

The Board of Directors of Artel Solutions Group Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2002 (the “Period”). The results had been reviewed by the Group’s auditors, Deloitte Touche Tohmatsu, and the Company’s audit committee.

### Condensed Consolidated Income Statement

	Notes	Six months ended 30 June	
		2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
Turnover	2	<b>787,778</b>	581,466
Cost of sales		<b>(728,593)</b>	(526,644)
Gross profit		<b>59,185</b>	54,822
Other revenue		<b>2,926</b>	3,022
Distribution costs		<b>(4,180)</b>	(2,968)
Administrative expenses		<b>(14,245)</b>	(10,668)
Profit from operations	3	<b>43,686</b>	44,208
Finance costs		<b>(2,983)</b>	(3,406)
Profit before taxation		<b>40,703</b>	40,802
Taxation	4	<b>(6,000)</b>	(6,200)
Net profit for the period		<b>34,703</b>	34,602
Dividends	5	<b>32,000</b>	60,000
Earnings per share (HK cents)-basic	6	<b>2.2</b>	2.7

## Condensed Consolidated Balance Sheet

	Notes	<b>30 June 2002</b> <b>(Unaudited)</b> <b>HK\$'000</b>	31 December 2001 (Audited) HK\$'000
Non-current assets			
Plant and equipment	7	<b>2,674</b>	2,355
Current assets			
Inventories		<b>360,556</b>	252,584
Trade receivables, prepayments and deposits	8	<b>207,178</b>	208,991
Pledged bank deposits		<b>64,475</b>	59,803
Bank balances and cash		<b>111,141</b>	107,500
		<b>743,350</b>	628,878
Current liabilities			
Trade payables, other creditors and accrued expenses	9	<b>209,072</b>	164,134
Tax liabilities		<b>16,294</b>	13,865
Bank overdrafts and short-term bank borrowings	10	<b>155,607</b>	90,886
		<b>380,973</b>	268,885
Net current assets		<b>362,377</b>	359,993
Total net assets		<b>365,051</b>	362,348
Capital and reserves			
Share capital	11	<b>16,000</b>	16,000
Reserves		<b>349,051</b>	346,348
Shareholders' funds		<b>365,051</b>	362,348

### Condensed Consolidated Statement of Changes in Equity

	Share capital HK\$'000	Share premium HK\$'000	Special reserve HK\$'000	Accu- mulated profits HK\$'000	Total HK\$'000
At 1 January 2001	-	-	-	114,141	114,141
Net profit for the period	-	-	-	34,602	34,602
Dividends paid	-	-	-	(60,000)	(60,000)
At 30 June 2001	-	-	-	88,743	88,743
Pursuant to the group reorganisation	-	-	9,370	-	9,370
Issue of shares	3,400	188,800	-	-	192,200
Capitalisation issue of shares	12,600	(12,600)	-	-	-
Expenses incurred in connection with the issue of shares	-	(10,643)	-	-	(10,643)
Net profit for the period	-	-	-	82,678	82,678
At 31 December 2001	16,000	165,557	9,370	171,421	362,348
2001 final dividend paid	-	(32,000)	-	-	(32,000)
Net profit for the period	-	-	-	34,703	34,703
<b>At 30 June 2002</b>	<b><u>16,000</u></b>	<b><u>133,557</u></b>	<b><u>9,370</u></b>	<b><u>206,124</u></b>	<b><u>365,051</u></b>

## Condensed Consolidated Cash Flow Statement

	<b>Six months ended</b>	
	<b>30 June</b>	
	<b>2002</b>	2001
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Net cash used in operating activities	<b>(55,740)</b>	(23,757)
Net cash used in investing activities	<b>(5,340)</b>	(39,576)
Net cash from financing activities	<b>64,689</b>	46,722
	<hr/>	<hr/>
Net increase (decrease) in cash and cash equivalents	<b>3,609</b>	(16,611)
Cash and cash equivalents at beginning of the period	<b>107,406</b>	39,250
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Cash and cash equivalents at end of the period	<b>111,015</b>	22,639
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Analysis of the balances by cash and cash equivalents		
Bank balances and cash	<b>111,141</b>	22,639
Bank overdrafts	<b>(126)</b>	–
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	<b>111,015</b>	22,639
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## Notes to Condensed Interim Accounts

### 1. Basis of Preparation and Accounting Policies

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with Statement of Standard Accounting Practice ("SSAP") No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants.

The condensed financial statements have been prepared under the historical cost convention. The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2001, except as described below.

In the current period, the Group has adopted, for the first time, the following new and revised SSAPs:

SSAP 1 (Revised)	Presentation of Financial Statements
SSAP 11 (Revised)	Foreign Currency Translation
SSAP 15 (Revised)	Cash Flow Statements
SSAP 34	Employee Benefits

The adoption of these SSAPs has resulted in a change in the format of presentation of the cash flow statement and the statement of changes in equity but has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

### 2. Segment Information

#### (a) Business segments

##### For the six months ended 30 June 2002:

	Distribution of computer components and information technology products (Unaudited) HK\$'000	Provision of integrated e-enabling solutions (Unaudited) HK\$'000	Consolidated (Unaudited) HK\$'000
TURNOVER			
External sales	<u>759,357</u>	<u>28,421</u>	<u>787,778</u>
SEGMENT RESULT	<u>36,315</u>	<u>6,961</u>	43,276
Interest income			1,567
Unallocated corporate expenses			<u>(1,157)</u>
Profit from operations			43,686
Finance costs			<u>(2,983)</u>
Profit before taxation			40,703
Taxation			<u>(6,000)</u>
Profit attributable to shareholders			<u>34,703</u>

For the six months ended 30 June 2001:

	Distribution of computer components and information technology products (Unaudited) HK\$'000	Provision of integrated e-enabling solutions (Unaudited) HK\$'000	Consolidated (Unaudited) HK\$'000
TURNOVER			
External sales	548,129	33,337	581,466
SEGMENT RESULT	<u>35,771</u>	<u>6,054</u>	41,825
Interest income			2,418
Unallocated corporate expenses			<u>(35)</u>
Profit from operations			44,208
Finance costs			<u>(3,406)</u>
Profit before taxation			40,802
Taxation			<u>(6,200)</u>
Profit attributable to shareholders			<u>34,602</u>

**(b) Geographical segments**

	<b>Six months ended 30 June</b>	
	<b>2002 (Unaudited) HK\$'000</b>	2001 (Unaudited) HK\$'000
Turnover by geographical market:		
The People's Republic of China (the "PRC")	<b>151,153</b>	86,089
Hong Kong	<b>636,625</b>	495,377
	<u><b>787,778</b></u>	<u>581,466</u>
Contribution to gross profit by geographical market:		
PRC	<b>18,559</b>	18,168
Hong Kong	<b>40,626</b>	36,654
	<u><b>59,185</b></u>	<u>54,822</u>

### 3. Profit from operations

	<b>Six months ended</b>	
	<b>30 June</b>	
	<b>2002</b>	2001
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Profit from operations has been arrived at after charging:		
Depreciation of plant and equipment	<u><b>349</b></u>	<u>118</u>

### 4. Taxation

The charge represents provision for Hong Kong Profits Tax for the period of the Company and its subsidiaries. Hong Kong Profits Tax is calculated at 16% (2001: 16%) of the estimated assessable profit for the period.

No provision for PRC income tax has been made in respect of the Company's PRC subsidiary as the PRC subsidiary incurred losses during the period.

No provision for deferred taxation has been recognised in the financial statements as the amount involved is insignificant.

### 5. Dividends

On 30 May 2002, a dividend of HK\$0.02 per share was approved to pay to the shareholders as the final dividend for 2001. An interim dividend of HK\$60,000,000 was declared and paid to its then shareholders by a subsidiary, Artel Industries Limited before a group reorganisation of the Group on 29 August 2001 in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited.

An interim dividend of HK\$0.007 (2001: Nil) per share was recommended by the directors to be paid to the shareholders of the Company whose names appear in the Register of Members on 4 October 2002.

### 6. Earnings per share

The calculation of the earnings per share for the period is based on the net profit for the period of HK\$34,703,000 (2001: HK\$34,602,000) and on 1,600,000,000 shares (2001: 1,280,000,000 shares) in issue during the period on the assumption that the group reorganisation has been completed as at 1 January 2001.

### 7. Plant and equipment

During the period, the Group acquired plant and equipment amounting to approximately HK\$682,000 and also disposed of plant and equipment with an aggregate net book value of approximately HK\$10,000.

### 8. Trade receivables, prepayments and deposits

The credit terms of the Group range from 30 to 365 days. The aged analysis of trade receivables at the reporting date is as follows:

	<b>30 June 2002 (Unaudited) HK\$'000</b>	31 December 2001 (Audited) HK\$'000
0 to 90 days	<b>98,474</b>	118,507
91 to 180 days	<b>48,611</b>	54,953
181 to 365 days	<b>24,922</b>	17,236
Over 365 days	–	623
Total trade receivables	<b>172,007</b>	191,319
Prepayments and deposits	<b>35,171</b>	17,672
	<b>207,178</b>	208,991

### 9. Trade payables, other creditors and accrued expenses

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

	<b>30 June 2002 (Unaudited) HK\$'000</b>	31 December 2001 (Audited) HK\$'000
0 to 90 days	<b>180,051</b>	152,606
91 to 120 days	<b>3,069</b>	7,755
Total trade payables	<b>183,120</b>	160,361
Other creditors and accrued expenses	<b>25,952</b>	3,773
	<b>209,072</b>	164,134

### 10. Bank overdrafts and short-term bank borrowings

	<b>30 June 2002 (Unaudited) HK\$'000</b>	31 December 2001 (Audited) HK\$'000
Bank overdrafts	<b>126</b>	94
Short-term bank borrowings, secured	<b>155,481</b>	90,792
	<b>155,607</b>	90,886



### 11. Share capital

There were no movements in the authorized and issued share capital of the Company during the six months ended 30 June 2002.

### 12. Pledge of assets

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

	<b>30 June 2002 (Unaudited) HK\$'000</b>	31 December 2001 (Audited) HK\$'000
Assets pledged	<u><b>174,793</b></u>	<u>152,443</u>

In addition, the Group's bank deposits at the balance sheet date pledged to bankers to secure certain banking facilities are as follows:

	<b>30 June 2002 (Unaudited) HK\$'000</b>	31 December 2001 (Audited) HK\$'000
Bank deposits pledged	<u><b>64,475</b></u>	<u>59,803</u>

### 13. Contingent liabilities

The Group had no contingent liabilities at the balance sheet date.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Review of Group Performance and Operations

For the six months ended 30 June 2002, the Group's unaudited turnover amounted to HK\$788 million (2001: HK\$581 million) representing an increase of 36% over the same period last year. Gross profit was HK\$59 million (2001: HK\$55 million) representing an increase of 7% over the same period last year. Net profit attributable to shareholders amounted to HK\$34.7 million (2001: HK\$34.6 million) which was maintained at the same level as last year.

During the period under review, the growth in demand for IT products was quite stable in the PRC despite the global economic downturn but the overall profit margin of the industry had reduced compared to last year. Management of the Group had managed to strengthen its strategies to diversify product lines and captured more market share to compensate the reduction in profit margin. At the beginning of 2002, the Group obtained from Intel the distribution right to sell tray central processing units ('CPUs') in both Hong Kong and the PRC in addition to boxed CPUs. Tray CPUs were mainly sold to regional PC manufacturers and had made significant contribution to the Group's business in the six months under review.

### Prospects

As PRC enters into the WTO and more foreign investors move their manufacturing bases (including IT related industries) into China, we expect that demand for IT components will continue to grow at a fast pace. To capture this market opportunity, the Group will continue to search for potential suppliers to expand its product lines into distribution of other IT components such as chipsets, server boards and motherboards etc. The Group now also carries new IT related products such as wireless LANs, switches, build to order notebook computers to broaden the target market.

The Group has a strong presence in the major PRC cities and is now seeking potential investment opportunity in the second and third tier cities to expand and strengthen its distribution and logistics network in the PRC. Also under negotiation is the setting up of branches in other developing countries in Asia for development of distribution network of IT products.

## Liquidity and Financial Resources

Net current assets of the Group amounted to approximately HK\$362 million as at 30 June 2002 (2001: HK\$360 million). Included in current assets were pledged bank deposits and cash and bank balances of HK\$176 million (2001: HK\$167 million). Bank overdrafts and short-term bank borrowings as at 30 June 2002 amounted to HK\$156 million (2001: HK\$91 million).

The gearing ratio of the Group, as calculated by dividing the total interest bearing debts by the net asset value of the Group, is 0.43:1 as at 30 June 2002 (2001: 0.25:1). The increase in bank borrowings was applied to finance the purchase of inventory to meet the rising sales volume.

The current ratio of the Group, calculated by dividing the total current asset value by the total current liability value as at 30 June 2002 was 2.0 (2001: 2.3) and is maintained at a healthy level.

Transactions of the Group are mainly denominated either in Hong Kong or United States dollars. The risk of exposure to fluctuations in exchange rates is therefore low.

In accordance with the terms of the distribution agreement entered into between the Group and a major supplier, the Group has granted the major supplier a security interest in the inventories supplied and in any proceeds (including accounts receivable) as security for any outstanding amount due by the Group. In addition, certain of the Group's bank deposits were pledged to its bankers to secure certain banking facilities granted to the Group.

## Use of Net Proceeds from Initial Public Offering

The proceeds from the initial public offering after netting off related expenses, were approximately HK\$179 million. As at 30 June 2002, approximately HK\$70 million of the net proceeds had been applied by the Group as general working capital. The remaining net proceeds were placed as fixed deposits with well-known banks in Hong Kong. The balance of the proceeds will be used for the Group's expansion of distribution and logistics network in the PRC and other developing countries in Asia and also for strengthening its technical support capabilities for business expansion as described in the prospectus.

## Employees

As at 30 June 2002, the Group had about 70 full time employees in both Hong Kong and the PRC. The employees are remunerated based on individual's performance, professional experiences and prevailing industry practices. Apart from the basic remuneration, discretionary bonus and share option may be granted to eligible employees by reference to the Group's performance as well as individual's performance. Other benefits include medical and retirement schemes. The Group has also a share option scheme available for executive directors and employees but no options had been granted under the scheme during the period.

## PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2002.

## DIRECTORS' INTERESTS IN SECURITIES

As at 30 June 2002, the interests of the directors and chief executives and their associates in the securities of the Company and its associated corporations ("securities" and "associated corporations" as defined in the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")) as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance were as follows:

Name	Number of ordinary shares beneficially held				Total no. of shares
	Personal interests	Family interests	Corporate interests	Other interests	
Mr. Yu Pen Hung	-	-	1,200,000,000 (note)	-	1,200,000,000

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.

In addition to the above, a director held interests in the non-voting deferred shares of a wholly-owned subsidiary of the Company as at 30 June 2002 as follows:

<b>Name of subsidiary</b>	<b>Name of director</b>	<b>Number of non-voting deferred shares held</b>
Artel Industries Limited	Mr. Yu Pen Hung	6,400,000 shares of HK\$1 each

Other than as disclosed above and certain nominee shares in subsidiaries held by the directors in trust for the Group, none of the directors or chief executives, or their associates, had any personal, family, corporate or other interests in the securities of the Company or any of its associated corporations as defined in the SDI Ordinance were recorded in the register as at 30 June 2002 maintained under Section 29 of the SDI Ordinance.

At no time during the period was the Company, its holding company or any of its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of the Company or any other body corporate and none of the directors, or their spouses or children under the age of 18, had any rights to subscribe for securities of the Company, or had exercised any such rights.

## **SUBSTANTIAL SHAREHOLDERS**

As at 30 June 2002, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that the Company had been notified of the following interests which represented 10% or more of the Company's issued share capital:

<b>Name</b>	<b>Number of shares</b>	<b>Approximate percentage of holding</b>
E-Career Investments Limited (note)	1,200,000,000	75%
Mr. Yu Pen Hung (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. Therefore both E-Career Investments Limited and Mr. Yu Pen Hung are deemed to have the duplicate interests in the share capital of the Company by virtue of Section 8 of the SDI Ordinance.

Save as disclosed above, the register of shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance disclosed no person as having an interest of 10% or more in the issued share capital of the Company as at 30 June 2002.

## **AUDIT COMMITTEE**

The Audit Committee had reviewed with management and the external auditors the accounting principles and practices adopted by the Group and discussed financial reporting matters including the review of the unaudited interim financial statements.

## **CODE OF BEST PRACTICE**

In the opinion of the directors, the Company had complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules during the six months ended 30 June 2002.

## **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members of the Company will be closed from 7 October 2002 to 9 October 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 4 October 2002 in order to qualify for the interim dividend. The interim dividend will be paid on or about 28 October 2002.

By Order of the Board  
**Yu Pen Hung**  
*Chairman*

Hong Kong, 19 September 2002