

On behalf of the Board of Directors (the "Board"), I am pleased to present the annual report of Artel Solutions Group Holdings Limited (the "Company") for the year ended 31 December 2001.

Results

Summary of the financial results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2001 are as follows:

- Turnover was approximately HK\$1,415 million, representing an increase of approximately 45%;
- Profit before taxation was approximately HK\$140 million, representing an increase of approximately 46%;
- Net profit for the year attributable to shareholders was approximately HK\$117 million, representing an increase of approximately 45%; and
- Proposed final dividend per share was HK\$0.02.

Dividend

An interim dividend of HK\$60,000,000 was declared and paid by a subsidiary to the then shareholder of that subsidiary before the reorganization of the Group in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Board has recommended the payment of a final dividend of HK\$0.02 per share. Subject to the approval of the shareholders in the Annual General Meeting, the final dividend will be paid on or before 15 June 2002 to registered shareholders.

Closure of Register of Members

The Register of Members of the Company will be closed from 24 May 2002 to 30 May 2002, both days inclusive, during which period no transfer of shares will be effected. All transfer documents accompanied by the relevant share certificates must be lodged with the Company's Branch Registrar in Hong Kong, Standard Registrars Limited at 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong not later than 4:00 p.m. on 23 May 2002 in order to qualify for the proposed final dividend.

Business and Operation Review

The year 2001 continued to be a good year for the Group's business and performance. Turnover increased by approximately 45% from approximately HK\$979 million to HK\$1,415 million. Net profit for the year increased by approximately 45% from approximately HK\$81 million to HK\$117 million.

The Group has achieved a significant growth in its distribution business, in particular for the sales of boxed central processing units ("CPU") supplied by Intel. The growth of boxed CPU sales was largely attributable to the increasing demand in Hong Kong and China markets as well as the strengthening of the channel network of the Group in the PRC. The boxed CPU are mainly sold to the clone personal computer ("PC") makers and the Do-It-Yourself market in the PRC. In 2001, the Group continued to be one of the major distributors, in terms of unit volume and dollar value, of Intel's boxed CPU in the Asia Pacific region.

Apart from distribution business, the Group has also developed its e-enabling solutions business. The Group observes that there will be a surging demand for e-enabling solutions, in particular mobile and wireless solutions, in the coming years. The Group has therefore formed a special team to focus on the provision of mobile and wireless solutions and some projects with PRC telecommunications and airport companies are under discussion.

Future Plans and Prospect

The computer component and networking product markets in the Greater China region, especially in the PRC, is expected to grow significantly in the coming few years. Due to the PRC's entry into the WTO, it is anticipated that there will be an increasing number of computer hardware and software vendors trying to penetrate the PRC market. The Group will be best positioned to work with these companies by forming strategic alliances such that they may leverage on the established distribution network of the Group. In return, the Group may broaden its product scope and revenue sources and enhance its technical capability.

Starting from January 2002, in addition to boxed CPU, the Group has been granted the distribution right by Intel to sell Intel CPU in tray package ("tray CPU") in the PRC. The target customers of tray CPU are regional and small original equipment manufacturers of PC in the PRC. The Group believes that the tray CPU sales in the PRC will increase significantly in 2002 which will give an additional stable source of revenue to the Group. The Group is also confident that it can obtain a significant market share in the PRC tray CPU market.

In 2002, the Group has formulated its marketing strategies to improve its brand name recognition. In January 2002, the Group started to distribute its own brand name "Arcon" motherboards via a co-operative arrangement with a major motherboard manufacturer in Taiwan. Under the co-operative arrangement, the motherboard manufacturer undertakes to design and manufacture the Arcon motherboards while the Group will distribute the Arcon motherboards to the PRC markets.

The Group believes that with the development of the new generation mobile communication technology, consumers and enterprises will soon be able to shop, do business and access information by mobile communication. Mobile and wireless business will become the latest mode of operation for enterprises. To cater for this business trend and in an effort to provide enterprises with a comprehensive mobile solution, the Group, apart from cooperating with Intel in the area of wireless application, is also forming business alliances with other system developers of mobile business application solutions.

Corporate Governance

The Directors are of the opinion that the Company has been in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange throughout the year after the Listing of the Company's shares on the Stock Exchange.

Purchase, Sale or Redemption of the Company's Listed Securities

The Company did not redeem any of the Company's shares during the above financial year. Neither the Company nor any of its subsidiaries had purchased or sold any of the Company's shares during the year.

Acknowledgement

On behalf of the Board, I would like to take this opportunity to extend my gratitude to all my fellow directors and staff for their valuable commitment and hard work. I would like also to express my sincere thanks to our business partners for their support in the past years.

Yu Pen Hung

Chairman

Hong Kong, 24 April 2002