



CONDENSED CONSOLIDATED INCOME STATEMENT

The Board of Directors (the “Board”) 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 2004 (the “Period”). The results had been reviewed by the Group’s auditors, Deloitte Touche Tohmatsu, and the Company’s audit committee.

		Six months ended 30 June	
		2004	2003
	Notes	HK\$’000	HK\$’000
		(Unaudited)	(Unaudited)
Turnover	3	830,283	1,170,044
Cost of sales		(785,023)	(1,119,480)
Gross profit		45,260	50,564
Other operating income		2,891	2,016
Distribution costs		(4,288)	(5,074)
Administrative expenses		(16,372)	(17,292)
Profit from operations	4	27,491	30,214
Finance costs		(6,046)	(6,913)
Profit before taxation		21,445	23,301
Taxation	5	(398)	(2,826)
Net profit for the period		21,047	20,475
Dividend	6	7,200	–
Earnings per share (HK cents)	7		
– Basic		1.3	1.3
– Diluted		1.3	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	30 June 2004 HK\$'000 (Unaudited)	31 December 2003 HK\$'000 (Audited)
Non-current assets			
Plant and equipment	8	10,359	2,672
Goodwill	9	14,121	–
Interests in associates		879	–
		25,359	2,672
Current assets			
Inventories		341,939	331,924
Trade receivables, prepayments and deposits	10	463,191	435,221
Taxation recoverable		9,605	8,408
Pledged bank deposits		78,631	65,999
Bank balances and cash		41,929	81,561
		935,295	923,113
Current liabilities			
Trade payables, sales deposits and accrued charges	11	9,186	175,484
Bank borrowings due within one year	12	458,390	324,470
		467,576	499,954
Net current assets		467,719	423,159
Total assets less current liabilities		493,078	425,831
Non-current liability			
Bank borrowings due after one year	12	46,200	–
Net assets		446,878	425,831
Capital and reserves			
Share capital		16,000	16,000
Reserves		430,878	409,831
Shareholders' funds		446,878	425,831

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital HK\$'000	Share premium HK\$'000	Special reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
At 1 January 2003 (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
At 30 June 2003 (Unaudited)	16,000	122,357	9,370	248,299	396,026
Net profit for the period	-	-	-	29,805	29,805
At 31 December 2003 (Audited)	16,000	122,357	9,370	278,104	425,831
Net profit for the period	-	-	-	21,047	21,047
At 30 June 2004 (Unaudited)	16,000	122,357	9,370	299,151	446,878

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 June	
	2004	2003
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net cash used in operating activities	(185,098)	(92,188)
Tax paid	(1,595)	(6,001)
Interest paid	(5,635)	(7,065)
Net cash (used in) from investing activities	(27,424)	49,706
Net cash from (used in) financing activities		
Net increase in bank borrowings	180,120	990
Dividend paid	-	(9,600)
	180,120	(8,610)
Net decrease in cash and cash equivalents	(39,632)	(64,158)
Cash and cash equivalents at beginning of the period	81,561	121,804
Cash and cash equivalents at end of the period	41,929	57,646
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	41,929	58,023
Bank overdrafts	-	(377)
	41,929	57,646

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. **Basis of Preparation**

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 (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and with the Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

2. **Principal Accounting Policies**

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

The accounting policies adopted are consistent with those followed in the Group's annual audited financial statements for the year ended 31 December 2003, except for the follows:

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition. Goodwill is capitalised and amortised on a straight-line basis over its estimated useful life generally not exceeding twenty years.

3. **Segment Information**

Business segments

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

For the six months ended 30 June 2004:

	Distribution of computer components and information technology products HK\$'000 (Unaudited)	Provision of integrated e-enabling solutions HK\$'000 (Unaudited)	Consolidated HK\$'000 (Unaudited)
TURNOVER			
External sales	803,445	26,838	830,283
SEGMENT RESULT	27,563	804	28,367
Other operating income			2,891
Unallocated corporate expenses			(3,767)
Profit from operations			27,491
Finance costs			(6,046)
Profit before taxation			21,445
Taxation			(398)
Net profit for the period			21,047

For the six months ended 30 June 2003:

	Distribution of computer components and information technology products HK\$'000 (Unaudited)	Provision of integrated e-enabling solutions HK\$'000 (Unaudited)	Consolidated HK\$'000 (Unaudited)
TURNOVER			
External sales	1,151,486	18,558	1,170,044
SEGMENT RESULT	30,672	634	31,306
Other operating income			2,016
Unallocated corporate expenses			(3,108)
Profit from operations			30,214
Finance costs			(6,913)
Profit before taxation			23,301
Taxation			(2,826)
Net profit for the period			20,475

Geographical segments

	Six months ended 30 June	
	2004	2003
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Turnover by geographical market		
The People's Republic of China (the "PRC")	519,236	420,860
Hong Kong	311,047	749,184
	830,283	1,170,044
Contribution to gross profit by geographical market		
PRC	29,108	18,695
Hong Kong	16,152	31,869
	45,260	50,564

4. Profit from Operations

	Six months ended 30 June	
	2004	2003
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Profit from operations has been arrived at after charging and (crediting):		
Depreciation on plant and equipment	513	434
Interest income	(301)	(921)

5. 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% 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.

6. Dividend

The directors have determined that an interim dividend of HK0.45 cents (2003: Nil) per ordinary share should be paid to the shareholders of the Company whose names appear in the Register of Members on 29 October 2004.

7. Earnings per Share

The calculation of the basic earnings per share for the period is based on the net profit for the period of HK\$21,047,000 (2003: HK\$20,475,000) and on 1,600,000,000 shares (2003: 1,600,000,000 shares) in issue.

The calculation of the diluted earnings per share is based on the net profit for the period of HK\$21,047,000 and on the weighted average of 1,606,283,400 shares in issue and issuable on the assumption that the outstanding options are exercised on the date on which they are granted. As at 30 June 2003, there was no potential dilutive shares.

8. Plant and Equipment

During the period, the Group transferred an amount of HK\$8,190,000 (2003: Nil) from deposit paid in respect of an accounting software to plant and equipment.

9. Acquisition of a Subsidiary

On 28 June 2004, the Group acquired 100% interest in Yiu Fai Trading Limited which net assets on the date of acquisition were as follows:

	HK\$'000
Net assets acquired:	
Interests in associates	879
Shareholders' loans	(2,110)
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	(1,231)
Acquisition of shareholders' loans	2,110
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Net assets acquired by the Group	879
Goodwill arising on acquisition	14,121
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Satisfied by:	
Cash consideration	15,000
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Net cash outflow arising on acquisition	
Cash consideration	15,000
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The acquired subsidiary did not make any significant contribution to the results of the Group during the period.

10. Trade Receivables, Prepayments and Deposits

The credit terms of the Group range from 30 to 180 days. The aged analysis of trade receivables at the reporting date is as follows:

	30 June 2004 HK\$'000 (Unaudited)	31 December 2003 HK\$'000 (Audited)
Aged:		
0 to 30 days	200,329	119,229
31 to 60 days	94,757	55,403
61 to 90 days	20,927	69,436
91 to 180 days	134,804	177,608
Over 180 days	7,077	–
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Total trade receivables	457,894	421,676
Prepayments and deposits	5,297	13,545
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	463,191	435,221
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11. Trade Payables, Sales Deposits and Accrued Charges

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

	30 June 2004 HK\$'000 (Unaudited)	31 December 2003 HK\$'000 (Audited)
Aged:		
0 to 30 days	455	164,441
31 to 60 days	–	–
61 to 90 days	–	–
91 to 120 days	1,354	–
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Total trade payables	1,809	164,441
Sales deposits	2,236	5,744
Accrued charges	5,141	5,299
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	9,186	175,484
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The significant decrease in trade payables as at 30 June 2004 was mainly due to repayment to the suppliers.

12. Bank Borrowings

	30 June 2004 HK\$'000 (Unaudited)	31 December 2003 HK\$'000 (Audited)
Bank borrowings	504,590	324,470
Less: Amount due within one year included under current liabilities	(458,390)	(324,470)
Amount due after one year	46,200	–
Secured	329,629	256,067
Unsecured	174,961	68,403
	504,590	324,470

13. Pledge of Assets

In accordance with the terms of the distribution agreements 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 trade receivables) as security for any outstanding amount due by the Group. The aggregate amount of relevant assets pledged at the balance date is as follows:

	30 June 2004 HK\$'000 (Unaudited)	31 December 2003 HK\$'000 (Audited)
Assets pledged	–	118,877

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

	30 June 2004 HK\$'000 (Unaudited)	31 December 2003 HK\$'000 (Audited)
Bank deposits pledged	78,631	65,999

PAYMENT OF DIVIDEND

The interim dividend will be paid on 5 November 2004.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 27 October 2004 to 29 October 2004, both days inclusive, during which no transfer of shares will be effected. In order to qualify for the interim dividend, all transfers and 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 26 October 2004.

MANAGEMENT DISCUSSION AND ANALYSIS

Review of Group Performance and Operations

For the six months ended 30 June 2004, the Group's turnover was HK\$830 million (2003: HK\$1,170 million), representing a decrease of 29% as compared to the same period of last year. The change in turnover was mainly due to the decline in Intel revenue. Net profit attributable to shareholders increased from HK\$20.4 million to HK\$21 million, representing a 3% increase against the same period of last year, despite the gross profit for the period reduced from HK\$51 million to HK\$45 million.

The overall gross profit margin was in fact slightly improved by 1%, attributed by the introduction of thin film transistor liquid crystal display ("LCD") monitors since March 2003. The net profit margin rose from 1.7% to 2.5% attributable to effective cost control and tax arrangement.

The revenue contributed by Intel products reduced against the same period of last year due to the drop in market share as Intel introduced a new distributor in the third quarter of 2003 to replace an ex-distributor who was terminated in 2002, in order to maintain four distributors for the Mainland market.

As a value-added digital home products distributor, the Group set up customer service centers in 13 cities in the Mainland, including Xian, Shenyang, Zhengzhou, Nanjing, Wenzhou, Wuhan, Guiyang, Kunming, Beijing, Shanghai, Shenzhen, Guangzhou and Chengdu, to further provide value-added services including pre-sales technical support and after-sales service to dealers and end users in the Mainland, as well as to provide the services of product testing, debugging and technical problem-solving solution to original equipment manufacturers ("OEMs").

In order to expand the Group's distribution and logistics network, the Group acquired 30% of issued share capital of a well-established logistics company in Hong Kong at a consideration of HK\$15 million on 28 June 2004. The acquisition is expected to bring synergy effects particularly the lower logistics expenses to the Group.

Prospects

Both the Mainland market of personal computer ("PC") components and the global LCD market showed a strong growth in the first half of 2004. According to the China Centre of Information Industry Development, the Mainland desktop PC shipments reached 5.6 million units for the first six months of this year, representing a 40% growth on yearly basis. The whole year shipments are expected to surpass market forecast. On the other hand, the global LCD monitor shipments recorded 52% growth in the first quarter of 2004.

The Mainland colour TV makers have been exporting more high-end TVs as low-end sets have been barred by anti-dumping tariffs imposed by the United States Commerce Department. According to the Ministry of Commerce of the PRC, export of LCD TV grew 80% year on year with a total value of US\$210 million in the first half of this year.

To capture the blossoming demand from the Mainland TV makers, the Group obtained the distribution right of Chi Mei LCD panel in the first half of this year. Since March 2003, the Group has become a distributor of Chi Mei's full range of LCD products – monitor, TV and panels for monitor, TV and notebook. Distribution channels include retail markets, system integrators, PC dealers, PC OEMs and TV OEMs.

Normally, sales of LCD TV panel will have three to six months lag time due to testing period. Therefore, we expect a pick up in sales of Chi Mei LCD TV panel in the coming fourth quarter. While panel price has been falling caused by the global over-supply for the past few months, the replacement demand for LCD TV would be boosted by less expensive prices in the long run.

Given the affordable prices and computer replacement cycle, monitor would remain as the mainstream LCD product in the next couple of years. Meanwhile, the rising capacity of new generation production plants continues to push down the panel price to encourage the mass adoption of LCD TV.

The Group expects the overall gross margin will improve continuously contributing by product diversification in LCD products and Intel's new sales rebate policy for distributors globally.

Liquidity and Financial Resources

Net current assets of the Group amounted to approximately HK\$468 million as at 30 June 2004 (2003: HK\$423 million). Included in current assets were pledged bank deposits and cash and bank balances of HK\$121 million (2003: HK\$148 million). Short-term bank borrowings as at 30 June 2004 amounted to HK\$458 million (2003: HK\$324 million). The current ratio of the Group, calculated by dividing the total current asset value by the total current liability value as at 30 June 2004 was 2.0 (2003: 1.8) and maintained at a healthy level.

The Group obtained an unsecured term loan of HK\$77 million during the period, of which 40%, 40% and 20% is repayable within the first year, the second year and the third year respectively. The gearing ratio of the Group, as calculated by dividing the net interest bearing debts by the net asset value of the Group, is 0.86:1 as at 30 June 2004 (2003: 0.75:1). The bank borrowings were applied to working capital to meet the expansion of the Group. Of the total borrowings, all of the borrowings were principally denominated in Hong Kong dollars and US dollars and most of them are HIBOR rate based.

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

In accordance with the terms of the distribution agreements 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 trade receivables) as security for any outstanding amount due by the Group. In addition, certain of the Group's bank deposits were pledged to bankers to secure certain banking facilities granted to the Group.

USE OF NET PROCEEDS FROM INITIAL PUBLIC OFFERINGS

The proceeds from the initial public offerings after netting off related expenses were approximately HK\$179 million. As at 30 June 2004, approximately HK\$82 million of the net proceeds had been applied by the Group as general working capital. Approximately another HK\$18 million were 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 2004, the Group had about 80 full time employees. The Group remunerated its employees mainly based on industry practice and individual's performance and experiences. 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 COMPANY'S LISTED SECURITIES

During the period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

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 and eligible employees 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 for shares in the Company.

On 30 May 2003, the shareholders of the Company resolved to make certain amendments to the Option Scheme. Under the amendments, 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. The options granted may be exercised at any time from the business day immediately after the date of acceptance to such date to be determined by the board of the directors of the Company but in any events shall not exceed the period of 10 years.

There was no option granted or exercised during the six months ended 30 June 2004.

As at 30 June 2004, the number of shares in respect of which options had been granted and remaining outstanding under the Option Scheme was 69,095,000, representing 4.3% of the shares of the Company in issue at that date. Particulars of the outstanding share options granted under the Option Scheme is as follows:

Type of grantee	Outstanding at 30 June 2004 Number of underlying shares
Mr. Yen Chung Chuan – Director	2,080,000
Employees	43,290,000
Principal buyer	12,980,000
Suppliers of services	10,745,000
Total	69,095,000

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

As at 30 June 2004, the interests of the directors and chief executives and their associates in the shares, underlying shares and debentures of the Company and its associated corporations within the meaning of the Securities and Futures Ordinance (the "SFO") as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Long position

Ordinary shares of HK\$0.01 each of the Company

Name of director	Capacity	Number of shares held	Number of underlying shares (Note 1)	Percentage
Mr. Yu Pen Hung	Interest in controlled corporation	1,200,000,000 (Note 2)	–	75%
Mr. Yen Chung Chuan	Personal interest	–	2,080,000	0.13%

Note:

1. This refers to underlying shares of the Company covered by share options granted as detailed above under the section headed "Share Option Scheme", such options being unlisted physically settled equity derivatives.
2. 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 2004 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 relevant interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations as at 30 June 2004.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2004, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that, in addition to those interests as disclosed above in respect of the directors, the following shareholder had notified the Company of relevant interests in 5% or more of the issued share capital of the Company:

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 have the duplicate interests in the 1,200,000,000 shares of the Company.

Other than as disclosed above, the Company has not been notified by any other relevant interests or short positions in the issued share capital of the Company as at 30 June 2004.

AUDIT COMMITTEE

The audit committee has reviewed with the management and the external auditors the accounting principals 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.

BOARD OF DIRECTORS

As at the date of this announcement, the directors of the Company comprise three executive directors, namely, Mr. Yu Pen Hung, Mr. Yu Chi Ming, Frederick and Mr. Yen Chung Chuan, and two independent non-executive directors, namely, Dr. Liu James Juh and Ms. Hu Gin Ing.

By Order of the Board
Yu Pen Hung
Chairman

Hong Kong, 24 September 2004