Company Limited) (stock code: 202) and Greater China Holdings Limited (stock code: 431). Mr. Kan resigned as a director of Interchina Holdings Company Limited in September 2000 and of Greater China Holdings Limited in June 2004. Mrs. Kan Kung Chuen Lai is the wife of Mr. Kan, Ms. Li Shu Han, Eleanor Stella is a niece of Mr. Kan, Mr. Li Kai Yien, Arthur Albert is a nephew of Mr. Kan.

Mr. Yu Pen Hung ("Mr. Yu")

Mr. Yu, aged 44, is the founder of the Group, an executive Director and the chief executive officer of the Company. Mr. Yu is also the director of Artel International Holdings Limited, Elite City International Limited, Wisdom Best Trading Limited, Cyber King Group Limited, Yiu Fai Trading Limited, Advance Great Limited, Artel Computer Solutions Limited, Ariel International Technology Co., Limited, Artel e-Solutions Limited, Artel International Investments Limited, ASEP Solutions Limited, Artel Industries Limited, Best Hero Limited, Hashan Development Company Limited and Artel Computer International Trade (Shanghai) Co., Ltd., all being subsidiaries of the Company. Before founding the Group in 1995, Mr. Yu has been engaged in the distribution of computer components in Taiwan. Mr. Yu has been engaged in the distribution of computer components business in Taiwan, the People's Republic of China and Hong Kong for around 17 years.

Mrs. Kan Kung Chuen Lai ("Mrs. Kan")

Mrs. Kan, aged 57, joined the Board on 10 October 2007 and is an executive Director. Mrs. Kan is a director of BK Capital Limited, a private company engaged in merchandise trading, properties investment and securities trading, for over 10 years. She has extensive secretarial and administrative experience for over 10 years with an international audit firm. Mrs. Kan is the wife of Mr. Kan.

Ms. Li Shu Han, Eleanor Stella ("Ms. Li")

Ms. Li, aged 38, joined the Board on 10 October 2007 and is an executive Director. She holds a Bachelor of Science Accounting degree from University of South California. Ms. Li was admitted as a member of American Institute of Certified Public Accountants and the Hong Kong Institute of Certified Public Accountants in 1995. She has extensive experience in accounting, corporate finance and corporate restructuring. Ms. Li is currently a director of Wealth Loyal Development Limited, a private company engaged in investment holding. Ms. Li is a niece of Mr. Kan and sister of Mr. Li Kai Yien, Arthur Albert.

Mr. Li Kai Yien, Arthur Albert ("Mr. Li")

Mr. Li, aged 35, joined the Board on 10 October 2007 and is an executive Director. Mr. Li graduated from University of Southern California with a Bachelor of Science degree in 1995. Mr. Li has been a Certified Public Accountant since 2001 and has more than 9 years' experience in accounting and securities dealing. Mr. Li is currently a dealer representative of Phillip Securities (HK) Ltd. Mr. Li is a nephew of Mr. Kan and brother of Ms. Li.

Biographical Details of Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Li Siu Yui

Mr. Li Siu Yui, aged 37, joined the Board on 10 October 2007 and is an independent non-executive Director. He holds a Master's degree in Business Administration from University of Wales. He has over 9 years' experience in the area of investment. He was working in securities companies during the period from 1997 to 2002. He has been engaged as an investment manager at two private companies since 2002.

Mr. Ip Woon Lai ("Mr. Ip")

Mr. Ip, aged 37, joined the Board on 10 October 2007 and is an independent non-executive Director. Mr. Ip holds a Bachelor of Commerce in Accounting and Finance degree from University of New South Wales and was admitted as a certified practicing accountant of the Australian Society of Certified Practicing Accountants in 1998. He began his professional career with Arthur Andersen & Co. in Hong Kong in 1994. Mr. Ip has extensive corporate finance and investment banking experience and had worked for various international investment banks including Warburg Dillon Read and ING Bank N.V.. He had also worked in Hysan Development Company Limited where he served as deputy head of corporate finance from 2005 to 2006. In 2006, Mr. Ip joined Lotus Capital Management Limited, a private equity investment fund.

Mr. Lee Kong Leong ("Mr. Lee")

Mr. Lee, aged 43, joined the Board on 7 December 2006 and is an independent non-executive Director. Mr. Lee holds a Bachelor of Commerce in Accounting and Information Systems degree from the University of New South Wales. He began his professional career with Coopers & Lybrand in Malaysia in 1988. From 1989 to 1995, he held senior positions with PriceWaterhouseCoopers and C.P. Pokphand Ltd. in Hong Kong. He is a certified practicing accountant with the Australian Society of Certified Public Accountants and a member of the Hong Kong Institute of Certified Public Accountants. From 2001 to 2004, he was a director of Harbin Brewery Group Limited, a company listed on the Stock Exchange from 2002 to 2004.

SENIOR MANAGEMENT

Company Secretary and Qualified Accountant

Ms. Seto Ying ("Ms. Seto")

Ms. Seto, aged 31, is the qualified accountant and company secretary of the Company since October 2007. Ms. Seto graduated from the Chinese University of Hong Kong in 1998 with a bachelor's degree of business administration in accountancy. She is a fellow of the Association of Chartered Certified Accountants and an associate of the Hong Kong Institute of Certified Public Accountants. Ms. Seto has more than 9 years of working experience in the field of finance and accounting including with international accounting firms. Ms. Seto is also the director of two subsidiaries of the Company.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining a high standard of corporate governance. It believes that high standards of corporate governance provide a framework and solid foundation for the Group to manage business risks, enhance transparency, maintain high standards of accountability and protect interests of shareholders and other stakeholders.

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 (the "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.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Listing Rules. The Company has made specific enquiry of all Directors, they all confirmed that they have fully complied with the required standards as set out in the Model Code during the year ended 31 December 2006.

BOARD OF DIRECTORS

There were changes in the composition of the Board during the year. Details are set out in the section of "Directors attendance at Board, Remuneration Committee and Audit Committee meetings" in this Corporate Governance Report.

The Board is responsible for approving and monitoring the Group's strategies and policies, and business plans, revaluating the performance of the Group and supervising the work of management. The management is responsible for the daily operations of the Group under the leadership of the chief executive officer of the Company.

For a Director to be considered independent, the Board must determine that the Director does not have any direct or indirect material relationship with the Group. The Board follows the requirements set out in the Listing Rules to determine the independence of Directors. The Company has received from each of its existing independent non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and considers all independent non-executive Directors are independent. There were only two independent non-executive Directors for a period of approximately three months during the year. Thus, the Company was not in compliance with Rule 3.10 of the Listing Rules regarding the minimum number of independent non-executive Directors during that period. The reasons have been explained in the paragraph 4 under the section of "Code on Corporate Governance Practices" in this Corporate Governance Report.

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 Articles of Association at least once every three years.

The roles of the chairman and the chief executive officer are both held by Mr. Yu Pen Hung during the year. The reasons have been explained in the paragraph 3 under the section of "Code on Corporate Governance Practices" in this Corporate Governance Report.

REMUNERATION COMMITTEE

The Remuneration Committee consists of solely independent non-executive Directors and its members during the year were:

Mr. Yim Hing Wah *(Chairman)* (resigned on 18 September 2006)
Ms. Hu Gin Ing
Dr. Liu James Juh
Mr. Lee Kong Leong (appointed on 7 December 2006)

The Remuneration Committee is responsible for determining 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 non-executive Directors. In developing remuneration policies and making recommendation as to 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 senior management.

No Directors can determine their own remuneration package. 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.

Directors' emoluments comprise payments to Directors by the Company and its subsidiaries in connection with the management of the affairs of the Company and its subsidiaries and other benefits. The amounts paid to each Director for 2006 are shown in note 10 to the consolidated financial statements.

AUDIT COMMITTEE

The Audit Committee was formed to review and supervise the financial reporting process and internal controls of the Company. The Audit Committee comprises solely the three independent non-executive Directors and one of whom possesses the appropriate professional qualifications, business and financial experience and skills. The Audit Committee members during the year were:

Dr. Liu James Juh *(Chairman)*
Ms. Hu Gin Ing
Mr. Yim Hing Wah (resigned on 18 September 2006)
Mr. Lee Kong Leong (appointed on 7 December 2006)

Under its terms of reference, which were prepared and adopted with reference to the Code and "A Guide for the Formation of an Audit Committee" published by the Hong Kong Institute of Certified Public Accountants, the Audit Committee is required, amongst other things, to oversee the relationship with the external auditors, to review the Group's interim and annual results, to review the scope, extent and effectiveness of internal controls of the Group, to review accounting policies and practices adopted by the Group, to engage independent legal or other advisers as it determine is necessary and to perform investigations.

AUDIT COMMITTEE (continued)

During the year, the Audit Committee held two meetings. Matters considered at the meetings included review of the Group's 2005 annual results, 2006 interim results, the fees for engaging the external auditors to provide the audit for 2005, the independence of the external auditors, the fees for non-audit services, the Company's financial control, internal control and risk management system.

During the year, the Company was not in compliance with Rule 3.10 of the Listing Rules regarding the minimum number of independent non-executive Directors due to the resignation of Mr. Yim Hing Wah in September 2006 until the appointment of Mr. Lee Kong Leong in December 2006.

DIRECTORS ATTENDANCE AT BOARD, REMUNERATION COMMITTEE AND AUDIT COMMITTEE MEETINGS

	Attendance/Number of meetings held during the year		
Directors	**Full Board meetings**	**Audit Committee meetings**	**Remuneration Committee meeting**
Executive Directors			
Mr. Yu Pen Hung	3/3	N/A	N/A
Ms. Lee Ran, Elizabeth (appointed on 8 February 2006 and resigned on 3 July 2006)	2/3	N/A	N/A
Mr. Kwok Chung Yin (appointed on 7 December 2006 and resigned on 9 March 2007)	1/3	N/A	N/A
Ms. Ma Pun Sai, Betsy (appointed on 7 December 2006 and resigned on 9 March 2007)	1/3	N/A	N/A
Mr. Chen Chih Ming (resigned on 8 February 2006)	0/3	N/A	N/A
Independent Non-executive Directors			
Dr. Liu James Juh (resigned on 13 March 2007)	3/3	2/2	0/0
Ms. Hu Gin Ing (resigned on 9 March 2007)	3/3	2/2	0/0
Mr. Yim Hing Wah (resigned on 18 September 2006)	2/3	1/2	0/0
Mr. Lee Kong Leong (appointed on 7 December 2006)	1/3	1/2	0/0

Due to the financial difficulties faced by the Group and resignation of some Directors during the year, only three full Board meetings were held during the year. Regular Board meetings will be held in the coming year and the Board will convene other meetings when necessary.

NOMINATION OF DIRECTORS

The Company has not established a nomination committee during the year. The Board has established formal procedures for the appointments of new Directors and re-nomination and re-election of Directors. In nominating candidates for appointment of Directors, the Board will consider their necessary expertise and experience.

AUDITORS' REMUNERATION

Deloitte Touche Tohmatsu, the predecessor auditors of the Company, resigned on 22 December 2006 and PKF were appointed as auditors of the Company on 15 October 2007. The amount of audit fee for the year ended 31 December 2006 was HK$320,000. PKF also provided non-audit services including taxation services to the Group for the year ended 31 December 2006 for a fee of HK$20,000. In considering the re-appointment of external auditors, the Audit Committee has taken into consideration its relationship with the Company and their independence in the provision of non-audit services. Based on the results of the review and after taking into account the opinion of the management, the Audit Committee recommended the Board to re-appoint PKF as the external auditors of the Company for 2007, subject to approval by the shareholders of the Company at the forthcoming Annual General Meeting to be held on 20 December 2007. There is no former partner of the existing firm auditing the accounts of the Company acting as a member of the Audit Committee within one year commencing on the date of his ceasing to be a partner of the firm. In addition, the Audit Committee is of the view that the auditors' independence is not affected by the non-audit services rendered.

INTERNAL CONTROL

The Board has conducted a review of the effectiveness of the system of internal control of the Group during the year.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the consolidated financial statements of the Group for the year ended 31 December 2006. The Directors ensure that the consolidated financial statements of the Group for the year ended 31 December 2006 have been properly prepared in accordance with statutory requirements and applicable accounting standards.

A report of the independent auditors of the Group is set out in pages 19 to 21 of this annual report.

Report of the Directors

The board (the "Board") of directors of the Company (the "Directors") present the annual report and the audited consolidated financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 38 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2006 are set out in the consolidated income statement on page 22 to the consolidated financial statements.

The Directors do not recommend the payment of a dividend for the year ended 31 December 2006.

SHARE CAPITAL

Details of share capital of the Company are set out in note 29 to the consolidated financial statements.

PLANT AND EQUIPMENT

Details of movements in plant and equipment of the Group during the year are set out in note 17 to the consolidated financial statements.

SHARE OPTION SCHEME

Details of share option scheme adopted by the Company (the "Option Scheme") are set out in note 33 to the consolidated financial statements.

As at the date of this report, the total number of shares of the Company (the "Shares") available for issue under the Option Scheme is 157,670,000 Shares, representing approximately 9.84% of the issued share capital of the Company.

For the year ended 31 December 2006, there was no movement in the number of share options (the "Share Options") granted under the Option Scheme. The number of Shares to be subscribed under the outstanding Share Options was 114,095,000 Shares as at 31 December 2006, representing approximately 7.1% of the issued share capital of the Company as at 31 December 2006.

A summary of the outstanding Share Options is as follows:–

	Number of Shares to be subscribed under the outstanding Share Options as at 31 December 2006
Former employees	59,670,000
Principal buyers	43,680,000
Suppliers of services	10,745,000
Total	114,095,000

SHARE OPTION SCHEME (continued)

Details of Share Options granted and remained outstanding as at 31 December 2006 are as follows:–

Date of grant	Exercise period	Number of Shares to be subscribed under the Option Scheme	Exercise price per Share *HK$*
9 October 2003	10 October 2003 – 28 August 2011	69,095,000	0.3810
15 November 2004	16 November 2004 – 28 August 2011	45,000,000	0.2166

The fair value of the Shares at the above date of grant of the Share Options, being the closing price of the Shares as stated in the daily quotation sheets of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the trading day immediately preceding that day, were HK$0.38 and HK$0.21 respectively.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The directors of the Company during the year and up to the date of this report were:–

Executive Directors:
Mr. Kan Che Kin, Billy Albert (appointed on 10 October 2007)
Mrs. Kan Kung Chuen Lai (appointed on 10 October 2007)
Ms. Li Shu Han, Eleanor Stella (appointed on 10 October 2007)
Mr. Li Kai Yien, Arthur Albert (appointed on 10 October 2007)
Mr. Yu Pen Hung
Ms. Lee Ran, Elizabeth (appointed on 8 February 2006 and resigned on 3 July 2006)
Mr. Kwok Chung Yin (appointed on 7 December 2006 and resigned on 9 March 2007)
Ms. Ma Pun Sai, Betsy (appointed on 7 December 2006 and resigned on 9 March 2007)
Mr. Chen Chih Ming (resigned on 8 February 2006)

Independent Non-Executive Directors:
Mr. Li Siu Yui (appointed on 10 October 2007)
Mr. Ip Woon Lai (appointed on 10 October 2007)
Mr. Lee Kong Leong (appointed on 7 December 2006)
Mr. Yim Hing Wah (resigned on 18 September 2006)
Ms. Hu Gin Ing (resigned on 9 March 2007)
Dr. Liu James Juh (resigned on 13 March 2007)

In accordance with the provisions of the Company's articles of association (the "Articles of Association"), Mr. Yu Pen Hung will retire at the forthcoming annual general meeting of the Company (the "AGM") and, being eligible, offer himself for re-election. Mr. Kan Che Kin, Billy Albert, Mrs. Kan Kung Chuen Lai, Ms. Li Shu Han, Eleanor Stella, Mr. Li Kai Yien, Arthur Albert, Mr. Li Siu Yui, Mr. Ip Woon Lai and Mr. Lee Kong Leong, all being appointed by the Board to fill the casual vacancy shall hold their office only until the forthcoming AGM. All of them, being eligible, will offer themselves for re-election at the AGM.

Mr. Yu Pen Hung has entered into a service agreement with the Company under which he is to act as an executive director for an initial term of two years commencing from 1 September 2001 and renewable automatically for successive terms of one year each commencing from the day next after the expiry of the then current term unless terminated by not less than three months' notice in writing served by either party expiring at the end of the initial term or at any time thereafter. He may be entitled to a management bonus in respect of each financial year of the Company in an amount to be determined by the Board in its absolute discretion provided that the total amount of bonuses payable to all the executive Directors for the time being shall not exceed five percent of the combined or consolidated audited net profit of the Group (after taxation and minority interests and payment of such bonuses but before extraordinary items) for that financial year of the Company. Save as disclosed, the Company has not entered into any service agreement with other Directors.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS (continued)

Each of the independent non-executive Directors was appointed in accordance of the Articles of Association.

Save as disclosed above, none of the Directors being proposed for re-election at the forthcoming AGM has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

CONFIRMATIONS OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the three existing independent non-executive Directors an annual confirmation of his independence as required under Rule 3.13 of the Rules (the "Listing Rules") Governing the Listing of Securities on the Stock Exchange and considers all the independent non-executive Directors are independent.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2006, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken or deemed to have taken under such provisions of the SFO) or as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:–

Long positions

Ordinary Shares of HK$0.01 each of the Company

Name of Director	Capacity	Number of ordinary Shares held	Percentage of the issued share capital of the Company
Mr. Yu Pen Hung	Interest in controlled corporation	1,200,000,000 *(note)*	75%

Note: These Shares are held by E-Career Investments Limited, a company incorporated in the British Virgin Islands and wholly owned by Mr. Yu Pen Hung.

Save as disclosed above, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or otherwise to be notified to the Company and the Stock Exchange pursuant to the Model Code as at 31 December 2006.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Company, its holding company or any of its subsidiaries a party to any arrangement to enable the Directors or chief executives of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the Directors nor the chief executives of the Company, nor any of their spouses or children under the age of 18, had any right to subscribe for securities of the Company or had exercised any such right.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance to which the Company, its holding company or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year, nor had there been any contract of significance entered into between the Group and a controlling shareholder of the Company during the year.

REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the Directors and the five highest paid individuals of the Group are set out in note 10 to the consolidated financial statements.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2006, the register of substantial shareholders required to be kept by the Company pursuant to Section 336 of the SFO showed that, other than those interests or short positions disclosed above in respect of the Directors or chief executives of the Company, the following shareholder had notified the Company of its relevant interest in 5% or more of the issued share capital of the Company:–

Long Positions

Name	Number of Shares held	Approximate percentage of holding
E-Career Investments Limited *(note)*	1,200,000,000	75%

Note: The entire issued share capital of E-Career Investments Limited is beneficially owned by Mr. Yu Pen Hung. Both E-Career Investments Limited and Mr. Yu Pen Hung are therefore deemed to be interested in the 1,200,000,000 Shares.

Save as disclosed above, the Company had not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31 December 2006.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders of the Company as at 31 December 2006 and 2005 were as follows:–

	2006	2005
	HK$'000	*HK$'000*
Share premium	**122,357**	122,357
Contributed surplus	**112,369**	112,369
Accumulated losses	**(253,924)**	(250,733)
Total	**(19,198)**	(16,007)

Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium and contributed surplus of the Company are available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum and Articles of Association and provided that immediately following the distribution of dividend, the Company is able to pay its debts as they fall due in the ordinary course of business. In accordance with the Articles of Association, dividends shall be distributed out of the retained profits or other reserves, including the share premium and contributed surplus account, of the Company.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the Remuneration Committee on the basis of their merit, qualifications and competence.

The emoluments of the Directors are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted a Option Scheme as an incentive to Directors and eligible employees, details of the Option Scheme are set out in note 33 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The five largest suppliers of the Group in aggregate accounted for about 100% of its purchases for the year. Purchases from the largest supplier accounted for about 37% of its purchases.

The aggregate turnover attributable to the Group's five largest customers taken together accounted for about 82% of the Group's total turnover for the year. Sales to the largest customer accounted for about 28% of its turnover.

None of the Directors, their respective associates or any shareholders of the Company (which to the knowledge of the Directors own more than 5% of the Company's issued share capital) had any interest in any of the five largest suppliers or customers of the Group for the year ended 31 December 2006.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Articles of Association or the laws of the Cayman Islands, which would oblige the Company to offer new Shares on a pro-rata basis to existing shareholders.

RETIREMENT BENEFITS SCHEMES

Details of the retirement benefits schemes maintained by the Group are set out in note 34 to the consolidated financial statements.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors was interested in any business apart from the Group's business, which competed or was likely to compete either directly or indirectly with business of the Group during the year.

SUFFICIENCY OF PUBLIC FLOAT

To the best knowledge of the Directors and based on information publicly available to the Company, (i) there was sufficient public float as required by the Listing Rules throughout the year ended 31 December 2006; and (ii) there was insufficient public float as required by the Listing Rules as at the latest practicable date (the "LPD") prior to the issue of this report as Mr. Kan was interested in 75.99% of the issued share capital of the Company as at the LPD. Mr. Kan has undertaken to take appropriate steps to place down his interests in the Company and to maintain the minimum public float as required by the Listing Rules.

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.

POST BALANCE SHEET EVENTS

Details of significant events occurring after the balance sheet date are set out in note 37 to the consolidated financial statements.

AUDITORS

Messrs. Deloitte Touche Tohmatsu resigned on 22 December 2006 and Messrs. PKF were appointed as auditors of the Company on 15 October 2007.

A resolution to re-appoint Messrs. PKF as auditors of the Company will be proposed at the forthcoming AGM.

On behalf of the Board

Kan Che Kin, Billy Albert
Chairman
Hong Kong
14 November 2007

PKF

TO THE MEMBERS OF ARTEL SOLUTIONS GROUP HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Artel Solutions Group Holdings Limited set out on pages 22 to 61, which comprise the consolidated balance sheet as at 31 December 2006, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

It is our responsibility to form an independent opinion, based on our audit, on these consolidated financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Except as described in the basis of qualified opinion, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

BASIS OF QUALIFIED OPINION

Scope limitation – Prior year 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 an 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 of 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 of qualified opinion paragraphs, we have not obtained all the information and explanations that we considered necessary for the purpose of our audit.

PKF
Certified Public Accountants
Hong Kong
14 November 2007

Consolidated Income Statement

For the year ended 31 December 2006

	Notes	Year ended 31 December 2006 HK$'000	2005 HK$'000
Turnover	6	**36,334**	1,198,229
Cost of sales	8	**(34,924)**	(1,170,757)
Gross profit		**1,410**	27,472
Other operating income	9	**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	11	**(6,109)**	(92,705)
Write-down of inventories		**(46,932)**	(66,283)
Finance costs	12	**(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	13	**(182,425)**	(595,716)
Taxation	14	**1,300**	(734)
Loss for the year attributable to equity holders of the Company		**(181,125)**	(596,450)
Dividend	15	**–**	–
Loss per share (HK cents)	16		
– Basic		**(11.3)**	(37.3)

Consolidated Balance Sheet

At 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
Non-current assets			
Plant and equipment	17	**265**	8,519
Interests in associates	18	**245**	792
Interest in a jointly controlled entity	19	**–**	195
		510	9,506
Current assets			
Inventories	20	**–**	54,868
Trade receivables, rebates receivables, prepayments, deposits and other receivables	21	**1,326**	109,570
Amount due from an associate	22	**874**	874
Pledged bank deposits		**–**	43,797
Bank balances and cash	23	**2,680**	7,676
		4,880	216,785
Current liabilities			
Trade payables, sales deposits, accrued charges and other payables	24	**71,536**	138,187
Amount due to a director	25	**198**	195
Bank overdrafts and borrowings	26	**259,378**	230,149
Derivative financial instruments	27	**–**	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	28	**–**	1,300
Net liabilities		**(325,722)**	(144,597)
Capital and reserves			
Share capital	29	**16,000**	16,000
Reserves		**(341,722)**	(160,597)
Capital deficiencies		**(325,722)**	(144,597)

The consolidated financial statements set out on pages 22 to 61 were approved and authorised for issue by the Board of Directors on 14 November 2007 and are signed on its behalf by:

Yu Pen Hung
Director

Kan Che Kin, Billy Albert
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2006

	Share capital	Share Premium	Special reserve	Retained profits/ (accumulated losses)	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2005	16,000	122,357	9,370	304,126	451,853
Loss for the year	–	–	–	(596,450)	(596,450)
At 1 January 2006	16,000	122,357	9,370	(292,324)	(144,597)
Loss for the year	–	–	–	(181,125)	(181,125)
At 31 December 2006	**16,000**	**122,357**	**9,370**	**(473,449)**	**(325,722)**

The special reserve of the Group represents the difference between the nominal value of the shares of the acquired subsidiaries and the nominal value of the Company's shares issued for the acquisition under the group reorganisation.

Consolidated Cash Flow Statement

For the year ended 31 December 2006

	2006 HK$'000	2005 HK$'000
OPERATING ACTIVITIES		
Loss before taxation	**(182,425)**	(595,716)
Adjustments for:–		
Share of results of associates	**547**	93
Interest expenses	**–**	18,476
Interest income on bank deposits	**(159)**	(2,059)
Change in fair value of derivative financial instruments	**(1,057)**	1,057
Depreciation	**2,551**	2,972
Loss on disposal of plant and equipment	**14**	29
Allowance for doubtful debts	**103,400**	401,972
Allowance for rebates receivables	**6,109**	92,705
Write-down of inventories	**46,932**	66,283
Impairment loss recognised in respect of goodwill of associates	**–**	13,768
Rental deposits written off	**–**	104
Sales deposit and interest payable waived	**(2,482)**	–
Impairment loss recognised in respect of interest in a jointly controlled entity	**195**	–
Impairment loss recognised in respect of plant and equipment	**5,698**	–
Operating cash flows before movements in working capital	**(20,677)**	(316)
Decrease in inventories	**7,936**	240,137
Increase in trade receivables, rebates receivables, prepayments, deposits and other receivables	**(1,265)**	(32,103)
Decrease in trade payables, sales deposits, accrued charges and other payables	**(64,451)**	(79,427)
Increase in amount due to a director	**3**	–
Increase in amount due from an associate	**–**	(874)
Cash (used in)/from operations	**(78,454)**	127,417
Hong Kong Profits Tax refund	**–**	10,532
Interest paid	**–**	(18,476)
NET CASH (USED IN)/FROM OPERATING ACTIVITIES	**(78,454)**	119,473

Consolidated Cash Flow Statement

For the year ended 31 December 2006

	2006 HK$'000	2005 HK$'000
INVESTING ACTIVITIES		
Release of bank deposits pledged	**43,797**	23,696
Interest received	**159**	2,059
Purchase of plant and equipment	**(9)**	(207)
Advance from a director	**–**	195
Investment in a jointly controlled entity	**–**	(195)
Proceeds on disposal of plant and equipment	**–**	40
NET CASH FROM INVESTING ACTIVITIES	**43,947**	25,588
FINANCING ACTIVITIES		
Repayment of bank borrowings	**(13,232)**	(418,019)
New bank borrowings raised	**10,810**	208,373
Proceeds of other loan	**3,505**	–
NET CASH FROM/(USED IN) FINANCING ACTIVITIES	**1,083**	(209,646)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(33,424)**	(64,585)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**(14,100)**	50,485
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	**(47,524)**	(14,100)
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	**2,680**	7,676
Bank overdrafts	**(50,204)**	(21,776)
	(47,524)	(14,100)

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 5 December 2000 as an exempted company with limited liability under the Companies Law (2001 Second Revision) Chapter 22 of the Cayman Islands. As at 31 December 2006, the Company's parent and ultimate holding company was E-Career Investments Limited, a limited company incorporated in the British Virgin Islands. The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information of the annual report.

The shares of the Company have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 24 October 2001.

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

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

2. BASIS OF PREPARATION

(a) The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"), Hong Kong Accounting Standards ("HKAS") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (hereinafter collectively referred to as "Hong Kong Financial Reporting Standards").

In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Company Ordinance.

(b) **Initial application of Hong Kong Financial Reporting Standards**

In the current year, the Group initially applied the following Hong Kong Financial Reporting Standards:–

HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 & HKAS 4 (Amendment)	Financial Guarantee Contracts
HKFRS-Int 4	Determining whether an Arrangement Contains a Lease
HKFRS-Int 5	Rights to Interests arising from Decommissioning Restoration and Environmental Rehabilitation Funds

The initial application of these Hong Kong Financial Reporting Standards does not necessitate material changes in the Group's accounting policies or retrospective adjustments of the comparatives presented.

2. BASIS OF PREPARATION (continued)

(c) Hong Kong Financial Reporting Standards in issue but not yet effective

The following Hong Kong Financial Reporting Standards in issue at the date of authorisation of these consolidated financial statements have not been applied in the preparation of the consolidated financial statements for the year ended 31 December 2006 since they were not yet effective for the annual period beginning on 1 January 2006:–

HKAS 1 (Amendment)	Capital Disclosures[1]
HKAS 23 (revised)	Borrowing Costs[2]
HKFRS 7	Financial Instruments: Disclosures[1]
HKFRS 8	Operating Segments[2]
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 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]
HK(IFRIC)-Int 13	Customer Loyalty Programmes[9]
HK(IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[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
9 effective for annual periods beginning on or after 1 July 2008

The Directors anticipate that the application of these Hong Kong Financial Reporting Standards will have no material impact on the results and the financial position of the Group.

(d) Going concern basis

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.

2. BASIS OF PREPARATION (continued)

(d) Going concern basis (continued)

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.

3. SIGNIFICANT ACCOUNTING POLICIES

Measurement basis

The consolidated financial statements are prepared using the historical cost basis.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Interest in a jointly controlled entity

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, if any and in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

When a group entity transacts with a jointly controlled entity of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

Interests in associates

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associates, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Goodwill arising on the acquisition of associates is included within the carrying amount of the interests in associates. Where a group entity transacts with an associate of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the relevant associate, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amount receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.

Sales of goods are recognised when goods are delivered and title has passed.

Service income is recognised when services are provided.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the Group. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Plant and equipment

Plant and equipment are stated at cost less accumulated depreciation and impairment losses. Depreciation is provided to write off the cost of items of plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method at the rate of 20% per annum.

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss for the year in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the year, in which case, the exchange rates prevailing at the dates of the transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Borrowings costs

All borrowing costs are recognised as and included in finance costs in the consolidated income statement in the period when they are incurred.

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated balance sheet when the Group becomes a party to the contractual provisions of the instrument. Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Trade receivables, rebates receivables and other receivables/amount due from an associate/pledged bank deposits

Trade receivables, rebates receivables and other receivables, amount due from an associate and pledged bank deposits are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

Cash and cash equivalents comprise bank balances, cash on hand and bank overdrafts.

Bank borrowings and other loans

Bank borrowings and other loans are initially measured at fair value and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the Group's accounting policy for borrowing costs (see above).

Trade payables and other payables/amount due to a director

Trade payables and other payables and amount due to a director are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments

Derivative financial instruments are initially measured at fair value on the contract date, and are measured to fair values at subsequent reporting dates. Changes in the fair value of derivative financial instruments are recognised in profit or loss as they arise.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

For financial liabilities, they are removed from the Group's balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expired). The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associates and jointly controlled entity, except where the Group as the parent or a venturer is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits

(i) *Retirement benefits schemes*

The retirement benefits costs charged to the consolidated income statement represent the contributions payable in respect of the current year to the Group's defined contribution retirement benefits schemes for its employees.

(ii) *Share-based payments*

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in share option reserve within equity. The fair value is measured at grant date, taking into account the terms and conditions upon which the share options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the share options will vest. During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the share option reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the share option reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the share option reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

(iii) *Termination benefits*

Termination benefits are recognised when and only when the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic probability of withdrawal.

Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Inter-segment pricing is based on similar terms as those available to other external parties.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment.

Segment assets consist primarily of plant and equipment, inventories, and trade and rebates receivables. Segment liabilities comprise operating liabilities and mainly exclude items such as income tax payable and deferred tax liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Segment reporting (continued)

Segment capital expenditure is the total cost incurred during the year to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items comprise financial and corporate assets, bank borrowings, other loans, and corporate and financing expenses.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties also include key management personnel of the company and their close family members.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Allowance for trade receivables/rebates receivables

The management regularly reviews the recoverability and aging of the trade receivables/rebates receivables. Allowance for trade receivables/rebates receivables is made based on the evaluation of collectability and aging analysis of accounts and on management's judgement by reference to the estimation of the future cash flow discounted at an effective interest rate to calculate the present value.

A considerable amount of judgement is required in assessing the ultimate realisation of these trade receivables, including the current creditworthiness of each customer.

Write-down of inventories

The management of the Group reviews the aging analysis of inventories at each balance sheet date, and writes down the value of obsolete and slow-moving inventory items identified that are no longer suitable for trade. The management estimates the net realisable value for finished goods based primarily on the latest invoice prices and current market conditions.

Impairment of plant and equipment

Determining whether plant and equipment are impaired requires an estimation of the value in use of the cash-generating units to which plant and equipment have been allocated. The calculation of value in use requires the Group to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate the present value.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include bank borrowings, trade receivables, rebates receivables, trade payables and bank deposits. Details of these financials instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

Certain bank borrowings of the Group are denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet.

The Group reviews regularly the recoverable amount of each individual trade and rebates receivable to ensure that adequate impairment losses are made for irrecoverable amounts.

The credit risk on bank balances is minimal because the counterparties are banks with high credit-ratings.

Interest rate risk

The Group is exposed to interest rate risk through the impact of rate changes on interest-bearing financial assets and liabilities. Interest-bearing financial assets are mainly balances with bank which are all short term in nature.

Interest-bearing financial liabilities are mainly bank loans with fixed interest rates which expose the Group to fair value interest risk. The Group does not have a formal interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

Liquidity risk

In light of the Group's net current liabilities and net liabilities as at 31 December 2006, the management is implementing several measures in order to improve the Group's working capital position, profitability and net financial position. Details of these measures are disclosed in note 2(d) to the consolidated financial statements.

6. TURNOVER

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

7. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

The Group operated in the distribution of computer components and information technology products during the year. It was engaged into the distribution of computer components and information technology products, and provision of integrated e-enabling solutions during the year ended 31 December 2005.

Segment information about the aforementioned businesses is set out 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)

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Business segments (continued)

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

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Business segments (continued)

For the year ended 31 December 2005

	Distribution of computer components and information technology products	Provision of integrated e-enabling solutions	Consolidated
	HK$'000	*HK$'000*	*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)

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Business segments (continued)

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

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

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

8. COST OF SALES

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

9. 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

10. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

(i) Directors' remuneration

The emoluments paid or payable to each of the nine (2005: eight) directors were as follows:–

For the year ended 31 December 2006

		Other emoluments		
	Fees	Salaries and other benefits	Pension costs	Total emoluments
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors:–				
Yu Peng Hung *(Note)*	**–**	**468**	**5**	**473**
Lee Ran, Elizabeth	**–**	**102**	**–**	**102**
Kwok Chung Yin	**–**	**10**	**–**	**10**
Ma Pun Sai, Betsy	**–**	**15**	**–**	**15**
Chen Chih Ming	**–**	**35**	**–**	**35**
Independent non-executive directors:–				
Lee Kong Leong	**–**	**–**	**–**	**–**
Yim Hing Wah	**86**	**–**	**–**	**86**
Hu Gin Ing	**240**	**–**	**–**	**240**
Liu James Juh	**240**	**–**	**–**	**240**
	566	**630**	**5**	**1,201**

10. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (continued)

(i) Directors' remuneration (continued)

For the year ended 31 December 2005

		Other emoluments		
	Fees	Salaries and other benefits	Pension costs	Total emoluments
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors:–				
Yu Peng Hung *(Note)*	–	972	12	984
Yu Chi Ming, Federick	–	83	1	84
Yen Chung Chuan	–	1,085	–	1,085
Chen Chih Ming	–	–	–	–
Lee Ran, Elizabeth	–	–	–	–
Independent non-executive directors:–				
Hu Gin Ing	240	–	–	240
Liu James Juh	240	–	–	240
Yim Hing Wah	120	–	–	120
	600	2,140	13	2,753

Note: The director's salaries and other benefits include the operating lease rentals amounting to HK$110,000 (2005: HK$373,333) in respect of rented premises provided to the director under the service agreement. The amounts are included in the operating lease rentals in respect of rented premises disclosed in note 13 to the consolidated financial statements.

(ii) Employees' emoluments

During the year, the five highest paid individuals included three directors (2005: two directors), details of whose emoluments are set out above. The emoluments of the remaining two (2005: three) highest paid individuals are as follows:–

	2006	2005
	HK$'000	*HK$'000*
Salaries and other benefits	**716**	1,839
Retirement benefit scheme contributions	**5**	19
	721	1,858

Remuneration of each of the employees for both years falls within the band of less than HK$1,000,000.

During the year, no remuneration was paid by the Group to the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

11. 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.

12. 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

13. LOSS BEFORE TAXATION

	2006	2005
	HK$'000	*HK$'000*
Loss before taxation has been arrived at after charging/(crediting):		
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

14. TAXATION

	2006 HK$'000	2005 HK$'000
The taxation (credit) charge comprises:		
Deferred tax *(Note 28)*	**(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.

The taxation (credit)/charge for the year can be reconciled to the loss before taxation per the consolidated income statement as follows:–

	2006 HK$'000	2005 HK$'000
Loss before taxation	**(182,425)**	(595,716)
Tax at Hong Kong Profits Tax rate of 17.5% (2005: 17.5%)	**(31,924)**	(104,250)
Tax effect of non-deductible expenses	**10,463**	6,898
Tax effect of non-taxable income	**(3)**	(70)
Tax effect of utilisation of tax losses not previously recognised	**–**	(536)
Tax effect of tax losses not recognised	**8,478**	542
Tax effect of deductible temporary differences not recognised	**11,671**	98,059
Effect of different tax rates of subsidiaries operating in other jurisdictions	**–**	2
Others	**15**	89
Taxation (credit)/charge for the year	**(1,300)**	734

15. DIVIDEND

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

16. 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.

17. PLANT AND EQUIPMENT

	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
COST			
At 1 January 2005	13,425	2,364	15,789
Additions	71	136	207
Disposals	–	(189)	(189)
At 1 January 2006	13,496	2,311	15,807
Additions	9	–	9
Disposals	(149)	–	(149)
At 31 December 2006	**13,356**	**2,311**	**15,667**
DEPRECIATION			
At 1 January 2005	2,891	1,545	4,436
Provided for the year	2,506	466	2,972
Eliminated on disposals	–	(120)	(120)
At 1 January 2006	5,397	1,891	7,288
Provided for the year	2,396	155	2,551
Eliminated on disposals	(135)	–	(135)
At 31 December 2006	**7,658**	**2,046**	**9,704**
IMPAIRMENT			
At 1 January 2005 and 1January 2006	–	–	–
Provided for the year	5,698	–	5,698
At 31 December 2006	**5,698**	**–**	**5,698**
CARRYING VALUES			
At 31 December 2006	**–**	**265**	**265**
At 31 December 2005	8,099	420	8,519

18. INTERESTS IN ASSOCIATES

	2006	2005
	HK$'000	*HK$'000*
Cost of unlisted investment in associates	**879**	879
Share of post-acquisition loss, net of dividend received	**(634)**	(87)
	245	792

Details of the Group's associates as at 31 December 2006 are as follows:–

Name of associate	**Place of Incorporation**	**Principal place of operation**	**Proportion of ownership interest and voting power held by the Group**	**Principal activities**
Jet Fidelity Holdings Company Limited	British Virgin Islands	Hong Kong	30%	Investment holding
Jet Fidelity Limited	Hong Kong	Hong Kong	30%	Provision of logistics and warehouse management services
Synergrator Logistics (HK) Limited	Hong Kong	Hong Kong	30%	Provision of logistics and warehouse management services

Summarised financial information in respect of the Group's associates is set out below:–

	2006	2005
	HK$'000	*HK$'000*
Total assets	**5,291**	6,060
Total liabilities	**(4,473)**	(3,420)
Net assets	**818**	2,640
Group's share of associates' net assets	**245**	792

18. INTERESTS IN ASSOCIATES (continued)

	2006	2005
	HK$'000	*HK$'000*
Revenue	**9,877**	8,300
Loss for the year	**(1,822)**	(310)
Group's share of associates' loss for the year	**(547)**	(93)

19. INTEREST IN A JOINTLY CONTROLLED ENTITY

	2006	2005
	HK$'000	*HK$'000*
Cost of unlisted investment in a jointly controlled entity	**195**	195
Impairment	**(195)**	–
	–	195

Details of the Group's jointly controlled entity as at 31 December 2006 are as follows:–

Name of entity	Place of establishment	Form of business structure	Registered and paid-up capital	Proportion of registered capital and voting power held by the Group	Principal activities
China Artel Golden Safe Digital leasing Holdings Ltd.	British Virgin Islands	Incorporated	US$50,000	50%	Not yet commenced business

20. INVENTORIES

	2006	2005
	HK$'000	*HK$'000*
Finished goods	**–**	54,868

21. 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, rebates receivables and other receivables approximate their fair values.

22. AMOUNT DUE FROM AN ASSOCIATE

The amount is unsecured, interest-free and repayable on demand. The directors consider the carrying amount of amount due from an associate approximates its fair value.

23. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and short-term bank deposits with original maturity of three months or less at prevailing interest rates. The directors consider the carrying amount of bank balance and cash approximates its fair value.

24. 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 2(d) to the consolidated financial statements.

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

25. AMOUNT DUE TO A DIRECTOR

The amount is unsecured, interest-free and repayable on demand. The directors consider the carrying amount of amount due to a director approximates its fair value.

26. BANK OVERDRAFTS AND BORROWINGS

	2006	2005
	HK$'000	*HK$'000*
Bank overdrafts *(Note 26(a))*	**50,204**	21,776
Bank borrowings *(Note 26(a))*	**205,669**	208,373
Other loan *(Note 26(b))*	**3,505**	–
	259,378	230,149
Secured	**–**	130,668
Unsecured	**259,378**	99,481
	259,378	230,149

Notes:–

(a) Bank overdrafts are arranged at prevailing market interest rates and repayable on demand.

Bank borrowings are arranged at fixed interest rate ranged from 5% to 11% per annum. The repayment term of bank borrowings (2005: HK$205,223,000) have matured before the year end date. The banks took legal action to recover the bank borrowings and overdrafts granted which was subsequently dismissed. In August 2007, the bank borrowings and overdrafts due to bank creditors were assigned to Mr. Kan. Details of the debt assignment are disclosed in note 2(d) to the consolidated financial statements.

(b) The loan amounted to HK$1,800,000 is secured by the property of a director of the Company, interest-bearing at the annual rate of 15% and repayable on demand.

The remaining loan of approximately HK$1,705,000 is unsecured, interest-bearing at annual rate of 10% and repayable on demand.

(c) The Group's borrowings that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:–

	Denominated in US Dollars
	HK$'000
At 31 December 2006	208,662
At 31 December 2005	183,338

(d) The directors consider the carrying amounts of bank overdrafts and borrowings approximate their fair values.

27. DERIVATIVE FINANCIAL INSTRUMENTS

	2006	2005
	HK$'000	*HK$'000*
Interest rate swaps	–	1,057

The Group cancelled the outstanding interest rate swaps in January 2006 before their maturity dates of April 2008 and May 2008 respectively, and paid in aggregate a cancellation fee of approximately HK$7,020,000.

28. DEFERRED TAXATION

The followings are the major deferred tax liability and asset recognised and their movements thereon during the current and prior years:–

	Accelerated tax depreciation	**Tax loss**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2005	1,474	(908)	566
(Credit)/charge to consolidated income statement for the year *(Note 14)*	(174)	908	734
At 1 January 2006	1,300	–	1,300
Credit to consolidated income statement for the year *(Note 14)*	(1,300)	–	(1,300)
At 31 December 2006	–	–	–

28. DEFERRED TAXATION (continued)

At the balance sheet date, the Group had unused tax losses of approximately HK$116,464,000 (2005: HK$68,517,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams. The unrecognised tax losses may be carried forward indefinitely except the losses of approximately HK$2,284,000 (2005: HK$2,152,000) which will expire as follows:–

Year of expiry	2006	2005
	HK$'000	*HK$'000*
2006	–	496
2007	707	707
2008	616	616
2009	279	279
2010	54	54
2011	628	–
	2,284	2,152

At the balance sheet date, the Group had deductible temporary differences of approximately HK$385,458,000 (2005: HK$318,766,000) arising from the allowances for doubtful debts and rebates receivables. No deferred tax asset has been recognised in relation to these deductible temporary differences as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

29. SHARE CAPITAL

	Number of shares	*HK$'000*
Shares of HK$0.01 each		
Authorised:–		
At 1 January 2005, 31 December 2005 and 31 December 2006	10,000,000,000	100,000
Issued and fully paid:–		
At 1 January 2005, 31 December 2005 and 31 December 2006	1,600,000,000	16,000

30. PLEDGE OF ASSETS

In accordance with the terms of the distribution agreements entered into between the Group and a previous major supplier, the Group has granted the major supplier a security interest in certain inventories supplied and in any proceeds (including accounts receivables) as security for any outstanding amount due by the Group. The aggregate amount of the relevant assets pledged at the respective balance sheet dates is as follows:–

	2006	2005
	HK$'000	*HK$'000*
Assets pledged	–	29,558

31. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group had commitments for future minimum lease payments in respect of land and buildings under non-cancellable operating leases which fall due as follows:–

	2006	2005
	HK$'000	*HK$'000*
Within one year	**337**	1,131
In the second to fifth year inclusive	**–**	487
	337	1,618

Operating lease payments represent rentals payable by the Group for certain of its office premises. The lease is negotiated for a term of 2 years.

32. 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.

Apart from the above, the Group had no other material capital commitments at the balance sheet date.

33. SHARE OPTION SCHEME

The Company's share option scheme (the "Option Scheme") was adopted pursuant to a resolution passed on 29 August 2001 for the purpose of recognition of the contribution from directors, eligible employees and others of the Group, and will expire in August 2011. Under the Option Scheme, the board of directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company (the "Shares").

The total number of Shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Option Scheme and any other schemes of the Company must not in aggregate exceed 30% of the Shares in issue from time to time. The total number of Shares which may fall to be issued upon exercise of the options granted under the Option Scheme, when aggregated with any Shares which may fall to be issued under any other schemes must not exceed 10% of the issued share capital of the Company immediately upon the listing of the Shares on the Stock Exchange. Such 10% limit may be refreshed, subject to approval from the Company's shareholders. The number of Shares which may fall to be issued upon exercise of options granted to any individual in aggregate in any 12-month period shall not exceed 1% of the Shares in issue, without prior approval from the Company's shareholders.

Options granted must be taken up within 28 days of the date of grant, upon payment of HK$1 per option. The exercise price is determined by the directors of the Company and will not be less than the higher of the average closing price of the Shares on the Stock Exchange for the five business days immediately preceding the date of grant or the closing price of the Shares on the Stock Exchange on the date of grant.

33. SHARE OPTION SCHEME (continued)

As the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") relating to the share option schemes were amended on 1 September 2001, share options may be granted under the Option Scheme provided that the existing Listing Rules on share option schemes are complied with.

On 30 May 2003, the shareholders of the Company resolved to make certain amendments to the Option Scheme. Under the amendments, (i) the board of directors of the Company may grant options to eligible participants in recognition of their contribution to the Group. Eligible participants are defined as any full-time or part-time employees of the Group (including any executive, non-executive and independent non-executive directors of the Company or any of its subsidiaries) and any suppliers, consultants and distributors of the Group who, in the sole discretion of the board of directors of the Company, have contributed or may contribute to the Group; and (ii) the options granted may be exercised at any time during a period to be determined and notified by the board of directors of the Company, such period may commence on a business day immediately after the date of acceptance and in any event shall not exceed the period of 10 years from a business day immediately after the date of acceptance subject to the provisions for early termination.

The following table discloses details of the Company's share options outstanding as at the respective balance sheet dates and their movements thereon during the current and prior years:–

	Outstanding as at 1 January	Granted during the year	Exercised during the year	Lapsed/ cancelled during the year	Reallocation during the year	Outstanding as at 31 December
For the year ended 31 December 2006						
Former employees	–	–	–	–	59,670,000	59,670,000
Employees	59,670,000	–	–	–	(59,670,000)	–
Principal buyers	43,680,000	–	–	–	–	43,680,000
Suppliers of services	10,745,000	–	–	–	–	10,745,000
	114,095,000	–	–	–	–	114,095,000
For the year ended 31 December 2005						
Director *(Note a)*	2,080,000	–	–	–	(2,080,000)	–
Employees	57,590,000	–	–	–	2,080,000	59,670,000
Principal buyers	43,680,000	–	–	–	–	43,680,000
Suppliers of services	10,745,000	–	–	–	–	10,745,000
	114,095,000	–	–	–	–	114,095,000

Notes:–

(a) Mr. Yen Chung Chuan resigned as an executive director of the Company on 7 December 2005. Subsequent to the resignation, Mr. Yen was an employee of one of the subsidiaries of the Company.

33. SHARE OPTION SCHEME (continued)

Details of share options granted and remained outstanding as at 31 December 2006 are as follows:–

Date of grant	Exercise period	Number of Shares to be subscribed under the Option Scheme	Exercise price per Share
			HK$
9 October 2003	10 October 2003 – 28 August 2011	69,095,000	0.3810
15 November 2004	16 November 2004 – 28 August 2011	45,000,000	0.2166

The fair value of the Shares at the above date of grant of the share options, being the closing price of the Shares as stated in the daily quotation sheets of the Stock Exchange on the trading day immediately preceding that day, were HK$0.38 and HK$0.21 respectively.

34. RETIREMENT BENEFITS SCHEMES

The Group operates a defined contribution Mandatory Provident Fund Scheme under the Mandatory Provident Fund Scheme Ordinance for all qualifying employees in Hong Kong since December 2000. The assets of the scheme are held separately from those of the Group in funds under the control of trustees.

The employees of the Group's subsidiaries in other jurisdictions are members of state-managed retirement benefits schemes operated by the government of the jurisdictions. The subsidiaries are required to contribute a specified percentage of their payroll costs to the retirement benefits schemes. The only obligation of the Group with respect to the retirement benefits schemes is to make the specified contributions.

The total cost charged to the consolidated income statement of HK$40,000 (2005: HK$207,000) represents contributions paid and payable to the schemes by the Group at rates specified in the rules of the schemes. When there are employees who leave the defined contribution retirement benefits schemes prior to becoming fully vested in the contributions, the amount of the forfeited contributions will be used to reduce future contributions payable by the Group. As at 31 December 2006, no forfeited contributions were available to reduce the contributions payable in the future years and contributions of HK$2,000 (2005: HK$11,000) due in respect of the current reporting year had not been paid to the schemes.

35. RELATED PARTY TRANSACTIONS

(a) Apart from the information as disclosed in notes 10, 22, 25 and 26(b) to the consolidated financial statements, during the year, the Group also had the following transactions with its related parties:–

	2006	2005
	HK$'000	*HK$'000*
Rentals for office and staff quarter paid to a director	**110**	178
Logistics charges paid to an associate	**–**	880

(b) **Compensation of key management personnel**

The remuneration of key management personnel during the year was as follows:–

	2006	2005
	HK$'000	*HK$'000*
Short-term benefits	**1,912**	3,732
Post-employment benefits	**10**	25
	1,922	3,757

The remuneration of key management is determined having regard to the performance of individuals and market trends.

These transactions do not fall within the definition of "connected transactions" in Chapter 14A of the Listing Rules.

36. LITIGATIONS

(a) On 11 July 2006, Intel, a major supplier of the Group, made a statutory demand against the Company's wholly owned subsidiary, Artel Macao Commercial Offshore Limited ("Artel Macao"), demanding Artel Macao to repay approximately US$7,567,000 (the "Intel Debt") exclusive of interest and costs in respect of sums due and owing under the distribution agreements entered into between Intel and Artel Macao (the "Distribution Agreements"). On 16 August 2006, Intel made a statutory demand against the Company demanding the Company as guarantor to the Distribution Agreements to pay the Intel Debt (the "Guarantee Debt").

In December 2006, Intel, Fine Elite Limited ("Fine Elite"), a private company incorporated in the British Virgin Islands and a third party which is independent of the Group and is not connected with the Group, and the Company entered into the settlement deed and deed of assignment in the sum of approximately US$7,567,000 of the Intel Debt and Guarantee Debt conditional upon a due diligence of the Intel Debt and Guarantee Debt by Fine Elite and the resumption of trading in the Company's shares on the Stock Exchange, all within or before 31 December 2006. These deed of assignment and settlement deed were subsequently terminated as the aforementioned conditions could not be met.

The Intel Debt was subsequently assigned to Mr. Kan following the completion of the debt assignment as detailed in note 2(d) to the consolidated financial statements.

(b) During the year, two former employees of the Company brought claims numbered LBTC4162/2006 and LBTC4919/2006 against the Company, Artel e-Solutions Limited and Artel Industries Limited, both of them are wholly-owned subsidiaries of the Company, respectively at the Labour Tribunal claiming arrears of payroll in the aggregate sum of approximately HK$292,000. The claims amounted to HK$42,000 related to the second employee were subsequently settled. The remaining claims have not been settled at the date of this report and the Group had provided for the liabilities in the consolidated financial statements during the year.

(c) On 29 September 2006, A.Plus Financial Press Limited ("A.Plus") brought an action in District Court numbered DCCJ4897/2006 against the Company claiming the outstanding payable arising from provision of services to the Company together with the overdue interest charged thereon totalling of approximately HK$299,000. On 6 December 2006, the Company received a statutory demand pursuant to Section 327(4)(a) of the Companies Ordinance by A.Plus claiming the aforementioned payable and interest due aggregating approximately HK$334,000. On 15 November 2006, judgement was made against the Company. The Group paid HK$100,000 to A.Plus after the balance sheet date and had provided for the liabilities in the consolidated financial statements during the year.

(d) On 4 October 2006, International Trademart Company Limited brought an action in the High Court under HCA221/2006 against Artel Industries Limited claiming the outstanding rent and other charges of approximately HK$120,000 together with the overdue interest charged thereon. The Group paid HK$40,000 to International Trademart Company Limited to fully settle this case after the balance sheet date.

36. LITIGATIONS (continued)

(e) 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 approximately US$8,807,000 owed by two subsidiaries which the Company act as a guarantor, the hearing of which was 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 was received by the Company on 7 September 2006. 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 the Petition 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, whom being one of the creditors of the Company, has entered into a debt assignment agreement (the "Agreement") with Fine Elite to assign the debt in the sum of approximately US$9 million owed by the Company to the Petitioner subject to certain conditions precedent including but not limited to the resumption in trading in the Shares on the Stock Exchange. The Agreement was entered into between the Petitioner and Fine Elite, which the Company was not a party to the Agreement. The Company had not entered into any term or arrangement with Fine Elite and the Company had not given any security or guarantee to the Petition over the debt.

In November 2006, the HSH Nordbank AG, Hong Kong Branch and other financial institutions (collectively the "Bank Creditors") entered into a debt acquisition agreement with Fine Elite pursuant to which each of the Bank Creditors agreed to assign all its right, title, interest and benefit in the relevant bank loan (the "Bank Loan") and all other rights under the corresponding loan documents owed by Artel Macao and Artel Industries Limited to Fine Elite, subject to certain conditions precedent. The debt acquisition agreement was subsequently terminated as those conditions could not be met.

The debts due to the Bank Creditors were subsequently assigned to Mr. Kan following the completion of the debt assignment as detailed in note 2(d) to the consolidated financial statements.

37. 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 2(d) to the consolidated financial statements. 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 report. 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.

38. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's subsidiaries, all of which are wholly owned as at 31 December 2006, are as follows:–

Name of subsidiary	Place incorporation and operation	Issued and fully paid share capital/registered capital	Attributable equity interest held by the Company		Principal activities
			Directly	Indirectly	
Advance Great Limited	Hong Kong	HK$10,000	–	100%	Trading of computer components
Ariel International Technology Co., Limited	Hong Kong	HK$10	–	100%	Trading of networking equipment
Artel Computer International Trade (Shanghai) Co., Ltd. 亞邦電腦國際貿易(上海)有限公司*	PRC	US$200,000	–	100%	Trading of computer components and networking products and provision of technical support and after-sales services
Artel Computer Solutions Limited	British Virgin Islands	US$200,000	–	100%	Investment holding
Artel e-Solutions Limited	British Virgin Islands	US$110	–	100%	Investment holding
Artel International Holdings Limited	British Virgin Islands	US$5	100%	–	Investment holding

38. PARTICULARS OF SUBSIDIARIES (continued)

Name of subsidiary	Place incorporation and operation	Issued and fully paid share capital/registered capital	Attributable equity interest held by the Company Directly	Attributable equity interest held by the Company Indirectly	Principal activities
Artel Industries Limited	Hong Kong	Ordinary – HK$2 Deferred – HK$8,000,000**	–	100%	Trading of computer components and networking equipment and provision of integrated e-enabling solutions
Artel International Investments Limited	British Virgin Islands	US$1	–	100%	Inactive
Artel Macao Commercial Offshore Limited	Macau	MOP1,000,000	–	100%	Trading of computer components and networking equipment and provision of integrated e-enabling solutions
ASEP Solutions Limited	Hong Kong	HK$2	–	100%	Provision of e-enabling solutions and technical services
Best Hero Limited	Hong Kong	HK$10,000	–	100%	Trading of computer components
Cyber King Group Limited	British Virgin Islands	US$1	–	100%	Inactive
Elite City International Limited	British Virgin Islands	US$1	100%	–	Investment holding
Hashan Development Company, Limited	Hong Kong	HK$100,000	–	100%	Assets holding
Wisdom Best Trading Limited	Hong Kong	HK$1	–	100%	Trading of computer components
Yiu Fai Trading Limited	British Virgin Islands	US$50,000	–	100%	Investing holding

* The subsidiary is a wholly foreign owned enterprise under the PRC laws and regulations.

** The deferred shares are not held by the Group and practically carry no right to dividend or to receive notice of or to attend or vote at any annual general meeting of the subsidiary or to participate in any distribution on winding up.

None of the subsidiaries had issued any debt securities at the end of the year.

Financial Summary

	For the year ended 31 December				
	2002	2003	2004	2005	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
RESULTS					
Turnover	2,122,190	2,202,933	1,658,830	1,198,229	**36,334**
Profit/(loss) before taxation	75,871	52,829	33,807	(595,716)	**(182,425)**
Taxation	(9,868)	(2,549)	(585)	(734)	**1,300**
Profit/(loss) for the year	66,003	50,280	33,222	(596,450)	**(181,125)**
Earnings/(loss) per share (HK cents)					
Basic	4.1	3.1	2.1	(37.3)	**(11.3)**

	At 31 December				
	2002	2003	2004	2005	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
ASSETS AND LIABILITIES					
Total assets	1,187,668	925,785	1,088,320	226,291	**5,390**
Total liabilities	(802,517)	(499,954)	(636,467)	(370,888)	**(331,112)**
Shareholders' funds/(capital deficiency)	385,151	425,831	451,853	(144,597)	**(325,722)**