

CONDENSED CONSOLIDATED INCOME STATEMENT

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 2003. The results had been reviewed by the Group’s auditors, Deloitte Touche Tohmatsu, and the Company’s audit committee.

| | | Six months ended | |
|---------------------------------------|-------|-------------------------|-------------|
| | | 30 June | |
| | | 2003 | 2002 |
| | | (Unaudited) | (Unaudited) |
| | Notes | HK\$'000 | HK\$'000 |
| Turnover | 2 | 1,170,044 | 787,778 |
| Cost of sales | | (1,119,480) | (728,593) |
| | | <hr/> | <hr/> |
| Gross profit | | 50,564 | 59,185 |
| Other operating income | | 2,016 | 2,926 |
| Distribution costs | | (5,074) | (4,180) |
| Administrative expenses | | (17,292) | (14,245) |
| | | <hr/> | <hr/> |
| Profit from operations | 3 | 30,214 | 43,686 |
| Finance costs | | (6,913) | (2,983) |
| | | <hr/> | <hr/> |
| Profit before taxation | | 23,301 | 40,703 |
| Taxation | 4 | (2,826) | (6,000) |
| | | <hr/> | <hr/> |
| Net profit for the period | | 20,475 | 34,703 |
| | | <hr/> <hr/> | <hr/> <hr/> |
| Dividend | 5 | – | 11,200 |
| | | <hr/> <hr/> | <hr/> <hr/> |
| Earnings per share (HK cents) – basic | 6 | 1.3 | 2.2 |
| | | <hr/> <hr/> | <hr/> <hr/> |

CONDENSED CONSOLIDATED BALANCE SHEET

| | | 30 June 2003 (Unaudited) HK\$'000 | 31 December 2002 (Audited) HK\$'000 |
|---|-------|--|--|
| | Notes | | |
| Non-current assets | | | |
| Plant and equipment | 7 | <u>2,778</u> | <u>2,718</u> |
| Current assets | | | |
| Inventories | | 347,467 | 632,178 |
| Trade receivables, prepayments and deposits | 8 | 347,954 | 305,721 |
| Taxation recoverable | | 8,131 | 4,955 |
| Pledged bank deposits | | 70,804 | 120,060 |
| Bank balances and cash | | 58,023 | 122,036 |
| | | <u>832,379</u> | <u>1,184,950</u> |
| Current liabilities | | | |
| Trade payables, other creditors and accrued expenses | 9 | 13,134 | 377,655 |
| Bank overdrafts and short-term bank borrowings | 10 | 425,997 | 424,862 |
| | | <u>439,131</u> | <u>802,517</u> |
| Net current assets | | <u>393,248</u> | <u>382,433</u> |
| Total net assets | | <u>396,026</u> | <u>385,151</u> |
| Capital and reserves | | | |
| Share capital | 11 | 16,000 | 16,000 |
| Reserves | | 380,026 | 369,151 |
| Shareholders' funds | | <u>396,026</u> | <u>385,151</u> |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Share capital | Share premium | Special reserve | Accumulated profits | Total |
|----------------------------|--------------------------|--------------------------|----------------------------|--------------------------------|----------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| At 1 January 2002 | | | | | |
| (Audited) | 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 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| At 30 June 2002 | | | | | |
| (Unaudited) | 16,000 | 133,557 | 9,370 | 206,124 | 365,051 |
| 2002 interim dividend paid | - | (11,200) | - | - | (11,200) |
| Net profit for the period | - | - | - | 31,300 | 31,300 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| At 31 December 2002 | | | | | |
| (Audited) | 16,000 | 122,357 | 9,370 | 237,424 | 385,151 |
| 2002 final dividend paid | - | - | - | (9,600) | (9,600) |
| Net profit for the period | - | - | - | 20,475 | 20,475 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| At 30 June 2003 | | | | | |
| (Unaudited) | <u>16,000</u> | <u>122,357</u> | <u>9,370</u> | <u>248,299</u> | <u>396,026</u> |

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

| | Six months ended | |
|--|-------------------------|-------------|
| | 30 June | |
| | 2003 | 2002 |
| | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 |
| Net cash used in operating activities | (98,189) | (55,740) |
| Net cash generated from (used in) in investing activities | 49,706 | (5,340) |
| Net cash (used in) generated from financing activities | (15,675) | 64,689 |
| | <hr/> | <hr/> |
| Net (decrease) increase in cash and cash equivalents | (64,158) | 3,609 |
| Cash and cash equivalents at beginning of the period | 121,804 | 107,406 |
| | <hr/> | <hr/> |
| Cash and cash equivalents at end of the period | 57,646 | 111,015 |
| | <hr/> <hr/> | <hr/> <hr/> |
| Analysis of the balances of cash and cash equivalents | | |
| Bank balances and cash | 58,023 | 111,141 |
| Bank overdrafts | (377) | (126) |
| | <hr/> | <hr/> |
| | 57,646 | 111,015 |
| | <hr/> <hr/> | <hr/> <hr/> |

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

1 Basis of Preparation and Principal 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 ("HKSA").

The condensed financial statements have been prepared under the historical cost convention.

In the current period, the Group has adopted SSAP No. 12 (Revised) "Income taxes," for the first time, issued by the HKSA. SSAP 12 (Revised) has introduced a new basis of accounting for income taxes (including both current tax and deferred tax) and additional disclosure requirements which have been adopted in the condensed financial statements, but has had no significant impact on the results of the current or prior periods. Accordingly, no prior period adjustment has been required.

Other than the above, the accounting policies adopted are consistent with those followed in the Group's annual audited financial statements for the year ended 31 December 2002.

2 Segment Information

(a) **Business segments**

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

For the six months ended 30 June 2003:

| | 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>1,151,486</u> | <u>18,558</u> | <u>1,170,044</u> |
| SEGMENT RESULT | <u>30,672</u> | <u>634</u> | <u>31,306</u> |
| Other operating income | | | 2,016 |
| Unallocated corporate expenses | | | <u>(3,108)</u> |
| Profit from operations | | | <u>30,214</u> |
| Finance costs | | | <u>(6,913)</u> |
| Profit before taxation | | | <u>23,301</u> |
| Taxation | | | <u>(2,826)</u> |
| Profit attributable to shareholders | | | <u>20,475</u> |

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

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>35,005</u> | <u>6,912</u> | 41,917 |
| Other operating income | | | 2,926 |
| 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> |

(b) Geographical segments

| | Six months ended 30 June | |
|--|---------------------------------|---------------------------------|
| | 2003 (Unaudited) HK\$'000 | 2002 (Unaudited) HK\$'000 |
| Turnover by geographical market | | |
| The People's Republic of China (the " PRC") | 420,860 | 151,153 |
| Hong Kong | 749,184 | 636,625 |
| | <u>1,170,044</u> | <u>787,778</u> |
| Contribution to gross profit by geographical market | | |
| The PRC | 18,695 | 18,559 |
| Hong Kong | 31,869 | 40,626 |
| | <u>50,564</u> | <u>59,185</u> |

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

3 Profit from Operations

| | Six months ended | |
|--|-------------------------|--------------|
| | 30 June | |
| | 2003 | 2002 |
| | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 |
| Profit from operations has been arrived at after charging and (crediting): | | |
| Depreciation of plant and equipment | 434 | 349 |
| Interest income | (921) | (1,567) |
| | _____ | _____ |

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 17.5% (2002: 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 deferred taxation has been provided as there are no significant temporary difference as at balance sheet date.

5 Dividend

The directors do not recommend the payment of an interim dividend in respect of the six months ended 30 June 2003 (2002: HK\$0.007 per share).

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\$20,475,000 (2002: HK\$34,703,000) and on 1,600,000,000 shares (2002: 1,600,000,000 shares) in issue during the period.

7 Plant and Equipment

During the period, the Group acquired plant and equipment amounting to approximately HK\$545,000 (2002: HK\$682,000) and also disposed of plant and equipment with an aggregate net book value of approximately HK\$52,000 (2002: HK\$10,000).

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

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:

| | 30 June 2003 (Unaudited) HK\$'000 | 31 December 2002 (Audited) HK\$'000 |
|--------------------------|--|--|
| Aged: | | |
| 0 to 90 days | 206,417 | 268,974 |
| 91 to 180 days | 130,314 | 20,100 |
| 181 to 365 days | 43 | – |
| | <hr/> | <hr/> |
| Total trade receivables | 336,774 | 289,074 |
| Prepayments and deposits | 11,180 | 16,647 |
| | <hr/> | <hr/> |
| | 347,954 | 305,721 |
| | <hr/> <hr/> | <hr/> <hr/> |

9 Trade Payables, Other Creditors and Accrued Expenses

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

| | 30 June 2003 (Unaudited) HK\$'000 | 31 December 2002 (Audited) HK\$'000 |
|--------------------------------------|--|--|
| Aged: | | |
| 0 to 30 days | 2,777 | 360,883 |
| 31 to 60 days | – | 4,871 |
| 61 to 90 days | – | 3,172 |
| 91 to 120 days | 8 | 15 |
| | <hr/> | <hr/> |
| Total trade payables | 2,785 | 368,941 |
| Other creditors and accrued expenses | 10,349 | 8,714 |
| | <hr/> | <hr/> |
| | 13,134 | 377,655 |
| | <hr/> <hr/> | <hr/> <hr/> |

The significant decrease in trade payables as at 30 June 2003 was mainly due to repayment and returns of inventories by rotation to the suppliers.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

10 Bank Overdrafts and Short-term Bank Borrowings

| | 30 June 2003 (Unaudited) HK\$'000 | 31 December 2002 (Audited) HK\$'000 |
|-------------------------------------|--|--|
| Bank overdrafts, unsecured | 377 | 232 |
| Short-term bank borrowings, secured | 425,620 | 424,630 |
| | <u>425,997</u> | <u>424,862</u> |

11 Share Capital

There were no movements in the authorized and issued share capital of the Company during the six months ended 30 June 2003.

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 balance sheet date is as follows:

| | 30 June 2003 (Unaudited) HK\$'000 | 31 December 2002 (Audited) HK\$'000 |
|----------------|--|--|
| Assets pledged | <u>123,348</u> | <u>357,264</u> |

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

| | 30 June 2003 (Unaudited) HK\$'000 | 31 December 2002 (Audited) HK\$'000 |
|-----------------------|--|--|
| Bank deposits pledged | <u>70,804</u> | <u>120,060</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 2003, the Group's unaudited turnover amounted to HK\$1,170 million (2002: HK\$788 million) representing an increase of 48% over the same period of last year. Gross profit was HK\$51 million (2002: HK\$59 million) representing a decrease of 14% over the same period of last year. Net profit attributable to shareholders amounted to HK\$20.5 million (2002: HK\$34.7 million) representing a decrease of 41% as compared to the same period of last year.

During the period under review, the demand for IT products still maintained a steady growth in the Asia Pacific region especially in the PRC market and the Company's turnover had achieved meaningful growth. However, the global economic downturn and the occurrence of the SARS epidemic in the second quarter had affected the gross profit margin of the Company's distribution business. The Company adapted to maintain the market share of the distribution of Intel's products in the Asia Pacific region as well as diversifying its product lines by the distribution of other high profit margin IT products during the period.

PROSPECTS

Thin Film Transistor Liquid Crystal Display ("LCD")

Market

The LCD industry recorded an impressive growth in the first half of 2003. According to DisplaySearch, worldwide LCD monitor penetration rate reached 37% by the first quarter, up from 26% in 2002, and is expected to further improve to 40% by the end of 2003. Global LCD TV shipments are expected to reach approximately 4 million in 2003.

In the PRC, LCD monitor shipments are expected to increase from 2 million in 2003 to 7.5 million in 2005, with 15% share of monitor market being boosted to 38%.

Like the major markets such as the US, Japan and Europe adopting digital TV broadcasting, China has begun trial broadcasts in some 40 cities and regions. TV digitization is expected to become country-wide in 2010.

The PRC's State Administration of Radio, Film and Television plans to transmit high-definition digital programs of the Beijing Olympics to the world in 2008. Since flat panel TVs receive digital signals better than traditional TVs, the Group anticipates the demand for LCD TV will be considerable before the Beijing Olympics.

Chi Mei's Technical Innovation and Cost Leadership

The Group's vendor, Chi Mei Corporation ("Chi Mei") ranked fifth LCD panel maker globally in 2002. Chi Mei's two leading edge technologies: one-drop-fill process and spin-less coating are critical for reduction of production cycle time and improvements in efficiency and yield rate, particularly for large-sized panels. Meanwhile, Chi Mei has the lowest cost structure in Taiwan's LCD sector with its strong vertical integration.

Exploring the LCD Market

The Group has been granted the distribution rights for the "CMV" brand LCD monitors and white-box (no brand) LCD monitors from Chi Mei. "CMV" is positioned for consumer channel selling to Genuine Intel Dealers and system integrators, and white-box LCD is targeted for personal computer ("PC") original equipment manufacturers ("OEMs"). To increase LCD revenue, the Group also bundles LCD monitors together with Intel's products for PC OEMs.

Since the Group launched the "CMV" LCD monitors in the second quarter, the awareness of "CMV" has been increasing and become one of the top ten favorite brands in the PRC.

In view of substantial growth potential in the LCD TV market and the increasing number of local LCD TV suppliers, the Group further strengthens its cooperation with Chi Mei in LCD products distribution in the PRC. The Group plans to strategically explore the LCD TV downstream market by distributing semi-knocked down LCD TV modules to consumer electronics OEMs and LCD TVs to consumer electronics resellers.

Networking Products

In the third quarter, the Group entered into agreements with two well-known Taiwanese networking product suppliers – Xinetron Company Limited and SparkLAN Communications Incorporation, for the distribution rights of networking and wireless LAN products respectively in the PRC.

While the Group expects the profit contribution from networking and wireless products distribution not to be very significant in the first year of operation, their prospects appear very promising.

MANAGEMENT DISCUSSION AND ANALYSIS

According to China Internet Network Information Centre, the number of Internet users in the second quarter of 2003 rose 34% year on year with broadband users jumping 185% to 7 million. International Data Centre estimates the PRC wireless LAN equipment revenue has a compound annual growth rate of 26% from 2002 to 2007.

Build-to-order Notebook Barebone

In the second quarter, the Group started to bundle mobile processor and notebook barebone for PC OEMs in the PRC. The Group expects coming PC replacement cycle and new launch of Intel's Centrino technology to lead to solid growth in notebook PCs.

LIQUIDITY AND FINANCIAL RESOURCES

Net current assets of the Group amounted to approximately HK\$393 million as at 30 June 2003 (2002: HK\$382 million). Included in current assets were pledged bank deposits and cash and bank balances of HK\$129 million (2002: HK\$242 million). Bank overdrafts and short-term bank borrowings as at 30 June 2003 amounted to HK\$426 million (2002: HK\$425 million). The short-term bank borrowings were principally denominated in Hong Kong dollars and US dollars and most of them are HIBOR rate based.

The Group does not have any long term liability. The gearing ratio of the Group, as calculated by dividing the net interest bearing debts by the net asset value of the Group, is 0.75:1 as at 30 June 2003 (2002: 0.47:1). The bank borrowings were 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 2003 was 1.9 (2002: 1.5) and is maintained at a healthy level.

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

MANAGEMENT DISCUSSION AND ANALYSIS

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 2003, approximately HK\$106 million of the net proceeds had been applied by the Group as general working capital. Approximately another HK\$3 million was applied to the development and expansion of the Group's distribution and logistics network in the PRC. The remaining net proceeds were placed as fixed deposits with well-known banks in Hong Kong.

EMPLOYEES

As at 30 June 2003, the Group had about 80 full time employees in both Hong Kong and the PRC. The employees are remunerated based on individual's performance, professional experiences and prevailing industry practice. Apart from the basic remuneration, discretionary bonus and share option may be granted to eligible employees by reference to the Group's performance as well as individual's performance. Other benefits include medical and retirement schemes.

PURCHASE, SALE OR REDEMPTION OF THE 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 2003.

DIRECTORS' INTERESTS IN SECURITIES

The interests of the directors and chief executives and their associates in securities of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ('SFO') as at 30 June 2003 as recorded in the register required to be kept under section 352 of the SFO 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 2003 as follows:

| Name of subsidiary | Name of director | Number of non-voting deferred shares held |
|--------------------------|------------------|---|
| 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 (within the meaning of Part XV of SFO) which are required to be entered into the register kept by the Company pursuant to section 352 of the SFO or any interests which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules or under Division 7 and 8 of Part XV of the SFO.

MANAGEMENT DISCUSSION AND ANALYSIS

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

So far as is known to any directors or chief executives of the Company, as at 30 June 2003, the interests and short positions of person in the shares and underlying shares of the Company which would fall to be disclosed to the Company pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required, pursuant to section 336 of Part XV of the SFO, to be entered in the register referred to therein were as follows:

| Name | Number of shares | Approximate percentage of holding |
|-------------------------------------|-------------------------|--|
| 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.

Save as disclosed above, the directors were not aware of any other person who had an interest or short position in the shares or underlying shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO as at 30 June 2003.

MANAGEMENT DISCUSSION AND ANALYSIS

AUDIT COMMITTEE

The Audit Committee has reviewed with the 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

None of the directors is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the accounting period covered by this interim report, in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules of the Stock Exchange.

PUBLICATION OF INTERIM RESULTS ON THE STOCK EXCHANGE'S WEBSITE

A detailed results announcement containing all the information required by paragraphs 46(1) to 46(6) in Appendix 16 to the Listing Rules of the Stock Exchange will be published on the Stock Exchange's website in due course.

By Order of the Board

Yu Pen Hung

Chairman

Hong Kong, 22 September 2003