

CHAIRMAN'S STATEMENT

On behalf of the board of directors (the "Board") of Artel Solutions Group Holdings Limited (the "Company" or "Artel"), I now present the annual report of the Company and its subsidiaries (the "Group") for the year ended 31 December 2005.

OUR VISION

Artel is committed to serve the genuine need for computing, multimedia, and networking solutions in the high-tech community. We are dedicated to provide cutting edge solutions and digital products as well as reliable services to our customers in reaching their business goals.

OUR VALUES

Artel's core values are integrity, customer satisfaction, supply chain partnership and dedication to excellence. These values motivate our employees and management team in every aspect from evaluating our operations flow, planning and decision-making as well as our vision for the future.

BUSINESS REVIEW

2005 was a challenging year for the Group. Facing the intensifying price-cutting situation in the computer components and information technology products market, the Group recorded a turnover of HK\$1,198 million. It represented a decrease of approximately 28% of revenue compared with 2004. The turnover maintained a stable mix of income sources similar to 2004, comprising 76% of central processing units ("CPU") products, 13% of liquid crystal display ("LCD") products, 8% of motherboards products as well as 3% of e-enabling network solution projects.

The Group recorded a gross profit of approximately HK\$27 million in 2005, representing a decrease of approximately 68% compared with 2004. The decrease was attributable to the trend of decreasing selling price of the computer components and information technology products in the competitive market.

In light of the current market situation and the aging analysis, the Group had made the provision of long-aged stocks and rebates receivables amounting of approximately HK\$66 million and HK\$93 million respectively in 2005, which was based on Directors best estimation.

Dealing with the Group's aged debtors, we had adopted a prudent strategy in which an allowance for doubtful debts of approximately HK\$402 million was provided during the year. The Group, in summary, recorded a loss of approximately HK\$596 million in 2005.

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PROSPECTS

Market Trend

Year 2006 is the major turning point for the development of Digital Television (“DTV”) market in China. DTV is regarded as last mile service of digital home concept, by which it consolidates the broadcasting network, the telecommunication network as well as the Internet.

According to the recent market surveys of “www.ccidnet.com”, it is forecasted that there will be a substantial growth in the number of DTV subscriber. The market value will be over RMB600 billion by the end of 2010. China is expected to be the largest market in the DTV business, followed by the USA in 2010. In addition, the government broadcasting policy also facilitates the development of DTV. The Olympics Games in Beijing and the World Expo in Shanghai will be broadcast via DTV. The Chinese Government also plans to adopt the DTV services in all county and above regions and to terminate the analog broadcasting by 2015.

Our development in DTV business

In late 2005, the Group established a Joint Venture “China Artel Golden Safe Digital Leasing Holdings Limited” (“China Artel”) to seize the potential of the DTV business. The major businesses of China Artel include:

Leasing Business

- Digital TV boxes
- Voice over IP gateway & IP-PBX
- Notebook computers

Online Business

- TV Banking and ATM@Home
- TV Shopping
- Video on Demand

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Other development in distribution business

Accompanying the development of DTV business, the Group also strives to diversify our product and market channels as follows:

- ***Solution for Digital Home:*** The concept of 5C value = Control + Convenience + Community + Customization + Content to link digital home appliances and PC with Internet accessibility.
 - Principal products include Set Top Box, Digital Media Adapter, Digital Video, Digital Camera, LCD TV, Bluetooth, Portal Media Player and Notebooks.
 - Major market segments include VAR and SI (System Integrator).
- ***Solution for Digital Enterprise:*** e-enabling solution provides mobility to users through wireless device for Internet access anywhere and anytime.
 - Principal products include VoIP Gateway, IP-PBX, WiFi AP, WiMAX Device and Wireless Adapter.
 - Major market segments include institutions such as government, education, healthcare, finance, telecommunication and business enterprise.
- ***Solution for CE & OEM Makers:***
 - Principal products include A/D Board, Chip Set, LCD monitor panel, and LCD TV panel.
 - Major market segments include OEM of LCD monitor maker, LCD TV maker.
- ***Solution for customer service:***
 - Principal products include after sales services such as repair, exchange and technical support for monitors.
 - Major geographical market segments focuses on China.

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In conclusion, the Group will seize the golden opportunity offered by the booming DTV market and the continuous economic growth in China. We believe the Group will turnaround and restore to grow with the PRC market in the future.

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 dedication and commitment. I would also like to express my sincere thanks to our business partners and shareholders for their supports in the past years.

Yu Pen Hung

Chairman

Hong Kong, 27 April 2006