

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors of Artel Solutions Group Holdings Limited (the "Company"), I am pleased to present the annual report of the Company and its subsidiaries (the 'Group') for the year ended 31 December 2002.

Business and Operations Review

With the world economy continued to be depressed and sluggish, year 2002 was a difficult year for all industries including the Information Technology ("IT") industry. Although demand for IT products in the People's Republic of China ("PRC") maintained steady growth during the year, there was significant pressure on the profit margin. Working against all the unfavorable factors, the Group managed to strengthen its strategies to broaden product lines by obtaining distribution rights of tray central processing units ("CPUs") and chipsets during the year and captured more market share to compensate part of the reduction in profit margin.

Turnover for the year under review is HK\$2,122 million compared to HK\$1,415 million in 2001 representing an increase of about 50%. Net profit attributable to shareholders is approximately HK\$66 million for year 2002 representing a decrease of 44% from HK\$117 million in 2001. The decrease is mainly due to the significant decline in gross profit margin in 2002.

Prospects

Market

Despite the weak global personal computer ("PC") market in 2002, China market still recorded a 15% year on year growth by unit. International Data Center estimates the PRC PC unit shipment will grow another 18% in 2003, mainly driven by IT investments in government and education sectors. Accordingly, the Group continues to be optimistic on the business prospects in 2003 and expects to benefit from the rapid development in the PRC IT market.

Distribution Business

According to the China Center for Information Industry Development Consulting, notebook computer unit shipment in the PRC reported an impressive 40% annual growth in 2002, representing a new growth segment in PC market in the coming years. The Group expects to take advantages of the prosperous market demand on mobile microprocessor from clone market and notebook computer makers in the PRC.

In last quarter of 2002, the Group successfully obtained the distribution right for Intel chipsets in China. As China gradually emerges as the world's semiconductors manufacturing base, more and more IT companies and motherboard makers have moved to the PRC and set up production lines to gain cost competitiveness. The Group expects the increasing demand of chipsets from these motherboard makers in China will form a significant revenue contributor in 2003.

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In January 2003, the Group cooperated with Chi Mei Corporation ("Chi Mei"), one of the leading Thin Film Transistor Liquid Crystal Display ("LCD") manufacturers in the world, for the distribution of Chi Mei's LCD monitors and high-end LCD products in China. An International research company indicates that worldwide LCD monitor shipments rose 105% to 32.2 million units compared with the 2% decline in cathode ray tube monitors to 83.6 million units in 2002. In view of the considerable demand for LCD monitors, the Group believes LCD monitor distribution would be another revenue driver in 2003.

Total e-enabling Solutions

According to the Ministry of Education PRC, around 90% primary and middle schools are required to be connected onto the Internet by year 2010 in order to improve the quality of education for the next generation in China. The inter-school Internet project involves over 600,000 primary and middle schools, and millions of PCs will be networked and enabled in the coming years.

To capture the opportunity, the Group formed the 'N+1' Education Solution Alliance with IT giants, including Intel Solution Services, Unisoft Digital Technology (Guangzhou) Limited and Warp Network Services in December 2002. The alliance capitalizes individual strengths to create high quality, cost effective and user-friendly solutions for the different IT infrastructure needs for e-classroom, school intranet and Wide Area Network. A full range of services including access, network, hardware, software, content, training and relevant value-added services are provided.

Being the major hardware supplier of the alliance, the Group bundles CPUs, chipsets, motherboards, networking products, servers and other computer products at competitive prices for the projects. This strategic cooperation is expected to widen the Group's revenue source.

Geographical Coverage

China has replaced Japan to become the second largest market for PC shipments in the world. To cope with the rapid development, the Group is planning to set up 5 more representative offices in the PRC in 2003 to expand the channel network.

In conclusion, our management views arising challenges due to the global economy downturn and political instability. With our extensive distribution experience plus China's IT market potential, we believe the Group will continue to grow with China market and our vendors by diversification and integration of product mix among up-stream and down-stream distribution channels strategically.

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Dividend

The Board has recommended the payment of a final dividend of HK\$0.006 per share. Subject to the approval of the shareholders in the Annual General Meeting, the final dividend will be paid on or before 16 June 2003 to registered shareholders.

Closure of Register of Members

The Register of Members of the Company will be closed from 3 June 2003 to 9 June 2003, 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 Ground Floor, BEA Harbour View Centre, 56 Gloucester Road, Wan Chai, Hong Kong not later than 4:00 p.m. on 2 June 2003 in order to qualify for the proposed final dividend.

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, 17 April 2003