

THIS COMPOSITE DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of the Offers, you should consult a licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Artel Solutions Group Holdings Limited, you should at once hand this Composite Document and the accompanying Form(s) of Acceptance to the purchaser(s) or transferee(s) or to the bank, the licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or the transferee(s). This Composite Document should be read in conjunction with the accompanying Form(s) of Acceptance, the contents of which form part of the terms of the Offers contained herein.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this Composite Document and the accompanying Forms of Acceptance, makes no representation as to their accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Composite Document and the accompanying Forms of Acceptance.



KAN CHE KIN, BILLY ALBERT

ARTEL SOLUTIONS GROUP HOLDINGS LIMITED
宏通集團控股有限公司*
(Incorporated in the Cayman Islands with limited liability)
(Stock code: 931)

COMPOSITE DOCUMENT

**UNCONDITIONAL MANDATORY CASH OFFERS BY
CIMB-GK SECURITIES (HK) LIMITED
ON BEHALF OF
KAN CHE KIN, BILLY ALBERT
TO ACQUIRE ALL ISSUED SHARES IN
ARTEL SOLUTIONS GROUP HOLDINGS LIMITED
(OTHER THAN THOSE SHARES ALREADY OWNED BY
KAN CHE KIN, BILLY ALBERT
AND PARTIES ACTING IN CONCERT WITH HIM)
AND TO CANCEL ALL OUTSTANDING SHARE OPTIONS**

Financial adviser to Kan Che Kin, Billy Albert



CIMB-GK Securities (HK) Limited

Independent financial adviser to the independent non-executive director of
Artel Solutions Group Holdings Limited



Optima Capital Limited

Capitalised terms used in this cover page shall have the same meanings as those defined in the section headed "Definitions" in this Composite Document.

A letter from CIMB-GK containing, among other things, details of the Offers is set out on pages 5 to 12 of this Composite Document. A letter from the Board is set out on pages 13 to 19 of this Composite Document. A letter from the independent non-executive Director containing his recommendation to the Independent Shareholders and the Optionholders, and a letter from Optima Capital containing its advice and recommendation to the independent non-executive Director in respect of the Offers, are set out on pages 20 to 21 and pages 22 to 36 of this Composite Document respectively.

The procedures for acceptance and settlement of the Offers are set out in Appendix I to this Composite Document and in the accompanying Form(s) of Acceptance. Acceptances of the Offers should be received by the Registrar, by no later than 4:00 p.m. on 31 October 2007 (or such later time and/or date as the Offeror may decide and announce, with the consent of the Executive, in accordance with the Takeovers Code).

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EXPECTED TIMETABLE

2007

Despatch date of this Composite Document and the accompanying Forms of Acceptance and the commencement date of the Offers (<i>Note 1</i>)	Wednesday, 10 October
Latest time for acceptance of the Offers	4:00 p.m. on Wednesday, 31 October
Closing Date of the Offers (<i>Note 2</i>)	Wednesday, 31 October
Announcement of the results of the Offers posted on the Stock Exchange's website	7:00 p.m. on Wednesday, 31 October
Notification of the announcement of the results of the Offers published in newspapers in Hong Kong	Thursday, 1 November
Latest date for despatch of remittances for the amounts due under the Offers in respect of valid acceptances received on or before 4:00 p.m. on the Closing Date (<i>Note 4</i>)	Friday, 9 November

Notes:

1. The Offers are made on 10 October 2007, being the date of despatch of this Composite Document, and are capable of acceptance on and from that date until the Closing Date.
2. The Offers, which are unconditional, will be closed on 31 October 2007 unless the Offeror revises or extends the Offers in accordance with the Takeovers Code. An announcement will be issued through the Stock Exchange's website by 7:00 p.m. on 31 October 2007 stating whether the Offers have been revised or extended or have expired or in relation to any extension of the Offers, to state also either the next closing date or that the Offers will remain open until further notice. In the event that the Offeror decides that the Offers will remain open until further notice, at least 14 days' notice in writing will be given, before the Offers are closed, to those Independent Shareholders and the Optionholders and an announcement will be published. For further details, please refer to the paragraph headed "Acceptance period and revisions" in Appendix I to this Composite Document.
3. The Offers are unconditional. Acceptance of the Offers shall be irrevocable and not capable of being withdrawn, except as permitted under the Takeovers Code.
4. Remittances in respect of the consideration (after deducting the seller's ad valorem stamp duty) payable for the Shares tendered or Share Options cancelled under the Offers will be paid as soon as possible but in any event within 10 days of the date of the receipt of all the valid requisite documents from the Independent Shareholders and the Optionholders by the Registrar.

All references to time and dates contained in this Composite Document refer to Hong Kong local time and dates.

DEFINITIONS

In this Composite Document, the following expressions have the meanings set out below unless the context requires otherwise:

“Acquisition”	the acquisition of 1,200,000,000 Shares by the Offeror from the Vendor in accordance with the terms of the Sale and Purchase Agreement
“acting in concert”	has the meaning ascribed to it under the Takeovers Code
“Announcement”	the announcement jointly issued by the Company and the Offeror dated 19 September 2007 in relation to, among other things, the Offers
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Bank Creditors”	a total of 13 banks which have extended banking facilities to the Group prior to the assignment of the Bank Debts to the Offeror on 31 August 2007
“Bank Debts”	all the right, title, interest and benefit in the amounts originally due to the Bank Creditors by the Group, which aggregate balance was approximately HK\$256 million as at 12 December 2005, and which had been assigned by the Bank Creditors to the Offeror on 31 August 2007
“Board”	the board of Directors
“Business Day”	a day on which licensed banks in Hong Kong are generally open for business, other than a Saturday or a Sunday or a day on which a black rainstorm warning or tropical cyclone warning signal number 8 or above is issued in Hong Kong at any time between 9:00 a.m. and 12:00 noon and is not cancelled at or before 12:00 noon
“CCASS”	the Central Clearing and Settlement System established and operated by Hong Kong Securities Clearing Company Limited
“CIMB-GK”	CIMB-GK Securities (HK) Limited, a corporation licensed to carry on type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO

DEFINITIONS

“Closing Date”	31 October 2007, being at least 21 days after the date of this Composite Document
“Company”	Artel Solutions Group Holdings Limited, a company incorporated in the Cayman Islands with limited liability whose Shares are listed on the Stock Exchange
“Completion”	completion of the sale and purchase of the Sale Shares pursuant to the Sale and Purchase Agreement
“Composite Document”	this composite document (with the Forms of Acceptance) jointly issued by the Offeror and the Company to all Independent Shareholders and Optionholders in accordance with the Takeovers Code
“Director(s)”	the director(s) of the Company
“Executive”	the Executive Director of the Corporate Finance Division of the SFC from time to time or any of its delegates
“Forms of Acceptance”	the PINK accompanying form of acceptance and transfer of the Shares in respect of the Share Offer and the BLUE form of acceptance and cancellation of the outstanding Share Options in respect of the Option Offer being separately despatched to the Optionholders
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Independent Shareholder(s)”	Shareholder(s) other than the Offeror together with any parties acting in concert with him
“Intel Debt”	all the rights, title and interest in the amount originally due to Intel by the Group, which balance was approximately US\$7,567,165 as at 11 July 2006, and which had been assigned by Intel to the Offeror on 5 September 2007
“Latest Practicable Date”	8 October 2007, being the latest practicable date prior to the printing of this Composite Document for the purpose of ascertaining certain information contained herein

DEFINITIONS

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Yu”	Mr. Yu Pen Hung, the chairman of the Company and an executive Director
“Offeror”	Mr. Kan Che Kin, Billy Albert
“Offers”	collectively, the Share Offer and the Option Offer
“Optima Capital”	Optima Capital Limited (formerly known as VXL Financial Services Limited), a corporation licensed to carry out type 6 (advising on corporate finance) regulated activity under the SFO, the independent financial adviser to the independent non-executive Director
“Optionholders”	holders of the Share Options
“Option Offer”	the unconditional cash offer made by CIMB-GK on behalf of the Offeror to cancel all outstanding Share Options at HK\$0.0001 per Share to be subscribed under the Share Options
“PRC”	the People’s Republic of China which for the purpose of this Composite Document excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Registrar”	Tricor Standard Limited, the Hong Kong branch share registrar of the Company situated at 26/F, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong
“Resumption Proposal”	the proposal in relation to the resumption of trading in the Shares to be submitted to the Stock Exchange
“Sale and Purchase Agreement”	the conditional agreement dated 25 July 2007 entered into between the Offeror, the Vendor and Mr. Yu in relation to the sale and purchase of the Sale Shares
“Sale Shares”	1,200,000,000 Shares, representing 75% of the issued share capital of the Company as at the Latest Practicable Date
“SFC”	the Securities and Futures Commission of Hong Kong

DEFINITIONS

“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	share(s) of HK\$0.01 each in the issued share capital of the Company
“Share Offer”	the unconditional cash offer made by CIMB-GK on behalf of the Offeror to acquire all issued Shares (other than those already owned by the Offeror or parties acting in concert with him) on the terms and subject to the conditions contained in this Composite Document and the accompanying PINK Form of Acceptance, including any extension or revision thereof
“Share Offer Price”	HK\$0.0386 payable by the Offeror to the Independent Shareholders for each Share accepted under the Share Offer
“Share Option(s)”	share option(s) which have been granted by the Company pursuant to the share option scheme adopted by the Company on 29 August 2001 (as amended on 30 May 2003)
“Shareholder(s)”	holders of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“US\$”	United States dollars, the lawful currency of the United States of America
“Vendor”	E-Career Investments Limited, the entire issued share capital of which is owned by Mr. Yu
“%”	per cent.

For the purpose of illustration, amounts denominated in US\$ in this Composite Document have been translated into HK\$ at the rate of US\$1:HK\$7.80. Such translation should not be construed as a representation that the amounts in question have been, could have been or could be converted at any particular rate at all.



CIMB-GK Securities (HK) Limited

25/F Central Tower
28 Queen's Road Central
Hong Kong

10 October 2007

To the Independent Shareholders and the Optionholders

Dear Sir or Madam,

**UNCONDITIONAL MANDATORY CASH OFFERS BY
CIMB-GK SECURITIES (HK) LIMITED
ON BEHALF OF
KAN CHE KIN, BILLY ALBERT
TO ACQUIRE ALL ISSUED SHARES IN
ARTEL SOLUTIONS GROUP HOLDINGS LIMITED
(OTHER THAN THOSE SHARES ALREADY OWNED BY
KAN CHE KIN, BILLY ALBERT
AND PARTIES ACTING IN CONCERT WITH HIM)
AND TO CANCEL ALL OUTSTANDING SHARE OPTIONS**

INTRODUCTION

Trading in the Shares on the Stock Exchange has been suspended since 7 September 2006 at the request of the Company.

On 19 September 2007, the Offeror and the Company jointly announced, among other things, that on 25 July 2007, the Offeror had entered into the Sale and Purchase Agreement with the Vendor and Mr. Yu to acquire the Sale Shares, representing 75% of the issued share capital of the Company as at the Latest Practicable Date, for a consideration of HK\$16,000,000.

Completion took place on 25 July 2007 and the Offeror became interested in 1,200,000,000 Shares, representing 75% of the issued share capital of the Company immediately upon Completion. The Sale Shares which were previously pledged to the Bank Creditors for the Bank Debts were released to the Offeror upon completion of the assignment of the Bank Debts to the Offeror for a consideration of HK\$30,300,000 on 31 August 2007. Accordingly, the Offeror and parties acting in concert with him are required to make an unconditional mandatory cash offer for all issued Shares (other than those already owned or agreed to be acquired by the Offeror or parties acting in concert with him) in accordance with Rule 26.1 of the Takeovers Code. Under Rule 13 of the Takeovers Code, the Offeror is also required to make a comparable offer to cancel all outstanding Share Options. The principal terms of the Offers are set out under the section headed "The Offers" of this letter. CIMB-GK is making the Offers on behalf of the Offeror.

LETTER FROM CIMB-GK

This letter, together with Appendix I to this Composite Document and the accompanying Forms of Acceptance, sets out, among other things, the terms and other details of the Offers, information on the Offeror and his intention regarding the Group. Your attention is also drawn to the letter from the Board as well as the respective letters of advice from the independent non-executive Director, who will give his recommendation in respect of the Offers to the Independent Shareholders and the Optionholders, and Optima Capital, which has been appointed as the independent financial adviser to the independent non-executive Director to give his advice and recommendation on the Offers, as contained in this Composite Document.

THE OFFERS

As at the Latest Practicable Date, there were (i) a total of 1,600,000,000 Shares in issue (of which 1,200,000,000 Shares were owned by the Offeror and parties acting in concert with him); and (ii) Share Options entitling the holders thereof to subscribe for up to an aggregate of 114,095,000 new Shares, of which Share Options entitling the holders thereof to subscribe for 69,095,000 Shares may be exercised at an exercise price of HK\$0.3810 per Share and Share Options entitling the holders thereof to subscribe for 45,000,000 Shares may be exercised at an exercise price of HK\$0.2166 per Share.

As at the Latest Practicable Date, save for the outstanding Share Options, the Company has no convertible securities, options, derivatives or warrants outstanding and has not entered into any agreement with the Offeror or parties acting in concert with him for the issue of any convertible securities, options, warrants or derivatives of the Company.

Principal terms of the Offers

CIMB-GK, on behalf of the Offeror, is making the Share Offer to acquire all issued Shares (other than those already owned by the Offeror or parties acting in concert with him) and the Option Offer to cancel all outstanding Share Options on the following basis:

The Share Offer:

For each Share HK\$0.0386 in cash

The Option Offer:

For cancellation of outstanding Share Option

(with a right to subscribe for one Share) HK\$0.0001 in cash

(1) *Comparison of value*

The Share Offer Price of HK\$0.0386 per Share represents:

- (a) the amount of sum of the consideration payable by the Offeror under the Sale and Purchase Agreement (being HK\$16,000,000) and the assignment of the Bank Debts (being HK\$30,300,000) divided by the total number of Sale Shares (being 1,200,000,000 Shares);

LETTER FROM CIMB-GK

- (b) a premium of approximately 4.32% over the closing price of HK\$0.0370 per Share as quoted on the Stock Exchange on 7 September 2006, being the last trading day immediately prior to the suspension of trading in the Shares on the Stock Exchange;
- (c) a premium of HK\$0.1290 per Share over the audited consolidated net liabilities per Share of approximately HK\$0.0904 as at 31 December 2005 (based on the Group's audited consolidated net liabilities of approximately HK\$144.6 million as at 31 December 2005 and 1,600,000,000 Shares in issue); and
- (d) a premium of HK\$0.1387 per Share over the unaudited consolidated net liabilities per Share of approximately HK\$0.1001 as at 30 June 2006 (based on the Group's unaudited consolidated net liabilities of approximately HK\$160.1 million as at 30 June 2006 and 1,600,000,000 Shares in issue).

The price for the Option Offer is determined with reference to the exercise prices of the outstanding Share Options which ranged from HK\$0.2166 to HK\$0.3810 per Share, which is substantially higher than the Share Offer Price of HK\$0.0386 per Share and the closing price of HK\$0.0370 per Share as quoted on the Stock Exchange on 7 September 2006. As the Share Options are deeply out-of-money, the price for the Option Offer is equivalent to a nominal value of HK\$0.0001 per Share to be subscribed under the Share Options.

(2) *Total consideration and financial resources available for the Offers*

Based on the total number of 1,600,000,000 Shares in issue as at the Latest Practicable Date and the Share Offer Price of HK\$0.0386 per Share, the entire issued share capital of the Company is valued at approximately HK\$61.8 million. In the event that the Share Offer is accepted in full, the aggregate amount payable by the Offeror will be approximately HK\$15.4 million. Assuming all outstanding Share Options entitling the holders thereof to subscribe for 114,095,000 Shares are surrendered pursuant to the Option Offer at the option cancellation price of HK\$0.0001 per Share to be subscribed under the Share Options, the consideration of the Option Offer payable by the Offeror is HK\$11,409.50.

Assuming that all outstanding Share Options entitling holders thereof to subscribe for 114,095,000 Shares are fully exercised prior to the close of the Option Offer, there will be 1,714,095,000 Shares in issue and the entire issued share capital of the Company will be valued at approximately HK\$66.2 million based on the Share Offer Price of HK\$0.0386 per Share. In the event that the Share Offer is accepted in full, the aggregate amount payable by the Offeror will be approximately HK\$19.8 million.

The Offeror will finance the Offers by his own financial resources. CIMB-GK, as the financial adviser to the Offeror, is satisfied that sufficient financial resources are available to the Offeror to satisfy the full acceptance of the Offers.

LETTER FROM CIMB-GK

(3) *Effect of accepting the Offers*

Acceptance of the Share Offer by any Independent Shareholder will be deemed to constitute a warranty by such Independent Shareholder that all Shares sold by such Independent Shareholder under the Share Offer are free from all liens, charges, options, claims, equities, adverse interests, third-party rights or encumbrances whatsoever and together with all rights accruing or attaching thereto, including, without limitation, the right to receive dividends and other distributions declared, made or paid, if any, on or after the date of despatch of the Composite Document.

By accepting the Option Offer, the Optionholders will agree to the cancellation of their Share Options and all rights attached thereto with effect from the date of despatch of the Composite Document.

The making of the Offers to persons with a registered address in jurisdictions outside Hong Kong may be affected by the applicable laws of the relevant jurisdictions. Independent Shareholders and Optionholders who are citizens or residents or nationals of jurisdictions outside Hong Kong should inform themselves about and observe any applicable legal requirements in their own jurisdictions.

STAMP DUTY

Seller's ad valorem stamp duty arising in connection with the acceptance of the Offers amounting to 0.1% of the amount payable in respect of the relevant acceptance will be deducted from the amount payable to the Independent Shareholders or Optionholders who accept the Offers (as the case may be). The Offeror will then pay the seller's ad valorem stamp duty to the stamp duty office on behalf of the accepting Independent Shareholders or Optionholders (as the case may be).

PAYMENT

Payment in cash in respect of acceptances of the Offers will be made as soon as possible but, in any event, within 10 days of the date of receipt of a duly completed acceptance.

COMPULSORY ACQUISITION

The Offeror does not intend to apply any right which may be made available to it to acquire compulsorily any Shares outstanding after the closing of the Offers, but reserves the right to do so.

INFORMATION ON THE OFFEROR

Mr. Kan Che Kin, Billy Albert, the Offeror, graduated from the University of East Anglia with a Bachelor of Science degree. He is an associate of the Institute of Chartered Accountants in England and Wales, the Hong Kong Institute of Certified Public Accountants and Hong Kong Securities Institute. Mr. Kan had worked with Deloitte Touche Tohmatsu

LETTER FROM CIMB-GK

and KPMG and is equipped with extensive experience in accountancy, taxation and corporate finance. In addition, Mr. Kan has over 20 years of experience in serving on the board of directors of financial institutions and listed companies in Hong Kong, including Security Pacific Finance Limited, Burlingame International Company Limited (now renamed as Interchina Holdings Company Limited) (stock code: 202) and Greater China Holdings Limited (stock code: 431). Mr. Kan resigned as a director of Interchina Holdings Company Limited in September 2000 and of Greater China Holdings Limited in June 2004.

As at the Latest Practicable Date, save for the Sale Shares, the Offeror and the parties acting in concert with him did not have any interest in the securities, convertible securities, warrants, options and derivatives of the Company.

INTENTION OF THE OFFEROR REGARDING THE GROUP

Business

Following the closing of the Offers, the Offeror intends to continue all of the existing businesses of the Group. The Offeror intends to review and strengthen the financial position of the Group after the closing of the Offers. The Offeror does not intend to make any material changes to the businesses of the Group or to dispose of or redeploy any fixed assets of the Group following the closing of the Offers.

The Offeror will explore other business opportunities and consider whether any assets and/or business acquisitions will be appropriate in order to enhance the growth of the Group. In the event that any of the opportunities materialises, further announcements will be made as and when required by the Listing Rules. As at the Latest Practicable Date, the Offeror had no intention or concrete plan for any acquisition of assets and/or business by the Group.

Directors, management and employees

The Board is currently made up of two Directors, comprising one executive Director and one independent non-executive Director. All of the existing Directors will remain in the Board and the Offeror also intends to nominate (i) Mr. Kan Che Kin, Billy Albert (being the Offeror himself), Mrs. Kan Kung Chuen Lai, Ms. Li Shu Han, Eleanor Stella and Mr. Li Kai Yien, Arthur Albert as executive Directors; (ii) Mr. Li Siu Yui and Mr. Ip Woon Lai as independent non-executive Directors; and (iii) Mr. Kan Che Kin, Billy Albert as chairman of the Company in place of Mr. Yu at the time when the Composite Document is despatched.

Personal particulars of the proposed new Directors are set out below:

Executive Directors

Mr. Kan Che Kin, Billy Albert ("Mr. Kan"), aged 55, is the Offeror. Details of Mr. Kan are set out in the section headed "Information on the Offeror" above.

LETTER FROM CIMB-GK

Mrs. Kan Kung Chuen Lai (“Mrs. Kan”), aged 57, is a director of BK Capital Limited, a private company engaged in merchandise trading, properties investment and securities trading, for over 10 years. Mrs. Kan is the wife of Mr. Kan.

Ms. Li Shu Han, Eleanor Stella (“Ms. Li”), aged 37, holds a Bachelor of Science Accounting degree from University of South California. Ms. Li was admitted as a member of American Institute of Certified Public Accountants and the Hong Kong Institute of Certified Public Accountants in 1995. She has experience in accounting and corporate finance. Ms. Li is currently a director of Wealth Loyal Development Limited, a private company engaged in investment holding. Ms. Li is a niece of Mr. Kan and sister of Mr. Li Kai Yien, Arthur Albert.

Mr. Li Kai Yien, Arthur Albert (“Mr. Li”), aged 35, graduated from University of Southern California with a Bachelor of Science degree in 1995. Mr. Li has been a Certified Public Accountant since 2001 and has more than 9 years’ experience in accounting and securities trading. Mr. Li is currently a dealer representative of Phillip Securities (HK) Ltd. Mr. Li is a nephew of Mr. Kan and brother of Ms. Li.

Independent non-executive Directors

Mr. Li Siu Yui, aged 37, holds a Master degree in Business Administration from University of Wales. Mr. Li Siu Yui has over 9 years’ experience in the area of investment. He was working in securities companies during the period from 1997 to 2002. He has been engaged as an investment manager of two private companies since 2002.

Mr. Ip Woon Lai (“Mr. Ip”), aged 36, holds a Bachelor of Commerce in Accounting and Finance degree from the University of New South Wales and was admitted as a certified practising accountant of the Australian Society of Certified Practising Accountants in 1998. He began his career with Arthur Andersen & Co. in Hong Kong in 1994. Mr. Ip has corporate finance and investment banking experience and had worked for various investment banks and companies including Warburg Dillon Read, ING Bank N.V. and CEL Management Services Limited. He had also worked in Hysan Development Company Limited where he served as the deputy head of corporate finance from 2005 to 2006. In 2006, he joined Lotus Capital Management Limited, a private equity investment fund.

Details of the respective terms of their appointments, including emoluments and the basis of determining the emoluments, will be announced upon their appointments.

Save as disclosed above, the Offeror does not intend that there would be any material changes to the existing management and employees of the Group following the closing of the Offers.

LETTER FROM CIMB-GK

MAINTENANCE OF THE LISTING STATUS OF THE COMPANY

The Offeror intends to maintain the listing of the Shares on the Stock Exchange after the closing of the Offers. The Offeror and the new Directors to be appointed to the Board will undertake that following the closing of the Offers, appropriate steps will be taken as soon as possible to ensure that not less than 25% of the issued Shares will be held by public hands.

The Stock Exchange has stated that if, at the closing of the Offers, less than the minimum prescribed percentage applicable to the Company, being 25% of the issued Shares are held by the public or if the Stock Exchange believes that:

- **a false market exists or may exist in the trading of the Shares; or**
- **there are insufficient Shares in public hands to maintain an orderly market,**

it will consider exercising its discretion to suspend trading in the Shares.

ACCEPTANCE AND SETTLEMENT

Your attention is drawn to the details in respect of the procedures for acceptance and settlement set out in Appendix I to this Composite Document and the accompanying Forms of Acceptance.

GENERAL

To ensure equality of treatment of all Independent Shareholders, those registered Independent Shareholders who hold the Shares as nominees for more than one beneficial owner should, as far as practicable, treat the holding of each beneficial owner separately. In order to accept the Share Offer, it is essential that the beneficial owners of the Shares, whose investments are registered in the names of their respective nominees, provide instructions to their nominees of their intentions with regard to the Share Offer.

All documents and remittances will be sent to the Independent Shareholders and/or the Optionholders through ordinary post at their own risk. These documents and remittances will be sent to them at their respective addresses stated on the relevant Form(s) of Acceptance or if no such address is stated, as they appear in the register of members, or register of Optionholders or, in the case of joint Independent Shareholders, to the Independent Shareholder whose name appears first in the said register of members. None of the Offeror, the parties acting in concert with him, CIMB-GK and the Registrar or any of their respective directors or any other person will be responsible for any loss or delay in transmission of such documents and remittances or any other liabilities that may arise as result thereof.

LETTER FROM CIMB-GK

ADDITIONAL INFORMATION

Your attention is drawn to the further terms of the Offers and the additional information set out in the Appendices to this Composite Document, which form part of this Composite Document.

Yours faithfully,

For and on behalf of

CIMB-GK Securities (HK) Limited

Alex Lau

Heidi Cheng

Executive Vice President

Senior Vice President

LETTER FROM THE BOARD



ARTEL SOLUTIONS GROUP HOLDINGS LIMITED

宏通集團控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 931)

Executive Director:

Mr. Yu Pen Hung

Independent non-executive Director:

Mr. Lee Kong Leong

Registered office:

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

*Head office and principal place
of business in Hong Kong:*

Flat 18, 1/F
Flourish Industrial Building
33 Sheung Yee Road
Kowloon Bay
Hong Kong

10 October 2007

To the Independent Shareholders and the Optionholders

Dear Sir or Madam,

**UNCONDITIONAL MANDATORY CASH OFFERS BY
CIMB-GK SECURITIES (HK) LIMITED
ON BEHALF OF
KAN CHE KIN, BILLY ALBERT
TO ACQUIRE ALL ISSUED SHARES IN
ARTEL SOLUTIONS GROUP HOLDINGS LIMITED
(OTHER THAN THOSE SHARES ALREADY OWNED BY
KAN CHE KIN, BILLY ALBERT
AND PARTIES ACTING IN CONCERT WITH HIM)
AND TO CANCEL ALL OUTSTANDING SHARE OPTIONS**

INTRODUCTION

Trading in the Shares on the Stock Exchange has been suspended since 7 September 2006 pending the release of an announcement regarding price sensitive information and will remain suspended until further notice.

* *For identification purposes only*

LETTER FROM THE BOARD

On 19 September 2007, the Offeror and the Company jointly announced, among other things, that on 25 July 2007, the Company was notified by the Offeror that he had entered into the Sale and Purchase Agreement with the Vendor and Mr. Yu on the same date to acquire the Sale Shares, representing 75% of the issued share capital of the Company as at the Latest Practicable Date, for a consideration of HK\$16,000,000.

Completion of the Sale and Purchase Agreement took place on 25 July 2007 and the Offeror became interest in 1,200,000,000 Shares, representing 75% of the issued share capital of the Company immediately upon Completion. The Sale Shares which were previously pledged to the Bank Creditors for the Bank Debts were released to the Offeror upon completion of the assignment of the Bank Debts to the Offeror for a consideration of HK\$30,300,000 on 31 August 2007. Accordingly, the Offeror and parties acting in concert with him are required to make an unconditional mandatory cash offer for all issued Shares other than those already owned or agreed to be acquired by the Offeror or parties acting in concert with him in accordance with Rule 26.1 of the Takeovers Code. Under Rule 13 of the Takeovers Code, the Offeror is also required to make a comparable offer to cancel all outstanding Share Options.

CIMB-GK is making the Offers on behalf of the Offeror. Details of the Offers are set out in the letter from CIMB-GK on pages 5 to 12 of this Composite Document, Appendix I to this Composite Document and the accompanying Form(s) of Acceptance.

The Board is currently made up of two Directors, comprising one executive Director and one independent non-executive Director. The independent non-executive Director will advise the Independent Shareholders and the Optionholders in respect of the Offers. Optima Capital has been appointed as the independent financial adviser to advise the independent non-executive Director on the terms of the Offers.

The purposes of this document is to provide you with, among other things, information relating to the Group, the Offeror and the Offers, and to set out the letter from the independent non-executive Director containing his recommendations to the Independent Shareholders and the Optionholders and the letter from Optima Capital containing its advice to the independent non-executive Director in respect of the Offers.

THE OFFERS

As at the Latest Practicable Date, there were (i) a total of 1,600,000,000 Shares in issue (of which 1,200,000,000 Shares were owned by the Offeror and the parties acting in concert with him); and (ii) Share Options entitling the holders thereof to subscribe for up to an aggregate of 114,095,000 new Shares, of which Share Options entitling the holders thereof to subscribe for 69,095,000 Shares may be exercised at an exercise price of HK\$0.3810 per Share and Share Options entitling the holders thereof to subscribe for 45,000,000 Shares may be exercised at an exercise price of HK\$0.2166 per Share.

LETTER FROM THE BOARD

As at the Latest Practicable Date, save for the outstanding Share Options, the Company has no convertible securities, options, derivatives or warrants outstanding and has not entered into any agreement with the Offeror or parties acting in concert with him for the issue of any convertible securities, options, warrants or derivatives of the Company.

Principal terms of the Offers

CIMB-GK, on behalf of the Offeror, is making the Share Offer to acquire all issued Shares (other than those already owned by the Offeror or parties acting in concert with him) and the Option Offer to cancel all outstanding Share Options on the following basis:

The Share Offer:

For each Share HK\$0.0386 in cash

The Option Offer:

For cancellation of outstanding Share Option

(with a right to subscribe for one Share) HK\$0.0001 in cash

(1) *Comparison of value*

The Share Offer Price of HK\$0.0386 per Share represents:

- (a) the amount of sum of the consideration payable by the Offeror under the Sale and Purchase Agreement (being HK\$16,000,000) and the assignment of the Bank Debts (being HK\$30,300,000) divided by the total number of Sale Shares (being 1,200,000,000 Shares);
- (b) a premium of approximately 4.32% over the closing price of Shares of HK\$0.0370 per Share as quoted on the Stock Exchange on 7 September 2006, being the last trading day immediately prior to the suspension of trading in the Shares on the Stock Exchange;
- (c) a premium of HK\$0.1290 per Share over the audited consolidated net liabilities per Share of approximately HK\$0.0904 as at 31 December 2005 (based on the Group's audited consolidated net liabilities of approximately HK\$144.6 million as at 31 December 2005 and 1,600,000,000 Shares in issue); and
- (d) a premium of HK\$0.1387 per Share over the unaudited consolidated net liabilities per Share of approximately HK\$0.1001 as at 30 June 2006 (based on the Group's unaudited consolidated net liabilities of approximately HK\$160.1 million as at 30 June 2006 and 1,600,000,000 Shares in issue).

The price for the Option Offer is determined with reference to the exercise prices of the outstanding Share Options which ranged from HK\$0.2166 to HK\$0.3810 per Share, which is substantially higher than the Share Offer Price of HK\$0.0386 per Share. Accordingly, the price for the Option Offer is equivalent to a nominal value of HK\$0.0001 per Share to be subscribed under the Share Options.

LETTER FROM THE BOARD

FURTHER DETAILS IN RESPECT OF THE OFFERS

Further details of the Offers including, among other things, the terms of the Offers and the procedures for acceptance and settlement of the Offers, are contained in the letter from CIMB-GK of this Composite Document, in Appendix I to this Composite Document and in the Form(s) of Acceptance.

STATUS UPDATE OF THE COMPANY

Trading in the Shares on the Stock Exchange has been suspended since 7 September 2006 pending the release of an announcement regarding price sensitive information and will remain suspended until further notice. On 22 September 2006, the Company announced that on 7 September 2006, it had received a petition for winding up of the Company by the Petitioner due to the Company's failure to repay certain outstanding debts. On 15 November 2006, the Company announced that said petition had been dismissed.

On 22 May 2007, the Company received a letter from the Stock Exchange dated 22 May 2007 stating that in view of the prolonged suspension of trading in the Shares and the Company's failure to demonstrate its compliance with Rule 13.24 of the Listing Rules, the Stock Exchange would place the Company in the second stage of the delisting procedures pursuant to Practice Note 17 to the Listing Rules and the Company was required to submit viable resumption proposals to the Stock Exchange within six months from the date of the letter. The Stock Exchange further stated that it would, after considering any proposal to be made by the Company, determine whether to proceed to the third stage of the delisting procedures at the end of such six month period. The Resumption Proposal should, among other things, demonstrate that (i) the Company has a sufficient level of operations or has assets of sufficient value to warrant the continued listing of the Shares as required under Rule 13.24 of the Listing Rules; (ii) compliance by the Company with the Listing Rules and all applicable laws and regulations; (iii) the Company has published all the outstanding financial results of the Group as required under the Listing Rules; (iv) the Company has addressed the concerns raised by its auditors through the qualification of the Company's auditors' report on the Group's financial statements for the year ended 31 December 2005 and any subsequent financial year(s) and period(s); and (v) the Company has adequate financial reporting system and internal control procedures to enable it to meet its obligations under the Listing Rules.

On 25 July 2007, the Company was notified by the Offeror that he had entered into the Sale and Purchase Agreement with the Vendor and Mr. Yu to acquire the Sale Shares, representing 75% of the issued share capital of the Company as at the Latest Practicable Date, for a consideration of HK\$16,000,000.

Completion took place on 25 July 2007 and the Offeror became interested in 1,200,000,000 Shares, representing 75% of the issued share capital of the Company immediately upon Completion. The Sale Shares which were previously pledged to the Bank Creditors for the Bank Debts were released to the Offeror upon completion of the assignment of the Bank Debts to the Offeror for a consideration of HK\$30,300,000 on 31 August 2007. Accordingly, the Offeror and parties acting in concert with him are required

LETTER FROM THE BOARD

to make an unconditional mandatory cash offer for all issued Shares (other than those already owned or agreed to be acquired by the Offeror or parties acting in concert with him) in accordance with Rule 26.1 of the Takeovers Code. Under Rule 13 of the Takeovers Code, the Offeror is also required to make a comparable offer to cancel all outstanding Share Options.

CIMB-GK is making the Offers on behalf of the Offeror.

The Company will convene an extraordinary general meeting on 15 October 2007 for the purpose of considering and, if thought fit, approving the appointment of PKF as the Company's auditors. It is currently expected that the Company will publish its audited consolidated results for the year ended 31 December 2006 and unaudited consolidated results for the six months ended 30 June 2007 by early November 2007.

The Company is also in the process of finalising the Resumption Proposal, which is expected to be submitted to the Stock Exchange by early November 2007. It is expected that the Resumption Proposal will include details on a restructuring proposal to strengthen the Company's financial position. Further details of the restructuring proposal is set out in the paragraph headed "Restructuring proposal" below.

INFORMATION ON THE OFFEROR

Your attention is drawn to the section headed "Information on the Offeror" in the letter from CIMB-GK as set out on pages 8 to 10 of this Composite Document.

INTENTION OF THE OFFEROR REGARDING THE GROUP

Business

The Offeror intends that the Group will continue with all of its existing businesses. The Offeror does not intend to make any material changes to the businesses of the Group or to redeploy any fixed assets of the Group following the closing of the Offers.

Directors and management

The Board is currently made up of two Directors, comprising one executive Director and one independent non-executive Director. As stated in the letter from CIMB-GK set out in this Composite Document, the Directors note that the Offeror intends to nominate (i) Mr. Kan Che Kin, Billy Albert (being the Offeror), Mrs. Kan Kung Chuen Lai, Ms. Li Shu Han, Eleanor Stella and Mr. Li Kai Yien, Arthur Albert as executive Directors; (ii) Mr. Li Siu Yui and Mr. Albert Ip as independent non-executive Directors; and (iii) Mr. Kan Che Kin, Billy Albert as the chairman of the Company in place of Mr. Yu at the time when the Composite Document is despatched. Further information on this aspect is set out in the letter from CIMB-GK of this Composite Document. Save as disclosed therein, the Offeror has no intention to discontinue the employment of the employees of the Group.

LETTER FROM THE BOARD

The Board has confirmed that, save as disclosed in the sub-paragraph headed “Directors and management” under paragraph headed “Intention of the Offeror regarding the Group” in the letter from CIMB-GK as set out in this Composite Document, there are no other matters that need to be brought to the attention of the Shareholders in relation to the appointment of the new Directors as mentioned above.

Restructuring proposal

To revitalise the Group’s financial position, the Offeror intends to submit a restructuring proposal (the “Restructuring Proposal”) to the Company, which is subject to approval by the Independent Shareholders and resumption of trading in the Shares. Based on the Offeror’s current intention, the Restructuring Proposal will involve (i) full settlement of the amount of the debts owed to him by the Group by the issue of new Shares and/or securities convertible into Shares to the Offeror; and (ii) issue of new Shares and/or securities convertible into Shares to the Offeror to raise working capital for the Group. The Company will make further announcement on the detail terms of the Restructuring Proposal once they have been agreed between the Company and the Offeror.

Resumption Proposal

The Company is in the process of preparing the Resumption Proposal and it is expected that the Resumption Proposal will be submitted to the Stock Exchange by early November 2007.

MAINTENANCE OF THE LISTING STATUS OF THE COMPANY

The Offeror intends to maintain the listing of the Shares on the Stock Exchange after the closing of the Offers. The Offeror and the new Directors to be appointed to the Board will undertake that following the closing of the Offers, appropriate steps will be taken as soon as possible to ensure that not less than 25% of the issued Shares will be held by public hands.

The Stock Exchange has stated that if, at the closing of the Offers, less than the minimum prescribed percentage applicable to the Company, being 25%, of the issued Shares are held by the public or if the Stock Exchange believes that:

- **a false market exists or may exist in the trading of the Shares; or**
- **there are insufficient Shares in public hands to maintain an orderly market,**

it will consider exercising its discretion to suspend trading in the Shares.

So long as the Shares remain listed on the Stock Exchange, the Stock Exchange will also closely monitor all acquisitions or disposals of assets by the Company. Any acquisitions or disposals of assets by the Company will be subject to the provisions of the Listing Rules.

LETTER FROM THE BOARD

RECOMMENDATIONS

Your attention is drawn to the letter from the independent non-executive Director to the Independent Shareholders and the Optionholders and the letter from Optima Capital as set out on pages 20 to 21 and pages 22 to 36 of this Composite Document respectively, which set out their respective recommendations in relation to the Offers and the principal factors considered by them in arriving at their recommendations.

ADDITIONAL INFORMATION

In considering what action to take in connection with the Offers, Independent Shareholders and the Optionholders should consider their own tax positions and, if they are in any doubt, they should consult their professional advisers. You are recommended to read this Composite Document together with the Form(s) of Acceptance for details of the Offers. Your attention is also drawn to the additional information contained in the Appendices to this Composite Document.

By order of the Board of
Artel Solutions Group Holdings Limited
Yu Pen Hung
Chairman

LETTER FROM THE INDEPENDENT NON-EXECUTIVE DIRECTOR

The following is a full text of the letter from the independent non-executive Director prepared for the purpose of inclusion in this Composite Document:



ARTEL SOLUTIONS GROUP HOLDINGS LIMITED

宏通集團控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 931)

10 October 2007

To the Independent Shareholders and Optionholders

Dear Sir or Madam,

**UNCONDITIONAL MANDATORY CASH OFFERS BY
CIMB-GK SECURITIES (HK) LIMITED
ON BEHALF OF
KAN CHE KIN, BILLY ALBERT
TO ACQUIRE ALL ISSUED SHARES IN
ARTEL SOLUTIONS GROUP HOLDINGS LIMITED
(OTHER THAN THOSE SHARES ALREADY OWNED BY
KAN CHE KIN, BILLY ALBERT
AND PARTIES ACTING IN CONCERT WITH HIM)
AND TO CANCEL ALL OUTSTANDING SHARE OPTIONS**

I refer to the Composite Document dated 10 October 2007 jointly issued by the Company and the Offeror to the Independent Shareholders and the Optionholders, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Composite Document unless the context otherwise requires.

As an independent non-executive Director, I have considered: (i) whether the terms of the Share Offer are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) whether the terms of the Option Offer are fair and reasonable so far as the Optionholders are concerned. Optima Capital has been appointed to advise me in respect of the above. Details of its advice and the principal factors and reason taken into consideration in arriving at its advice are set out in the letter from Optima Capital on pages 22 to 36 of the Composite Document.

* For identification purposes only

LETTER FROM THE INDEPENDENT NON-EXECUTIVE DIRECTOR

Having taken into account the advice of Optima Capital, I consider that the terms of the Share Offer and the Option Offer are fair and reasonable so far as the Independent Shareholders and the Optionholders, respectively, are concerned. Accordingly, I recommend the Independent Shareholders and the Optionholders consider accepting the Share Offer and the Option Offer respectively.

Yours faithfully,
Mr. Lee Kong Leong
Independent non-executive Director

LETTER FROM OPTIMA CAPITAL

The following is the text of a letter of advice from the Independent Financial Adviser to the independent non-executive Director, which has been prepared for the purpose of incorporation into this document, setting out its advice to the independent non-executive Director in connection with the Offers.



Unit 3618, 36th Floor
Bank of America Tower
12 Harcourt Road, Central,
Hong Kong

10 October 2007

To: The independent non-executive Director

Dear Sir,

**UNCONDITIONAL MANDATORY CASH OFFERS BY
CIMB-GK SECURITIES (HK) LIMITED
ON BEHALF OF
KAN CHE KIN, BILLY ALBERT
TO ACQUIRE ALL ISSUED SHARES IN
ARTEL SOLUTIONS GROUP HOLDINGS LIMITED
(OTHER THAN THOSE SHARES ALREADY OWNED BY
KAN CHE KIN, BILLY ALBERT
AND PARTIES ACTING IN CONCERT WITH HIM)
AND TO CANCEL ALL OUTSTANDING SHARE OPTIONS**

We refer to our engagement as the independent financial adviser to advise the independent non-executive Director in connection with the Offers. Details of the Offers are contained in the Composite Document issued jointly by the Offeror and the Company to the Shareholders and the Optionholders dated 10 October 2007, of which this letter forms part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as those defined in the Composite Document.

On 25 July 2007, the Offeror entered into the Sale and Purchase Agreement with the Vendor, pursuant to which the Offeror agreed to acquire from the Vendor the Sale Shares for an aggregate cash consideration of HK\$16,000,000. Upon completion of the Sale and Purchase Agreement which took place on 25 July 2007, the Offeror and parties acting in concert with him became interested in 1,200,000,000 Shares, representing 75% of the issued share capital of the Company. As at the Latest Practicable Date, the Company had outstanding Share Options entitling the Optionholders to subscribe for 69,095,000 Shares at an exercise price of HK\$0.3810 per Share and 45,000,000 Shares at an exercise price HK\$0.2166 per Share. Under Rule 26.1 and Rule 13 of the Takeovers Code, the Offeror is obliged to make the Offers, being the Share Offer to acquire all issued Shares (other than those already owned by the Offeror or parties acting in concert with him) and the Option Offer to cancel all outstanding Share Options.

The Offers will be made solely in cash.

LETTER FROM OPTIMA CAPITAL

The Board currently comprises one executive Director and one independent non-executive Director. The independent non-executive Director, Mr. Lee Kong Leong, who has no direct or indirect interest in the Offers, has been appointed to advise the Independent Shareholders on the Offers. Optima Capital has been appointed to advise the independent non-executive Director in connection with the Offers and in particular as to whether the terms of the Offers are fair and reasonable and to give an opinion and recommendation as regards the acceptance of the Offers.

We are not associated with the Offeror or the Company or their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them, and accordingly is considered eligible to give independent advice on the Offers. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Offeror or the Company or their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them.

In formulating our opinion and advice, we have relied on the information and facts supplied, and the opinions expressed, by the Directors, which we have assumed to be true, accurate and complete. We have also sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and that the information which we have received is sufficient to enable us to reach our opinion and give the advice set out in this letter. We have no reason to doubt the truth and accuracy of the information provided to us or to believe that any material facts have been omitted or withheld. We have also assumed that all representations contained or referred to in the Composite Document were true at the date of the Composite Document and will continue to be true during the period the Offers remain open for acceptance. However, we have not conducted any independent investigation into the businesses and affairs of the Group.

We have not considered the tax implications on the Independent Shareholders and the Optionholders of acceptance of the Offers since these depend on their individual circumstances. In particular, the Independent Shareholders and the Optionholders who are residents overseas or subject to overseas taxes or Hong Kong taxation on securities dealings should consider their own tax position and, if in any doubt, should consult their own professional advisers.

PRINCIPAL TERMS OF THE OFFERS

The terms of the Offers set out below are summarised from the letter from CIMB-GK contained in the Composite Document. Independent Shareholders and Optionholders are encouraged to read the relevant section in the Composite Document in full.

1. The Share Offer

The Share Offer is being made for all the Shares are not already owned or agreed to be acquired by the Offeror and parties acting in concert with him on the following basis:

For each Share HK\$0.0386 in cash

LETTER FROM OPTIMA CAPITAL

The Shares will be acquired free from all liens, charges, options, claims, equities, adverse interests, third-party rights or encumbrances whatsoever and together with all rights accruing or attaching thereto, including, without limitation, the right to receive dividends and other distributions declared, made or paid, if any, on or after the date of despatch of the Composite Document.

2. The Option Offer

The Option Offer is being made to the Optionholders for the outstanding Options they surrender for cancellation on the following basis:

For cancellation of outstanding Share Option
(with a right to subscribe for one Share) HK\$0.0001 in cash

As at the Latest Practicable Date, there were a total of 114,095,000 Share Options outstanding, of which 45,000,000 Share Options are exercisable at HK\$0.2166 per Share and 69,095,000 Share Options are exercisable at HK\$0.3810 per Share respectively. The exercise prices of the Share Options are substantially higher than the Share Offer Price of HK\$0.0386 per Share. Accordingly, the Share Options are “out-of-money” and the cancellation price for the Option Offer is equivalent to a nominal value of HK\$0.0001 per Share Option.

By accepting the Option Offer, the Optionholders agree to the cancellation of their Share Options and all rights attached thereto with effect from the date of despatch of the Composite Document.

Pursuant to the terms of the share option scheme adopted by the Company on 29 August 2001 (as amended on 30 May 2003) (the “Share Option Scheme”), in the event of a general offer being made to all the Shareholders and if such offer becomes or is declared unconditional, the Optionholders are entitled to exercise the Share Options in full at any time up to the close of such offer. Under the Offers, Optionholders shall be entitled to exercise the Share Options at any time after the despatch of the Composite Document and up to the close of the Offers. Any outstanding Share Options shall lapse automatically upon the close of the Offers, which is on 31 October 2007. In the event that any part of the Share Option is exercised before the close of the Option Offer in accordance with the provisions of the Share Option Scheme, any Shares issued as a result thereof will be subject to the Share Offer.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion with regard to the Offers, we have taken into consideration the following principal factors and reasons:

1. Past results of the Group

The Group is principally engaged in the distribution of computer components and information technology products, and the provision of integrated e-enabling solutions. The following table summarises the audited consolidated results of the

LETTER FROM OPTIMA CAPITAL

Group for each of the three years ended 31 December 2005 and the six months ended 30 June 2006, details of which are set out in Appendix II to the Composite Document. Independent Shareholders should note that the Company has not released any further financial results after the interim period ended 30 June 2006.

	For the year ended			For the
	31 December			6 months
	2003	2004	2005	ended
	(audited)	(audited)	(audited)	30 June
	HK\$'000	HK\$'000	HK\$'000	2006
				(unaudited)
				HK\$'000
Turnover	2,202,933	1,658,830	1,198,229	32,319
Cost of sales	<u>(2,110,412)</u>	<u>(1,573,337)</u>	<u>(1,170,757)</u>	<u>(23,263)</u>
Gross profit	92,521	85,493	27,472	9,056
Other operating income	13,137	6,518	5,536	160
Distribution costs	(8,690)	(8,926)	(6,192)	(94)
Administrative expenses	(29,199)	(29,860)	(29,143)	(11,081)
Allowance for doubtful debts	–	(1,512)	(401,972)	–
Allowance for rebates receivables	–	–	(92,705)	–
Write-down of inventories	–	(2,491)	(66,283)	–
Finance costs	(14,940)	(15,421)	(18,568)	(13,586)
Share of results of associates	–	6	(93)	–
Impairment loss recognised in respect of goodwill of associates	–	–	(13,768)	–
Profit/(Loss) before taxation	52,829	33,807	(595,716)	(15,545)
Taxation	<u>(2,549)</u>	<u>(585)</u>	<u>(734)</u>	<u>(2)</u>
Profit/(Loss) for the year/period attributable to equity holders of the Company	<u>50,280</u>	<u>33,222</u>	<u>(596,450)</u>	<u>(15,547)</u>
Dividend	<u>–</u>	<u>7,200</u>	<u>–</u>	<u>–</u>
Earnings/(Loss) per Share				
– Basic (HK cents)	3.1	2.1	(37.3)	(0.97)
– Diluted (HK cents)	<u>3.1</u>	<u>2.1</u>	<u>(37.3)</u>	<u>NA</u>

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(i) *Financial year 2003*

Turnover for the financial year ended 31 March 2003 was approximately HK\$2,202.9 million, representing a slight increase of 3.8% over the previous financial year. The distribution business contributed 95.4% of the turnover. In the past few years, the Group had been relying on distributing Intel products which contributed more than 95% of its total turnover. Nevertheless, the Group faced fierce competition among distributors, resulting in a decrease of selling prices and drop in gross profit margin from 5.7% to 4.2% during the year. The Group was also adversely affected by the occurrence of the SARS epidemic during the year and net profit decreased by 23.8%, from HK\$66.0 million in 2002 to HK\$50.3 million in 2003.

(ii) *Financial year 2004*

Turnover for the financial year ended 31 March 2004 was approximately HK\$1,658.8 million, representing a decrease of 24.7% as compared to the previous financial year. The drop in turnover was mainly attributable to continual competition in the business of distribution of computer components and information technology products. During the year, the Group expanded its market scope from a hardware distributor to a high-technology solution provider. Due to the Group's diversification effort, more income was generated from integrated e-enabling solutions and thin film transistor liquid crystal display ("LCD") products, leading to an increase in gross profit margin of the Group from 4.2% to 5.2%. During the year, the Group incurred more bank borrowings to finance the purchase of plant and equipment of approximately HK\$10.8 million and the acquisition of interests in certain entities which were engaged in the business of logistics and warehouse management services. Due to the increase in bank-borrowings, finance costs increased from HK\$14.9 million in 2003 to HK\$15.4 million in 2004. Net profit decreased from HK\$50.3 million to HK\$33.2 million, representing a drop of 33.9% as compared to the previous financial year.

(iii) *Financial year 2005*

The business of the Group continued to be adversely affected by intensified competition in the computer components and information technology products market. Turnover for the financial year ended 31 December 2005 was recorded at HK\$1,198.2 million, representing a decrease of 27.7% as compared to that of the previous financial year. Gross profit margin was squeezed from 5.2% in 2004 to 2.3% in 2005, which was mainly resulted from the trend of decreasing selling price of the products due to keen market competition. Apart from the deterioration in turnover and gross profit margin, the Group also recorded substantial write-offs and provisions during the year. Due to the unsatisfactory settlement record of certain customers, the Group has substantially suspended trading with these customers since October 2005 and made an allowance for doubtful debts of HK\$402.0 million for those trade

LETTER FROM OPTIMA CAPITAL

receivables which had exceeded the Group's credit period and had no subsequent settlement since year end. The Group also made an allowance of HK\$92.7 million for rebates receivables from the Group's major supplier. Because of the liquidity problem of the Group caused by the recoverability problem of the trade receivables, the amounts owed to the major supplier had not been settled for a considerable period of time and the Directors considered that it was unlikely that the rebates receivables could be utilised in the future. Besides, a write-down of inventories of HK\$66.3 million was made due to the change in market demand which led to obsolescence of the inventories. The Group also recognised an impairment loss in respect of goodwill of associates of HK\$13.8 million. As a result of the above, the Group incurred a net loss of HK\$596.5 million for the year.

We also note that the auditors of the Company expressed a disclaimer of opinion on the financial statements of the Group for the year ended 31 December 2005 due to the fundamental uncertainty relating to the going concern of the Group and the disagreement about the accounting treatment for the trade receivables balances.

(iv) Interim period ended 30 June 2006

Turnover of the Group for the six months ended 30 June 2006 was HK\$32.3 million, representing a substantial drop of 96.2% as compared to the same period in 2005. According to the 2006 interim report of the Group, the substantial shrinkage in turnover was mainly due to the lack of working capital to finance the trading operation since February 2006. Besides, the Group continued to incur finance costs which amounted to HK\$13.6 million, resulting in a net loss of HK\$15.5 million for the six months ended 30 June 2006.

LETTER FROM OPTIMA CAPITAL

2. Financial position of the Group

The following table summarises the consolidated balance sheets of the Group as at 31 December 2005 and 30 June 2006, which are set out in full in Appendix II to the Composite Document:

	As at 31 December 2005 (Audited) <i>HK\$'000</i>	As at 30 June 2006 (Unaudited) <i>HK\$'000</i>
Plant and equipment	8,519	7,000
Interests in associates	792	792
Interest in jointly controlled entity	195	195
Inventories	54,868	54,527
Trade receivables, rebates receivables, prepayments and deposits	109,570	112,411
Amount due from an associate	874	874
Pledged bank deposits	43,797	–
Bank balances and cash	7,676	1,222
Total assets	226,291	177,021
Trade payables, sales deposits and accrued charges	(138,187)	(69,936)
Amount due to a director	(195)	(1,998)
Bank overdrafts and bank borrowings	(230,149)	(263,928)
Derivate financial instruments	(1,057)	–
Deferred taxation	(1,300)	(1,300)
Net deficits	(144,597)	(160,141)

As a result of the decline in turnover and substantial provisions made for trade and other receivables during the year ended 31 December 2005 as discussed above, the Group's financial position deteriorated drastically and recorded net deficits attributable to Shareholders amounting to approximately HK\$144.6 million as at 31 December 2005, against an equity attributable to Shareholders of approximately HK\$451.9 million as at 31 December 2004. The adverse condition continued into the interim period ended 30 June 2006, with net deficits increased to approximately HK\$160.1 million as at 30 June 2006.

Independent Shareholders should note that the Group has not announced any further financial results after the 2006 interim period. The latest publicly available financial information shown above may not be indicative of the latest financial position of the Group. Independent Shareholders are advised to read the information disclosed in the section headed "Material changes" in Appendix II to the Composite Document which sets out the material changes in the financial, trading position or

LETTER FROM OPTIMA CAPITAL

outlook of the Group identified by the Directors subsequent to 31 December 2005. In particular, we note that because of (i) the unsatisfactory subsequent settlement of the Group's debtors balances as at 31 December 2005; (ii) the insignificant movement in and the obsolescence of the Group's inventories as at 31 December 2005 due to the fast changing market demand for computer components; and (iii) the recent relocation of the Group's principal place of business, the Directors will consider if provisions against the balances of the Group's debtors, inventories and furniture, fixtures and equipment, which were used to be the largest asset items of the Group, are required for the purpose of preparing the Company's audited financial statements for the year ended 31 December 2006.

As regards liabilities, the Group used to finance its working capital requirement by banks and its major supplier. As disclosed in the letter from the Board contained in the Composite Document, certain bankers and Intel took legal actions against the Group during 2006 due to the Group's default in repayment of certain bank borrowings and trade payables. The Bank Debts which amounted to approximately HK\$256 million as at 30 June 2006 and the Intel Debt amounting to approximately US\$7.6 million (equivalent to approximately HK\$59.2 million) as at 30 June 2006 were assigned by the bank creditors and Intel respectively to the Offeror in August and September 2007, and the Group became indebted to the Offeror in respect of these balances instead. Apart from the above, the Directors informed us that there had been no material changes in the payables and indebtedness position of the Group after 31 December 2005. According to the indebtedness statement of the Group contained in Appendix II of the Composite Document, the Group had outstanding borrowings of approximately HK\$331.3 million as at 31 August 2007, comprising short-term unsecured other loans of HK\$2.4 million, and unsecured amount due to a director and the Offeror of HK\$0.2 million and HK\$328.7 million respectively. As at 31 August 2007, the Group also had capital commitments in respect of the establishment of a joint venture in which the Group will invest approximately HK\$39.0 million to develop distributing channel of internet protocol television in the PRC.

3. Future prospects

As discussed above, the Group's trading business has been hit by intensified competition resulting in reduction of selling price of products and squeezed profit margins in recent years. The unsatisfactory collection of trade receivables has further aggravated the situation, which led to liquidity problem encountered by the Group as well as a substantial reduction in the level of trading activities since 2006. Despite the market opportunities exist in the computer and information technology product market particularly for digital audio products, given the huge deficits in Shareholders' equity, the heavy indebtedness and thin working capital of the Group as well as the lack of financial support from bankers and creditors, it is uncertain as to whether the Group would be able to improve its trading prospects or turnaround from its existing difficult financial position within a short period of time in the absence of further fund raising exercises and/or new business initiatives.

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4. Background of the Offeror and his intention regarding the future of the Group

(i) *Background of the Offeror*

Mr. Kan Che Kin, Billy Albert, the Offeror, has over 20 years of experience in serving on the board of directors of financial institutions and listed companies in Hong Kong. He had worked with Deloitte Touche Tohmatsu and KPMG and is equipped with extensive experience in accountancy, taxation and corporate finance. Independent Shareholders and Optionholders may refer to the “Letter from CIMB-GK” contained in the Composite Document for further information about the Offeror.

(ii) *Business and operations*

As stated in the “Letter from CIMB-GK” contained in the Composite Document, following the close of the Offers, the Offeror intends to continue all of the existing businesses of the Group. The Offeror intends to review and strengthen the financial position of the Group after the close of the Offers. The Offeror does not intend to make any material changes to the businesses of the Group or to dispose of or redeploy any fixed assets of the Group following the close of the Offers. The Offeror will explore other business opportunities and consider whether any assets and/or business acquisitions will be appropriate in order to enhance the growth of the Group. As at the Latest Practicable Date, the Offeror had no intention or concrete plan for any acquisition of assets and/or business by the Group.

(iii) *Management*

The Board is currently made up of two Directors, comprising one executive Director and one independent non-executive Director. As stated in the “Letter from CIMB-GK” contained in the Composite Document, all of the existing Directors will remain on the Board and the Offeror intends to nominate (i) Mr. Kan Che Kin, Billy Albert (being the Offeror), Mrs. Kan Kung Chuen Lai, Ms. Li Shu Han, Eleanor Stella and Mr. Li Kai Yien, Arthur Albert as executive Directors; and (ii) Mr. Li Siu Yui and Mr. Ip Woon Lai as independent non-executive Directors at the time when the Composite Document is despatched.

The biographical details of the proposed directors to be nominated by the Offeror are set out in the “Letter from CIMB-GK” contained in the Composite Document.

(iv) *Maintenance of the listing status of the Company*

As stated in the “Letter from CIMB-GK”, the Offeror intends to maintain the listing of the Shares on the Stock Exchange after the close of the Offers. The Offeror and the new Directors to be appointed to the Board will undertake that following the close of the Offers, appropriate steps will be taken as soon as possible to ensure that not less than 25% of the issued Shares will be held by public hands.

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The Stock Exchange has stated that if, at the close of the Offers, less than the minimum prescribed percentage applicable to the Company, being 25% of the issued Shares, are held by the public or if the Stock Exchange believes that (i) a false market exists or may exist in the trading of the Shares; or (ii) there are insufficient Shares in public hands to maintain an orderly market, it will consider exercising its discretion to suspend trading in the Shares.

Despite the intention of the Offeror to maintain the listing status of the Company, Independent Shareholders and Optionholders should note that trading of the Shares has been suspended for over a year since 7 September 2006. As mentioned in the letter from the Board contained in the Composite Document, the Company received a letter from the Stock Exchange dated 22 May 2007 stating that in view of the prolonged suspension and the Company's failure to demonstrate its compliance with Rule 13.24 of the Listing Rules (i.e. the Company carries out, directly or indirectly, a sufficient level of operations or has tangible assets of sufficient value and/or intangible assets for which a sufficient potential value can be demonstrated), the Stock Exchange would place the Company in the second stage of the delisting procedures pursuant to Practice Note 17 to the Listing Rules. The Company was required to submit viable resumption proposals to the Stock Exchange within six months from the date of the letter. Should the Company fail to submit a viable resumption proposal to the Stock Exchange, the Stock Exchange will consider whether to proceed to the third stage of the delisting procedures at the end of such six-month period. The Company is in the process of finalising the Resumption Proposal which is expected to include details on a restructuring proposal to strengthen the Company's financial position, involving issue of new Shares and/or convertible securities to the Offeror to settle in full the amount of debts owed by the Group to the Offeror and to raise working capital of the Group. As at the Latest Practicable Date, the Company has not yet submitted the Resumption Proposal and it expects to submit the Resumption Proposal to the Stock Exchange by early November 2007. Accordingly, it is expected that trading in the Shares will remain suspended after the close of the Offers on 31 October 2007.

5. Share Offer Price

Basis of determining the Share Offer Price

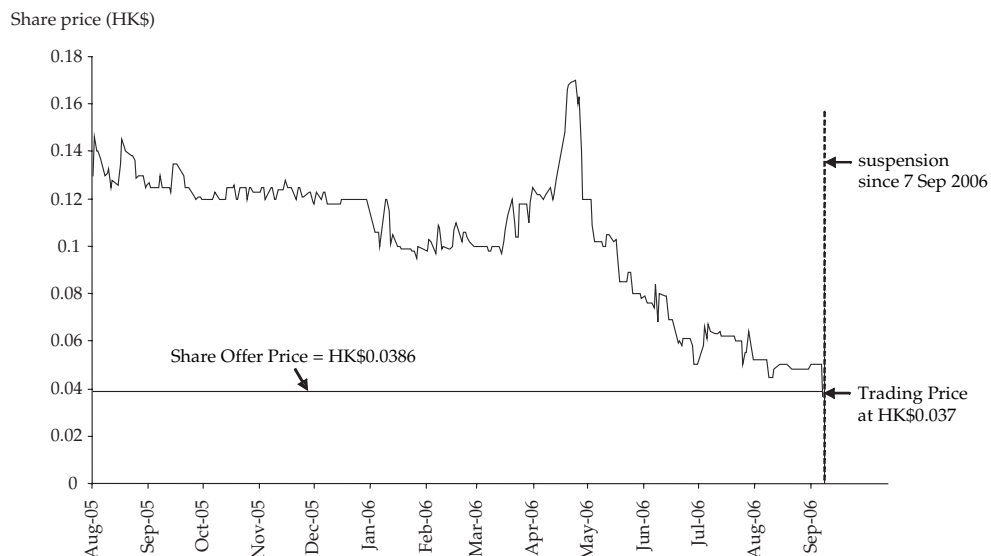
The Sale Shares which were previously pledged to the Bank Creditors for the Bank Debts were released to the Offeror upon completion of the assignment of the Bank Debts to the Offeror for a consideration of HK\$30,300,000 on 31 August 2007. The Share Offer Price of HK\$0.0386 per Share is equivalent to sum of the consideration paid by the Offeror under the Sale and Purchase Agreement (being HK\$16,000,000) and the assignment of the Bank Debts (being HK\$30,300,000) divided by the total number of Sale Shares (being 1,200,000,000 Shares).

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Historical price performance of the Shares

Trading in the Shares on the Stock Exchange has been suspended (the “Suspension”) since 11:48 a.m. on 7 September 2006 at the request of the Company. Chart 1 below depicts the daily closing prices of the Shares for the twelve full calendar months up to and including 7 September 2006, being the last trading day of the Shares prior to the Suspension (the “Review Period”).

Chart 1: Share price performance



Source: Bloomberg

During the Review Period, the Shares traded within a range of HK\$0.17 to HK\$0.037 each. We noted from the above chart that Share price fluctuated between HK\$0.095 and HK\$0.146 during the period from August 2005 to March 2006, and reached its highest at HK\$0.17 on 24 April 2006. The Company had not made any announcement and was not aware of any reasons for such increase in Share price. On 26 April 2006, the Company announced that it expected a material amount of provisions for trade receivables and rebate receivables would be made in the consolidated financial statements for the year ended 31 December 2005 due to the deterioration in recoverability. Subsequent to this announcement, Share price dropped and plunged to HK\$0.1 on 9 May 2006. Share price further dropped to HK\$0.05 in June and July 2006 and further to HK\$0.037 (the “Last Trading Price”) before the Suspension. The Share Offer Price of HK\$0.0386 represents a premium of 4.3% over the Last Trading Price. However, Independent Shareholders should note that due to the prolonged Suspension of more than a year, the comparison of the Share Offer Price against the Last Trading Price may be of little relevance.

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Liquidity of the Shares

Table 2 below sets out the total number and average daily number of the Shares traded per month and the respective percentages of monthly trading volume compared to the issued share capital and the Shares held by the public during the Review Period:

Table 2: Historical trading volume of the Shares

	Total monthly trading volume of the Shares	Average trading volume of the Shares per trading day during the month	% of average daily trading volume of the Shares to the total issued Shares (Note 1)	% of average daily trading volume of the Shares to public float (Note 2)
2005				
August	16,695,000	725,870	0.05%	0.18%
September	4,605,000	219,286	0.01%	0.05%
October	6,435,000	321,750	0.02%	0.08%
November	8,835,000	401,591	0.03%	0.10%
December	1,075,000	53,750	0.00%	0.01%
2006				
January	8,415,000	442,895	0.03%	0.11%
February	4,955,000	247,750	0.02%	0.06%
March	6,535,000	284,130	0.02%	0.07%
April	13,735,000	807,941	0.05%	0.20%
May	5,795,000	289,750	0.02%	0.07%
June	8,735,000	397,045	0.02%	0.10%
July	8,340,000	397,143	0.02%	0.10%
August	1,090,000	47,391	0.00%	0.01%
September (up to 7 September 2006)	4,010,000	802,000	0.05%	0.20%

Source: Bloomberg

Notes:

1. Based on 1,600,000,000 Shares in issue throughout the Review Period.
2. Public float is based on 400,000,000 Shares held by Independent Shareholders, calculated as 1,600,000,000 Shares in issue less 1,200,000,000 Shares held by Mr. Yu and his associates throughout the Review Period.

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As illustrated in Table 2 above, the daily trading volume of the issued Shares has been relatively thin at less than 1% of both the total issued Shares and the total Shares held by the public during the Review Period. During the Review Period, the highest monthly trading volume was recorded in August 2005 at 16,695,000 Shares (representing 4.17% of the public float). Highest average daily trading volume was recorded in April 2006 at 807,941 Shares (representing 0.2% of the public float). In our view, the liquidity of the Shares had been low before the Suspension and there may not be sufficient liquidity in the Shares for the Independent Shareholders to dispose of their Shares in the open market even if trading in the Shares were not suspended.

Other fundamental analysis of the Share Offer Price

Other commonly used benchmarks in evaluating share price of a listed company include price to earnings ratio, price to book ratio and dividend yield. However, given that the Group recorded net loss for the financial year ended 31 December 2005, and net liabilities as at 30 June 2006 and 31 December 2005, and no dividend has been declared since the financial year ended 31 December 2005, none of the aforesaid commonly used benchmarks is applicable for the purpose of evaluating the Share Offer Price.

CONCLUSION AND ADVICE

The Share Offer

Having taken into account the above principal factors and reasons, in particular:

- the Independent Shareholders are treated even-handedly by the Offeror who is offering to acquire the Shares of the Independent Shareholders at the Share Offer Price of HK\$0.0386 per Share, which is equivalent to sum of the consideration paid by the Offeror under the Sale and Purchase Agreement (being HK\$16,000,000) and for the assignment of the Bank Debts (being HK\$30,300,000) divided by the total number of Sale Shares (being 1,200,000,000 Shares);
- as noted from the latest audited financial reports issued by the Group and the information disclosed in the Composite Document about the material changes in the financial, trading position and prospects of the Group since 31 December 2005 (being the date to which the latest audited financial statements of the Group were made up), the business performance of the Company had been deteriorating since 2004 and its working capital position remains weak with heavy borrowings. It is unlikely that the Group will be able to achieve improved results or generate sufficient cashflow to support its business without further fund raising and/or new business initiatives;

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- the liquidity of the Shares had been thin before the Suspension. It is uncertain whether the liquidity of the Shares could be improved after the close of the Offers and the successful resumption of trading in the Shares to allow the Independent Shareholders to dispose of their holding in the Shares in the market; and
- as at the Latest Practicable Date, the Company has not yet submitted the Resumption Proposal to the Stock Exchange, it is therefore expected that trading of the Shares of the Shares in the Stock Exchange will remain suspended after the close of the Offers on 31 October 2007. In addition, it is uncertain whether the Resumption Proposal can be successfully implemented,

we consider that the terms of the Share Offer are fair and reasonable so far as the Independent Shareholders are concerned and accordingly advise the independent non-executive Director to recommend the Independent Shareholders to accept the Share Offer.

Independent Shareholders should note the possibility that, following the close of the Offers and the resumption of trading in the Shares (if the Resumption Proposal is approved by the Stock Exchange), the price of the Shares may or may not be higher than the Offer Price. If any Independent Shareholders are able to identify other potential purchaser to purchase the Shares at a price higher than the Share Offer Price, such Independent Shareholders shall consider not accepting the Share Offer and should seek to sell their Shares if they are able to do so.

Those Independent Shareholders who, after considering the information on the Offeror and the future intention of the Offeror regarding the Company, are attracted by the future prospects of the Company following the Offers, should consider retaining some or all of their Shares.

The Option Offer

The outstanding Share Options are out-of-the-money as the exercise prices of HK\$0.2166 or HK\$0.3810 per Share are substantially higher than the Share Offer Price of HK\$0.0386 per Share. Accordingly, they have no intrinsic value and are therefore offered at a nominal price of HK\$0.0001 per Share Option. Given our view that the terms of the Share Offer are fair and reasonable as discussed above, we consider that the terms of the Option Offer to be fair and reasonable so far as the Optionholders are concerned. In addition, pursuant to the terms of the Share Option Scheme, any outstanding Share Options shall lapse automatically upon the close of the Offers (which is on 31 October 2007). Accordingly, we advise the independent non-executive Director to recommend the Optionholders to accept the Option Offer.

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The procedures for acceptance of the Offers are set out in Appendix I to the Composite Document and the accompanying Forms of Acceptance. The latest time for acceptance of the Offers and lodging the Forms of Acceptance (unless extended by the Offeror) is 4:00 p.m. on 31 October 2007. Independent Shareholders and the Optionholders are urged to act according to this timetable if they wish to accept the Offers.

Yours faithfully,
for and on behalf of
OPTIMA CAPITAL LIMITED
Mei H. Leung
Chairman

PROCEDURES FOR ACCEPTANCE OF THE OFFERS

(A) Share Offer

- (a) If the Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Share(s) is/are in your name, and you wish to accept the Share Offer whether in full or in respect of part of your holding(s) of your Shares, you must send the accompanying **PINK** Form of Acceptance duly completed together with the relevant Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar no later than 4:00 p.m. on 31 October 2007.
- (b) If the Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are in the name of a nominee company or a name other than your own, and you wish to accept the Share Offer in respect of your Shares, whether in full or in part, you must either:
- (i) lodge your Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) with the nominee company, or other nominee, with instructions authorising it to accept the Share Offer on your behalf and requesting it to deliver in an envelope marked "Artel Solutions Group Holdings Limited – Share Offer" with the **PINK** Form of Acceptance duly completed, together with the relevant Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar; or
 - (ii) arrange for the Shares to be registered in your name by the Company through the Registrar, and deliver in an envelope marked "Artel Solutions Group Holdings Limited – Share Offer" with the **PINK** Form of Acceptance duly completed, together with the relevant Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar; or
 - (iii) if your Shares have been lodged with your licensed securities dealer/custodian bank through CCASS, instruct your licensed securities dealer/custodian bank to authorise HKSCC Nominees Limited to accept the Share Offer on your behalf on or before the deadline set by HKSCC Nominees Limited. In order to meet the deadline set by HKSCC Nominees Limited, you should check with your licensed securities dealer/custodian bank for the timing on processing of your instruction, and submit your instruction to your licensed securities dealer/custodian bank as required by them; or

- (iv) if your Shares have been lodged with your Investor Participant's Account with CCASS, authorise your instruction via the CCASS Phone System or CCASS Internet System on or before the deadline set by HKSCC Nominees Limited.
- (c) If the Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are not readily available and/or is/are lost (as the case may be) and you wish to accept the Share Offer in respect of your Shares, the accompanying **PINK** Form of Acceptance should nevertheless be completed and delivered in an envelope marked "Artel Solutions Group Holdings Limited – Share Offer" to the Registrar together with a letter stating that you have lost one or more of your Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) or that it is/they are not readily available. If you find such document(s) or if it/they become(s) available, the relevant Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) should be forwarded to the Registrar as soon as possible thereafter. If you have lost your Share certificate(s), you should also write to the Registrar to request for a form of letter of indemnity which, when completed in accordance with the instructions given therein, should be returned to the Registrar.
- (d) If you have lodged transfer(s) of any of your Shares for registration in your name and have not yet received your Share certificate(s), and you wish to accept the Share Offer in respect of your Shares, you should nevertheless complete the accompanying **PINK** Form of Acceptance and deliver the same in an envelope marked "Artel Solutions Group Holdings Limited – Share Offer" to the Registrar together with the transfer receipt(s) duly signed by yourself. Such action will be deemed to be an irrevocable authority to CIMB-GK and/or the Offeror or their respective agent(s) to collect from the Company or the Registrar on your behalf the relevant Share certificate(s) when issued and to deliver such Share certificate(s) to the Registrar and to authorise and instruct the Registrar to hold such Share certificate(s), subject to the terms and conditions of the Share Offer, as if it was/they were delivered to the Registrar with the accompanying **PINK** Form of Acceptance.
- (e) An acceptance may not be counted as valid unless:
- (i) the accompanying **PINK** Form of Acceptance, together with the relevant Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof), have been received by the Registrar on or before 4:00 p.m. on 31 October 2007 (or such later time and/or date as the Offeror may determine and announce with the consent of the Executive) and the Registrar has recorded that the **PINK** Form of Acceptance and any relevant documents required below have been so received; and

- (ii) the accompanying **PINK** Form of Acceptance is duly completed and is:
1. accompanied by the relevant Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) and, if the Share certificate(s) is/are not in your name, such other documents (e.g. a duly stamped transfer of the relevant Share(s) in blank or in your favour executed by the registered holder) in order to establish your right to become the registered holder of the relevant Share(s); or
 2. from a registered Shareholder or his personal representatives (but only up to the amount of the registered holding and only to the extent that the acceptance relating to the Share(s) which is/are not taken into account under any other sub-paragraph of this paragraph (ii)); or
 3. certified by the Registrar or the Stock Exchange.

If the **PINK** Form of Acceptance is executed by a person other than the registered Shareholder, appropriate documentary evidence of authority (e.g. grant of probate or certified copy of a power of attorney) must be produced.

- (f) No acknowledgment of receipt of any **PINK** Form(s) of Acceptance, Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) will be given.
- (g) The address of the Registrar, Tricor Standard Limited, is situated at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

(B) Option Offer

- (a) If you accept the Option Offer, you should complete the **BLUE** Form of Acceptance which has been separately despatched to each Optionholder and which is obtainable from the principal place of business of the Company in Hong Kong at Flat 18, 1st Floor, Flourish Industrial Building, 33 Sheung Yee Road, Kowloon Bay, Kowloon, Hong Kong in accordance with the instructions printed thereon, which instructions form part of the terms and conditions of the Option Offer.
- (b) The completed **BLUE** Form(s) of Acceptance shall be forwarded, together with the relevant Share Option certificate(s) (if any) for not less than the number of Shares exercisable pursuant to the Share Options in respect of which you intend to accept the Option Offer, by post or by hand to the Company at Flat 18, 1st Floor, Flourish Industrial Building, 33 Sheung Yee Road, Kowloon Bay,

Kowloon, Hong Kong, marked "Artel Solutions Group Holdings Limited – Option Offer" on the envelope, as soon as practicable and in any event, so as to reach the Company by no later than 4:00 p.m. on 31 October 2007 (or such later time and/or date as the Offeror may determine and announce with the consent of the Executive). No acknowledgement of receipt of any **BLUE** Form of Acceptance or Share Option certificate(s) will be given.

ACCEPTANCE PERIOD AND REVISIONS

The Offers will remain open for acceptance until 4:00 p.m. on the Closing Date. The Offers will close on the Closing Date unless they are extended or revised by the Offeror in accordance with the Takeovers Code.

If the Offers are revised, such revised Offers will remain open for acceptance for a period of at least 14 days from the date of posting of the written notification of the revision to the Independent Shareholders and the Optionholders. All the Independent Shareholders, whether or not they have already accepted the Share Offer, and the Optionholders, will be entitled to the revised Offers.

If the Offers are extended, an announcement of such extension will state the next closing date and the Offers shall, unless previously extended or revised, be closed on the subsequent closing date. In the event that the Closing Date of the Offers is extended, any reference in this document and the Form(s) of Acceptance to the Closing Date shall, except where the context otherwise requires, be deemed to refer to the closing date of the Offers as so extended.

ANNOUNCEMENTS

- (a) By 6:00 p.m. on 31 October 2007 which is the Closing Date (or such later time and/or date as the Executive may in exceptional circumstances permit), the Offeror must inform the Executive and the Stock Exchange of his intention in relation to the revision, extension or expiry of the Offers. The Offeror shall publish an announcement on the Stock Exchange's website by 7:00 p.m. on the Closing Date stating whether the Offers have been revised, extended, or have expired. Notification of such announcement must be republished in accordance with the requirements set out in item (b) below on the next Business Day. The announcement must state the following:
- (i) the total number of the Shares and rights over Shares (including Share Options) for which acceptances of the Offers have been received;
 - (ii) the total number of the Shares and right over Shares (including Share Options) held, controlled or directed by the Offeror or parties acting in concert with him before the offer period; and
 - (iii) the total number of the Shares and right over Shares (including Share Options) acquired or agreed to be acquired during the offer period by the Offeror or parties acting in concert with him.

The announcement must also specify the percentages of the issued share capital of the Company and voting rights of the Company represented by these numbers of the Shares.

- (b) As required under the Takeovers Code, any announcement in relation to the Offers, in respect of which the Executive has confirmed that it has no further comments thereon, will be made in accordance with the requirements of the Listing Rules.

RIGHT OF WITHDRAWAL

Acceptances of the Offers tendered by the Independent Shareholders and the Optionholders shall be irrevocable and cannot be withdrawn except in circumstances set out in Rule 19.2 of the Takeovers Code, which provides that if the Offeror is unable to comply with any of the requirements of Rule 19 of the Takeovers Code, the Executive may require that the Independent Shareholders and the Optionholders be granted a right of withdrawal, on terms acceptable to the Executive, until such requirements can be met.

SETTLEMENT

Provided that the Form(s) of Acceptance and relevant Share certificate(s) and/or transfer receipt(s) and/or any document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) and/or the Share Option certificate(s) are in complete and good order and have been received by the Registrar by not later than 4:00 p.m. on 31 October 2007 being the latest time for acceptance of the Offers, a cheque for the amount due to each of the Independent Shareholders in respect of the Shares tendered by them under the Share Offer or each of the Optionholders in respect of the Share Options cancelled under the Option Offer (as the case may be) less the related seller's ad valorem stamp duty will be despatched to each of them to their addresses specified on the Form(s) of Acceptance by ordinary post at their own risk as soon as possible but in any event within 10 days of the date on which all the requisite documents as referred to in the above paragraph headed "Procedures for Acceptance of the Offers" in this appendix are received by the Registrar to render such acceptance complete and valid.

Settlement of the consideration to which any accepting Independent Shareholder(s) or the Optionholder(s) is/are entitled under the Offers will be implemented in full in accordance with the terms of the Offers (save with respect to the payment of ad valorem stamp duty) without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against such Independent Shareholder(s) or Optionholder(s) (as the case may be).

STAMP DUTY

Seller's ad valorem stamp duty arising in connection with the acceptance of the Offers amounting to 0.1% of the amount payable in respect of the relevant acceptance will be deducted from the amount payable to the Independent Shareholders or Optionholders who accept the Offers (as the case may be). The Offeror will then pay the seller's ad valorem stamp duty to the stamp duty office on behalf of the accepting Independent Shareholders or Optionholders (as the case may be).

TAXATION

Independent Shareholders and the Optionholders are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of their accepting the Offers. It is emphasised that none of the Offeror and parties acting in concert with him, CIMB-GK or any of their respective directors or any other person involved in the Offers accepts responsibility for any taxation effects on, or liabilities of, any person or persons as a result of their acceptance of the Offers.

GENERAL

- (a) Acceptance of the Offers by any person or persons will be deemed to constitute a warranty by such person or persons to the Offeror and CIMB-GK that the Shares acquired under the Share Offer are sold by any such person or persons free from all claims, liens, charges, encumbrances, equities and third party rights and together with all rights attaching thereto, including the rights to receive all dividends and distributions declared, made or paid on or after the date of this Composite Document.
- (b) All communications, notices, Form(s) of Acceptance, the Share certificate(s), the Share Option certificate(s), transfer receipt(s), other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) and remittances to be delivered by or sent to or from the Independent Shareholders and/or the Optionholders will be delivered by or sent to or from them, or their respective agents, through post at their own risk, and none of the Offeror, CIMB-GK, the Registrar nor other parties involved in the Offers or any of their respective agents, accepts any liability for any loss in postage or any other liabilities that may arise as a result thereof.
- (c) The provisions set out in the Form(s) of Acceptance form part of the terms of the Offers.
- (d) The accidental omission to despatch this Composite Document and/or the Forms of Acceptance or any of them to any person to whom the Offers are made will not invalidate the Offers in any way.
- (e) The Offers and all acceptances will be governed by and construed in accordance with the laws of Hong Kong. The Offers are made in accordance with the Takeovers Code.
- (f) Due execution of a Form of Acceptance will constitute an authority to the Company, any Director, the Offeror or such person or persons as the Offeror may direct, to complete and execute any document on behalf of the person or persons accepting the Offers and to do any other act that may be necessary or expedient for the purposes of vesting in the Offeror, or such person or persons as it may direct the Shares in respect of which such person or persons has/have accepted the Offers.

- (g) References to the Offers in this Composite Document and the Offers in the Forms of Acceptance shall include any revision and/or extension thereof.
- (h) The making of the Offers to persons with a registered address in jurisdictions outside Hong Kong may be affected by laws of other jurisdictions. The Independent Shareholders and/or the Optionholders who are citizens or residents or nationals of jurisdictions outside Hong Kong should inform themselves above and observe any applicable legal requirements. It is the responsibility of any such person who wishes to accept the Offers to satisfy himself as to the full observance of the laws of the relevant jurisdiction in connection therein, including the obtaining of any governmental or other consent which may be required or the compliance with other necessary formalities and the payment of any transfer or other taxes due in respect of such jurisdiction payable by such accepting Independent Shareholders and/or the Optionholders.
- (i) The English texts of this Composite Document and the accompanying Forms of Acceptance shall prevail over their respective Chinese texts in case of inconsistency.

SUMMARY OF FINANCIAL INFORMATION FOR EACH OF THE THREE YEARS ENDED 31 DECEMBER 2005

The following is a summary of the financial results of the Group for each of the three years ended 31 December 2005 and the six months ended 30 June 2006 as extracted from the annual reports of the Company for the years ended 31 December 2004 and 2005 as well as the interim report of the Company for the six months ended 30 June 2006.

	For the year ended 31 December			For the six months ended 30 June
	2003	2004	2005	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Audited)	(Audited)	(Audited)	(Unaudited)
Turnover	<u>2,202,933</u>	<u>1,658,830</u>	<u>1,198,229</u>	<u>32,319</u>
Profit/(loss) before taxation	52,829	33,807	(595,716)	(15,545)
Taxation	<u>(2,549)</u>	<u>(585)</u>	<u>(734)</u>	<u>(2)</u>
Profit/(loss) for the year attributable to equity holders of the Company	<u>50,280</u>	<u>33,222</u>	<u>(596,450)</u>	<u>(15,547)</u>
Dividends	<u>-</u>	<u>7,200</u>	<u>-</u>	<u>-</u>
Earnings/(loss) per Share attributable to shareholders of the Company	<u>3.1 cents</u>	<u>2.1 cents</u>	<u>(37.3) cents</u>	<u>(0.97) cents</u>
Dividends per Share attributable to shareholders of the Company	<u>-</u>	<u>0.45 cents</u>	<u>-</u>	<u>-</u>

Notes:

- (1) The above summary of the financial results of the Group are extracted from the annual reports of the Company for the three years ended 31 December 2005, being the latest published audited consolidated financial of the Company were made up.
- (2) The reports of the auditors in respect of the financial statements of the Group for each of the two years ended 31 December 2004 did not contain any qualification. There was qualification in the financial statements of the Group for the year ended 31 December 2005 in respect of (i) the insufficient evidence to assess the amount of the inventories of approximately HK\$36 million shown in the consolidated balance sheet as at 31 December 2005; (ii) the disagreement about the accounting treatment of the trade receivable of approximately HK\$87 million as shown in the consolidated balance sheet as at 31 December 2005; and (iii) the fundamental uncertainty relating to the going concern basis given the Group's default in repayment of certain bank borrowings totaling approximately HK\$205 million and the legal actions taken by certain of these bankers and one of the Group's major suppliers to recover overdue balances, details of which are set out in the annual report of the Company for the year ended 31 December 2005.
- (3) There was no profit or loss attributable to minority interest and no extraordinary or exceptional items during the three years ended 31 December 2005 and the six months ended 30 June 2006.

AUDITED FINANCIAL INFORMATION FOR THE YEAR ENDED 31 DECEMBER 2005

The following is the audited financial statements of the Group for the year ended 31 December 2005 as extracted from the annual report 2005 of the Company.

Consolidated Income Statement

For the year ended 31 December 2005

	NOTES	2005 HK\$'000	2004 HK\$'000
Turnover	7	1,198,229	1,658,830
Cost of sales	9	<u>(1,170,757)</u>	<u>(1,573,337)</u>
Gross profit		27,472	85,493
Other operating income	10	5,536	6,518
Distribution costs		(6,192)	(8,926)
Administrative expenses		(29,143)	(29,860)
Allowance for doubtful debts		(401,972)	(1,512)
Allowance for rebates receivables	12	(92,705)	–
Write-down of inventories		(66,283)	(2,491)
Finance costs	13	(18,568)	(15,421)
Share of results of associates		(93)	6
Impairment loss recognised in respect of goodwill of associates		<u>(13,768)</u>	<u>–</u>
(Loss) profit before taxation	14	(595,716)	33,807
Taxation	15	<u>(734)</u>	<u>(585)</u>
(Loss) profit for the year attributable to equity holders of the Company		<u>(596,450)</u>	<u>33,222</u>
Dividend	16	<u>–</u>	<u>7,200</u>
(Loss) earnings per share (HK cents)	17		
– Basic		<u>(37.3)</u>	<u>2.1</u>
– Diluted		<u>(37.3)</u>	<u>2.1</u>

Consolidated Balance Sheet*At 31 December 2005*

	NOTES	2005 HK\$'000	2004 HK\$'000
Non-current assets			
Plant and equipment	18	8,519	11,353
Interests in associates	19	792	14,653
Interest in a jointly controlled entity	20	195	–
		<u>9,506</u>	<u>26,006</u>
Current assets			
Inventories	21	54,868	361,288
Trade receivables, rebates receivables, prepayments and deposits	22	109,570	572,248
Taxation recoverable		–	10,532
Amount due from an associate	23	874	–
Pledged bank deposits	24	43,797	67,493
Bank balances and cash	25	7,676	50,753
		<u>216,785</u>	<u>1,062,314</u>
Current liabilities			
Trade payables, sales deposits and accrued charges	26	138,187	217,614
Amount due to a director	27	195	–
Bank overdrafts and short-term bank borrowings	28	230,149	387,487
Derivative financial instruments	29	1,057	–
		<u>369,588</u>	<u>605,101</u>
Net current (liabilities) assets		<u>(152,803)</u>	<u>457,213</u>
		<u>(143,297)</u>	<u>483,219</u>
Capital and reserves			
Share capital	30	16,000	16,000
Reserves		(160,597)	435,853
Equity attributable to equity shareholders of the Company		<u>(144,597)</u>	<u>451,853</u>
Non-current liabilities			
Long-term bank borrowings	28	–	30,800
Deferred taxation	31	1,300	566
		<u>1,300</u>	<u>31,366</u>
		<u>(143,297)</u>	<u>483,219</u>

Consolidated Statement of Changes in Equity*For the year ended 31 December 2005*

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Special reserve <i>HK\$'000</i>	Retained profits (accumulated loss) <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2004	16,000	122,357	9,370	278,104	425,831
2004 interim dividend paid	-	-	-	(7,200)	(7,200)
Profit for the year	-	-	-	33,222	33,222
At 1 January 2005	16,000	122,357	9,370	304,126	451,853
Loss for the year	-	-	-	(596,450)	(596,450)
At 31 December 2005	<u>16,000</u>	<u>122,357</u>	<u>9,370</u>	<u>(292,324)</u>	<u>(144,597)</u>

The special reserve of the Group represents the difference between the nominal value of the shares of the acquired subsidiaries and the nominal value of the Company's shares issued for the acquisition under the group reorganisation.

Consolidated Cash Flow Statement*For the year ended 31 December 2005*

	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
OPERATING ACTIVITIES		
(Loss) profit before taxation	(595,716)	33,807
Adjustments for:		
Share of results of associates	93	(6)
Interest expenses	18,476	13,250
Interest income on bank deposits	(2,059)	(787)
Decrease (increase) in fair value of derivative financial instruments	1,057	(551)
Depreciation	2,972	2,001
Loss on disposal of plant and equipment	29	118
Amortisation of goodwill of associates	–	353
Allowance for doubtful debts	401,972	1,512
Allowance for rebates receivables	92,705	–
Write-down of inventories	66,283	2,491
Impairment loss recognised in respect of goodwill of associates	13,768	–
Rental deposits written off	104	–
	<hr/>	<hr/>
Operating cash flows before movements in working capital	(316)	52,188
Decrease (increase) in inventories	240,137	(31,855)
Increase in trade receivables, rebates receivables, prepayments and deposits	(32,103)	(26,403)
Decrease in trade payables, sales deposits and accrued charges	(79,427)	(77,645)
Increase in amount due from an associate	(874)	–
	<hr/>	<hr/>
Cash generated from (used in) operations	127,417	(83,715)
Hong Kong Profits Tax refund (paid)	10,532	(2,143)
Interest paid	(18,476)	(13,250)
	<hr/>	<hr/>
NET CASH GENERATED FROM (USED IN) OPERATING ACTIVITIES	119,473	(99,108)
	<hr/>	<hr/>

APPENDIX II

FINANCIAL INFORMATION ON THE GROUP

	2005 HK\$'000	2004 HK\$'000
INVESTING ACTIVITIES		
Acquisition of associates	–	(15,000)
Advance from a director	195	–
Investment in a jointly controlled entity	(195)	–
Proceeds on disposal of plant and equipment	40	–
Purchase of plant and equipment	(207)	(2,610)
Interest received	2,059	787
Release of (increase in) bank deposits pledged	23,696	(1,494)
	<u> </u>	<u> </u>
NET CASH GENERATED FROM (USED IN) INVESTING ACTIVITIES	25,588	(18,317)
	<u> </u>	<u> </u>
FINANCING ACTIVITIES		
Dividends paid	–	(7,200)
Repayment of bank borrowings	(418,019)	(324,470)
New bank borrowings raised	208,373	418,019
	<u> </u>	<u> </u>
NET CASH (USED IN) GENERATED FROM FINANCING ACTIVITIES	(209,646)	86,349
	<u> </u>	<u> </u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(64,585)	(31,076)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	50,485	81,561
	<u> </u>	<u> </u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	(14,100)	50,485
	<u> </u>	<u> </u>
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	7,676	50,753
Bank overdrafts	(21,776)	(268)
	<u> </u>	<u> </u>
	<u> </u>	<u> </u>
	<u> </u>	<u> </u>

Notes to the Financial Statements*For the year ended 31 December 2005***1. GENERAL**

The Company is incorporated in the Cayman Islands on 5 December 2000 as an exempted company with limited liability under the Companies Law (2001 Second Revision) Chapter 22 of the Cayman Islands. The Company's parent and ultimate holding company is E-Career Investments Limited, a limited company incorporated in the British Virgin Islands. The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information of the annual report.

The shares of the Company have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 24 October 2001.

The financial statements are presented in Hong Kong dollars which is the functional currency of the Company.

The Company is an investment holding company and the principal activities of the Group are the trading of computer components and the provision of e-enabling solutions and technical services.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

In preparing the financial statements, the directors of the Company have given careful consideration to the future liquidity of the Group in light of its net current liabilities of approximately HK\$153 million and net liabilities of approximately HK\$143 million as at 31 December 2005.

The Group is dependent upon the continued support of its bankers and creditors. As explained in note 28, the Group has defaulted in respect of the repayment of certain bank borrowings totalling approximately HK\$205 million at the balance sheet date and such amounts have become repayable on demand. The remaining bank borrowings have also become repayable on demand due to the default in the aforesaid bank borrowings. Moreover, certain of these bankers and one of the major suppliers have taken legal action to recover overdue balances.

Against this background of the Group's current financial difficulties, since October 2005 the Group's ability to make purchases from its major supplier has been substantially impaired. Accordingly, the level of the Group's trading activities has also been substantially reduced.

In order to improve the Group's working capital position the Group is implementing the following measures:

- (a) Negotiating with the customers for the recovery of accounts receivables and shorten the credit terms;
- (b) Negotiating with suppliers for the re-purchase of unsold inventory;
- (c) Continuing to implement measures to tighten cost control measures over various general and administrative expenses and to attain other profitable and positive cash flow operations; and
- (d) Negotiating with its bankers for the rescheduling or extension of the existing bank borrowings.

However, restoring the liquidity and financial position of the Group is dependent upon the introduction of new equity capital and the Group is currently in discussion with a potential new investor. Provided that new equity capital can be injected into the Group, the directors of the Company are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS AND CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards (“HKFRSs”), Hong Kong Accounting Standards (“HKASs”) and Interpretations (hereinafter collectively referred to as “new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group’s accounting policies in the following areas that have an effect on how the results for the current and prior accounting years are prepared and presented:

Business combinations

In the current year, the Group has applied HKFRS 3 “Business Combinations” and the principal effects of the application of HKFRS 3 to the Group are summarised below:

Goodwill arising on acquisition of associates

In previous years, goodwill arising on acquisition of associates was included in interests in associates and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. With respect to goodwill previously included in interests in associates, the Group on 1 January 2005 eliminated the carrying amount of the related accumulated amortisation of HK\$353,000 with a corresponding decrease in the cost of goodwill. The Group has discontinued amortising such goodwill from 1 January 2005 onwards and goodwill will be tested for impairment as part of investment in associates. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current year. Comparative figures for 2004 have not been restated. The application of HKFRS 3 has had no significant impact to the Group’s financial statements.

Share-based payment

In the current year, the Group has applied HKFRS 2 “Share-based Payment”, which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares. The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of directors’, employees’ and other participants’ share options of the Company determined at the date of grant of the share options on the vesting date. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has not applied HKFRS 2 to share options that were granted after 7 November 2002 and had vested before 1 January 2005 in accordance with the relevant transitional provisions. Because there were no unvested share options at 1 January 2005, the application of HKFRS 2 has had no impact to the results of the Group in the current or prior years.

Financial instruments

In the current year, the Group has applied HKAS 32 “Financial Instruments: Disclosure and Presentation” and HKAS 39 “Financial Instruments: Recognition and Measurement”. HKAS 32 requires retrospective application. The application of HKAS 32 has had no impact on the presentation of financial instruments in the Group’s financial statements. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

Financial assets and financial liabilities

From 1 January 2005 onwards, the Group classifies and measures its financial assets and financial liabilities in accordance with the requirements of HKAS 39. Financial assets under HKAS 39 are classified as “financial assets at fair value through profit and loss”, “available-for-sale financial assets”, “loans and receivables” or “held-to-maturity financial assets” as appropriate. Financial liabilities are classified as “financial liabilities at fair value through profit or loss” or “financial liabilities other than financial liabilities at fair value through profit or loss (other financial liabilities)”. The application of HKAS 39 has had no material effect on the recognition and measurement of financial assets and financial liabilities of the Group except for derivative financial instruments as set out below.

Derivatives and hedging

By 31 December 2004, the Group’s derivative financial instruments, mainly comprised interest rate swaps were used to manage the Group’s exposure to interest rate fluctuations. The derivatives were previously recorded off balance sheet except for the net interest settlement of the interest rate swaps, which were previously accounted for on an accrual basis.

From 1 January 2005 onwards, all derivatives that are within the scope of HKAS 39 are required to be carried at fair value at each balance sheet date. Under HKAS 39, derivatives are deemed as held-for-trading financial assets or financial liabilities, unless they qualify and are designated as effective hedging instruments. The gain or loss on changes in fair value is recognised in the income statement unless the derivative financial instruments qualified for hedge accounting. The interest rate swaps are deemed as held for trading, change in fair values of such derivatives are recognised in the income statement for the period in which they arise.

As the difference between the previous carrying amount recognised on the balance sheet and fair value on 1 January 2005 is immaterial, therefore no adjustment is made to the Group’s accumulated profits as at 1 January 2005.

The HKICPA has issued the following standards, amendments and interpretations (“INT”) that are not yet effective. The Group has considered the following standards, amendments and interpretations but does not expect they will have a material effect on how the results of operations and financial position of the Group are prepared and presented.

HKAS 1 (Amendment)	Capital disclosures ¹
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures ²
HKAS 21 (Amendment)	Net investment in a foreign operation ²
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions ²
HKAS 39 (Amendment)	The fair value option ²
HKAS 39 and HKFRS 4 (Amendments)	Financial guarantee contracts ²
HKFRS 6	Exploration for and evaluation of mineral resources ²
HKFRS 7	Financial instruments: Disclosures ¹
HK(IFRIC) – INT 4	Determining whether an arrangement contains a lease ²
HK(IFRIC) – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds ²
HK(IFRIC) – INT 6	Liabilities arising from participating in a specific market-waste electrical and electronic equipment ³
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies ⁴

¹ Effective for annual periods beginning on or after 1 January 2007.

² Effective for annual periods beginning on or after 1 January 2006.

³ Effective for annual periods beginning on or after 1 December 2005.

⁴ Effective for annual periods beginning on or after 1 March 2006.

4. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost basis except for certain financial instruments which are measured at fair value, as explained in the accounting policy below:

The consolidated financial statements have been prepared in accordance with HKFRS issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Interest in a jointly controlled entity

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interest that, if any and in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

When a group entity transacts with a jointly controlled entity of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

Interests in associates

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

For an acquisition prior to 1 January 2005, any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets and liabilities of the associates recognised at the date of acquisition is recognised as goodwill. As explained in note 3, accumulated amortisation of goodwill has been eliminated against cost of goodwill on 1 January 2005. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

Goodwill arising on the acquisition of associates is included within the carrying amount of the associates.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amount receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.

Sales of goods are recognised when goods are delivered and title has passed.

Service income is recognised when services are provided.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the Company. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Plant and equipment

Plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Depreciation is provided to write off the cost of items of plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method, at the rate of 20% per annum.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss for the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of the transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Borrowings costs

All borrowing costs are recognised as and included in finance costs in the income statement in the period when they are incurred.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when the Group becomes a party to the contractual provisions of the instrument. Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Trade receivables and rebates receivables/amount due from an associate/pledged bank deposits

Trade receivables and rebates receivables, amount due from an associate and pledged bank deposits are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Cash and cash equivalents

Cash and cash equivalents comprise bank balances and cash on hand and are carried at cost or amortised cost.

Bank overdrafts and bank borrowings

Interest-bearing bank overdrafts and bank borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the Group's accounting policy for borrowing costs (see above).

Trade payables/amount due to a director

Trade payables and amount due to a director are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments

Derivative financial instruments are initially measured at fair value on the contract date, and are measured to their value at subsequent reporting dates. Changes in the fair value of derivative financial instruments are recognised in profit or loss as they arise.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

For financial liabilities, they are removed from the Group's balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expires). The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associates and jointly controlled entity, except where the Group as the parent or a venturer is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Retirement benefits costs

The retirement benefits costs charged to the income statement represent the contributions payable in respect of the current year to the Group's defined contribution retirement benefits schemes in Hong Kong for its employees.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Allowance for trade receivables/rebates receivables

The management regularly reviews the recoverability and aging of the trade receivables/rebates receivables. Allowance for trade receivables/rebates receivables is made based on the evaluation of collectability and aging analysis of accounts and on management's judgement by reference to the estimation of the future cash flow discounted at an effective interest rate to calculate the present value.

A considerable amount of judgement is required in assessing the ultimate realisation of these trade receivables, including the current creditworthiness of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Write-down of inventories

The management of the Group reviews an aged analysis at each balance sheet date, and writes down the value of obsolete and slow-moving inventory items identified that are no longer suitable for trade. The management estimates the net realisable value for such finished goods based primarily on the latest invoice prices and current market conditions.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include bank borrowings, trade receivables, rebates receivables, trade payables and bank deposits. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

Certain trade receivables and bank borrowings of the Group are denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet.

The Group reviews regularly the recoverable amount of each individual trade receivable to ensure that adequate impairment losses are made for irrecoverable amounts.

The Group's concentration of credit risk by geographical locations is mainly in the People's Republic of China (the "PRC").

The credit risk on bank balances is minimal because the counterparties are banks with high credit-ratings.

Interest rate risk

The Group is exposed to interest rate risk through the impact of rate changes on interest bearing financial assets and liabilities. Interest bearing financial assets are mainly balances with bank which are all short term in nature.

Interest bearing financial liabilities is mainly bank loans with fixed interest rates and is therefore expose the Group to fair value interest risk. The Group does not have a formal interest rate hedging policy. However, the management monitors interest rate exposure and hedge significant interest rate exposure through the use of interest rate swaps.

Liquidity risk

In light of the Group's net current liabilities and net liabilities as at 31 December 2005, the management is implementing several measures in order to improve the Group's working capital position, profitability and net financial position. Details of these measures are disclosed in note 2 to the financial statements.

7. TURNOVER

Turnover represents the aggregate of the net amounts received and receivable for goods sold and services provided to outside customers, less trade discounts and returns, for the year.

8. BUSINESS AND GEOGRAPHICAL SEGMENTS**Business segments**

For management purposes, the Group is currently organised into two operating divisions as follows:

- Distribution of computer components and information technology products
- Provision of integrated e-enabling solutions

Segment information about these businesses is set out as follows:

For the year ended 31 December 2005:

	Distribution of computer components and information technology products <i>HK\$'000</i>	Provision of integrated e-enabling solutions <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
TURNOVER			
External sales	1,165,871	32,358	1,198,229
RESULT			
Segment result	(552,683)	(11,917)	(564,600)
Other operating income			5,536
Unallocated corporate expenses			(4,223)
Impairment loss recognised in respect of goodwill of associates			(13,768)
Finance costs			(18,568)
Share of results of associates			(93)
Loss before taxation			(595,716)
Taxation			(734)
Loss for the year			(596,450)

At 31 December 2005:

	Distribution of computer components and information technology products <i>HK\$'000</i>	Provision of integrated e-enabling solutions <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Assets			
Segment assets	164,626	2,459	167,085
Unallocated corporate assets			59,206
Consolidated total assets			226,291
Liabilities			
Segment liabilities	131,833	–	131,833
Unallocated corporate liabilities			239,055
Consolidated total liabilities			370,888
OTHER INFORMATION			
Allowance for doubtful debts	390,864	11,108	401,972
Allowance for rebates receivables	86,395	6,310	92,705
Impairment loss recognised in respect of goodwill of associates	–	–	13,768
Write-down for inventories	66,283	–	66,283
Capital additions	207	–	207
Depreciation	2,962	10	2,972

For the year ended 31 December 2004:

	Distribution of computer components and information technology products <i>HK\$'000</i>	Provision of integrated e-enabling solutions <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
TURNOVER			
External sales	<u>1,557,798</u>	<u>101,032</u>	<u>1,658,830</u>
RESULT			
Segment result	<u>32,866</u>	<u>14,812</u>	47,678
Other operating income			6,518
Unallocated corporate expenses			(4,974)
Finance costs			(15,421)
Share of results of associates			<u>6</u>
Profit before taxation			33,807
Taxation			<u>(585)</u>
Profit for the year			<u>33,222</u>

At 31 December 2004:

	Distribution of computer components and information technology products <i>HK\$'000</i>	Provision of integrated e-enabling solutions <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Assets			
Segment assets	934,130	7,737	941,867
Unallocated corporate assets			<u>146,453</u>
Consolidated total assets			<u>1,088,320</u>
Liabilities			
Segment liabilities	206,071	2,746	208,817
Unallocated corporate liabilities			<u>427,650</u>
Consolidated total liabilities			<u>636,467</u>
OTHER INFORMATION			
Allowance for doubtful debts	3	1,509	1,512
Write-down of inventories	830	1,661	2,491
Capital additions	10,800	–	10,800
Depreciation	<u>1,982</u>	<u>19</u>	<u>2,001</u>

Geographical segments

The Group's operations are substantially located in Hong Kong and the PRC throughout the year. An analysis of the Group's sales by geographical market is set out as follows:

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Turnover by geographical market:		
PRC	972,284	1,023,654
Hong Kong	225,945	635,176
	<u>1,198,229</u>	<u>1,658,830</u>
Carrying amount of segment assets analysed by location of assets:		
PRC	116,769	669,202
Hong Kong	109,522	419,118
	<u>226,291</u>	<u>1,088,320</u>
Additions to plant and equipment analysed by location of assets:		
PRC	–	–
Hong Kong	207	10,800
	<u>207</u>	<u>10,800</u>
9. COST OF SALES		
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Cost of sales comprises:		
Cost of goods sold	1,173,997	1,654,036
Rebates	(3,240)	(80,699)
	<u>1,170,757</u>	<u>1,573,337</u>
10. OTHER OPERATING INCOME		
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Discounts received on early repayment of short-term bank borrowings	3,378	–
Interest income on bank deposits	2,059	787
Promotional services income	13	3,256
Change in fair value of derivative financial instruments	–	551
Sundry income	86	1,924
	<u>5,536</u>	<u>6,518</u>

11. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

(i) Details of directors' remuneration are as follows:

The emoluments paid or payable to each of the eight (2004: seven) directors were as follows:

	Fees HK\$'000	Other emoluments Salaries and other benefits HK\$'000	Pension costs HK\$'000	Total emoluments HK\$'000
Yu Peng Hung (<i>note</i>)	–	972	12	984
Yu Chi Ming, Federick	–	83	1	84
Yen Chung Chuan	–	1,085	–	1,085
Chen Chih Ming	–	–	–	–
Lee Ran, Elizabeth	–	–	–	–
Hu Gin Ing	240	–	–	240
Liu James Juh	240	–	–	240
Yim Hing Wah	120	–	–	120
	<u>600</u>	<u>2,140</u>	<u>13</u>	<u>2,753</u>

	Fees HK\$'000	Other emoluments Salaries and other benefits HK\$'000	Pension costs HK\$'000	Total emoluments HK\$'000
Yu Peng Hung (<i>note</i>)	–	2,820	12	2,832
Yu Chi Ming, Federick	–	1,339	–	1,339
Yen Chung Chuan	–	608	–	608
Chen Lee Shu, Jennifer	–	150	1	151
Hu Gin Ing	240	–	–	240
Liu James Juh	240	–	–	240
Yim Hing Wah	31	–	–	31
	<u>511</u>	<u>4,917</u>	<u>13</u>	<u>5,441</u>

Note: The directors' salaries and other benefits include the operating lease rentals amounting to HK\$373,333 (2004: HK\$840,000) in respect of rented premises provided to a director. The amounts are included in the operating lease rentals in respect of rented premises under note 14 below.

In the year ended 31 December 2005, two directors waived the notional emoluments of HK\$10. No directors waived any emoluments in the year ended 31 December 2004.

(ii) Employees' emoluments:

During the year, the five highest paid individuals included two directors (2004: three directors), details of whose emoluments are set out above. The emoluments of the remaining three (2004: two) highest paid individuals are as follows:

	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries and other benefits	1,839	1,807
Retirement benefit scheme contributions	19	20
	<u>1,858</u>	<u>1,827</u>

Remuneration of each of the employees for both years falls within the band of less than HK\$1,000,000.

During the year, no remuneration was paid by the Group to the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

12. ALLOWANCE FOR REBATES RECEIVABLES

As explained in note 2, since October 2005 the Group's ability to make purchases from its major supplier has been substantially impaired. Accordingly, such rebates receivables have been fully impaired in the consolidated financial statements because it is unlikely that the rebates receivables can be utilised in the future.

13. FINANCE COSTS

	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on bank overdrafts and short-term bank borrowings wholly repayable within five years	18,476	13,250
Bank charges	92	2,171
	<u>18,568</u>	<u>15,421</u>

14. (LOSS) PROFIT BEFORE TAXATION

	2005 HK\$'000	2004 HK\$'000
(Loss) profit before taxation has been arrived at after charging and (crediting):		
Amortisation of goodwill of associates	–	353
Auditors' remuneration	1,050	800
Depreciation of plant and equipment	2,972	2,001
Change in fair value of derivative financial instruments	7,067	–
Loss on disposal of plant and equipment	29	118
Operating lease rentals in respect of rented premises	3,478	5,115
Rental deposits written off	104	–
Staff costs:		
Directors' remuneration		
– fees	600	511
– other emoluments	2,140	4,917
– retirement benefits scheme contributions	13	13
	<u>2,753</u>	<u>5,441</u>
Staff costs excluding directors' remuneration	9,411	12,851
Retirement benefits scheme contributions, excluding amounts included in directors' remuneration	194	181
	<u>9,605</u>	<u>13,032</u>
Total staff costs	<u><u>12,358</u></u>	<u><u>18,473</u></u>

15. TAXATION

	2005 HK\$'000	2004 HK\$'000
The charge comprises:		
Hong Kong Profits Tax:		
Current year	–	–
Underprovision in previous years	–	19
Deferred tax (<i>Note 31</i>)	734	566
	<u>734</u>	<u>566</u>
Taxation attributable to the Company and its subsidiaries	<u><u>734</u></u>	<u><u>585</u></u>

No provision for Hong Kong Profits Tax has been made in the financial statements in both years as the Group did not have any assessable profit.

No provision for taxation has been made in respect of the Company's subsidiaries operating in other jurisdictions as they did not have assessable profits for both years.

The charge for the year can be reconciled to the (loss) profit per the consolidated income statement as follows:

	2005 HK\$'000	2004 HK\$'000
(Loss) profit before taxation	<u>(595,716)</u>	<u>33,807</u>
Tax at Hong Kong Profits Tax rate of 17.5% (2004: 17.5%)	(104,250)	5,916
Tax effect of non-deductible expenses	6,898	78
Tax effect of exempted offshore profits	–	(6,507)
Tax effect of non-taxable income	(70)	(132)
Tax effect of utilisation of tax losses not previously recognised	(536)	(50)
Tax effect of tax losses not recognised	542	1,048
Tax effect of deductible temporary difference not recognised	98,059	–
Tax effect of deductible temporary difference not previously recognised	–	201
Underprovision in previous years	–	19
Effect of different tax rates of subsidiaries operating in other jurisdictions	2	7
Others	<u>89</u>	<u>5</u>
Tax charge for the year	<u><u>734</u></u>	<u><u>585</u></u>

16. DIVIDEND

	2005 HK\$'000	2004 HK\$'000
Interim dividend	<u>–</u>	<u>7,200</u>

No dividend was paid or proposed during 2005, nor has any dividend been proposed since the balance sheet date.

17. (LOSS) EARNINGS PER SHARE

The calculation of the basic (loss) earnings per share attributable to equity shareholders of the Company for the year is based on the loss for the year of HK\$596,450,000 (2004: profit for the year of HK\$33,222,000) and on 1,600,000,000 (2004: 1,600,000,000) shares in issue.

The calculation of the diluted (loss) earnings per share is based on the loss for the year of HK\$596,450,000 (2004: profit for the year of HK\$33,222,000) and on the weighted average of 1,600,000,000 (2004: 1,600,048,792) shares.

The computation of diluted loss per share in 2005 does not assume the exercise of the Company's outstanding share options as the exercise price of those options is higher than the average market price for shares during the year.

The weighted average of 1,600,048,792 shares in issue and issuable for the computation of diluted earnings per share in 2004 assume the outstanding options are exercised on the date on which they are granted.

18. PLANT AND EQUIPMENT

	Furniture, fixtures and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
COST			
At 1 January 2004	2,947	2,364	5,311
Additions	10,800	–	10,800
Disposals	(322)	–	(322)
	<hr/>	<hr/>	<hr/>
At 1 January 2005	13,425	2,364	15,789
Additions	71	136	207
Disposals	–	(189)	(189)
	<hr/>	<hr/>	<hr/>
At 31 December 2005	13,496	2,311	15,807
DEPRECIATION			
At 1 January 2004	1,567	1,072	2,639
Provided for the year	1,528	473	2,001
Eliminated on disposals	(204)	–	(204)
	<hr/>	<hr/>	<hr/>
At 1 January 2005	2,891	1,545	4,436
Provided for the year	2,506	466	2,972
Eliminated on disposals	–	(120)	(120)
	<hr/>	<hr/>	<hr/>
At 31 December 2005	5,397	1,891	7,288
CARRYING VALUES			
At 31 December 2005	<u>8,099</u>	<u>420</u>	<u>8,519</u>
At 31 December 2004	<u>10,534</u>	<u>819</u>	<u>11,353</u>

19. INTERESTS IN ASSOCIATES

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Cost of unlisted investment in associates	879	879
Share of post-acquisition profit, net of dividend received	(87)	6
	<hr/>	<hr/>
Goodwill of associates (<i>note</i>)	792	885
	–	13,768
	<hr/>	<hr/>
	<u>792</u>	<u>14,653</u>

Details of the Group's associates as at 31 December 2005 are as follows:

Name of associate	Place of incorporation	Principal place of operation	Proportion of ownership interest and voting power held by the Group	Principal activities
Jet Fidelity Holdings Company Limited	British Virgin Islands	Hong Kong	30%	Investment holding
Jet Fidelity Limited	Hong Kong	Hong Kong	30%	Provision of logistics and warehouse management services
Synergrator Logistics (HK) Limited	Hong Kong	Hong Kong	30%	Provision of logistics and warehouse management services

Summarised financial information in respect of the Group's associates is set out below:

	2005 HK\$'000	2004 HK\$'000
Total assets	6,060	5,350
Total liabilities	(3,420)	(2,400)
Net assets	<u>2,640</u>	<u>2,950</u>
Group's share of associates' net assets	<u>792</u>	<u>885</u>
	2005 HK\$'000	2004 HK\$'000
Revenue	<u>8,300</u>	<u>4,446</u>
(Loss) profit for the year	<u>(310)</u>	<u>20</u>
Group's share of associates' (loss) profit for the year	<u>(93)</u>	<u>6</u>

Note:

Included in the interests in associates is goodwill of HK\$nil (2004: HK\$13,768,000) arising on acquisition of associates in prior years. The movement of goodwill is set as below:

	<i>HK\$'000</i>
COST	
Arising on acquisition of associates and at 31 December 2004	14,121
Elimination of accumulated amortisation upon the application of HKFRS 3	(353)
	<hr/>
At 31 December 2005	13,768
	<hr/>
AMORTISATION AND IMPAIRMENT	
Charge for the year and at 31 December 2004	353
Elimination of accumulated amortisation upon the application of HKFRS 3	(353)
Impairment loss recognised	(13,768)
	<hr/>
At 31 December 2005	(13,768)
	<hr/>
CARRYING VALUES	
At 31 December 2005	—
	<hr/> <hr/>
At 31 December 2004	13,768
	<hr/> <hr/>

Due to the changes in current market condition and probable future volatility, the Group has taken the best estimate to revise its cash flow forecasts for the associates. The goodwill included in interests in associates has fully written off through recognition of an impairment loss of HK\$13,768,000. The recoverable amount of the goodwill included in interests in associates are determined from value in use calculations. The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management of the associates for the next three years and extrapolates cash flows based on an estimated growth rate of zero percent. The rate used in discounting the forecast cash flows from the associates is 5.2%.

Until 31 December 2004, goodwill had been amortised over its estimated useful life of 20 years.

20. INTEREST IN A JOINTLY CONTROLLED ENTITY

As at 31 December 2005, the Group had interest in the following jointly controlled entity:

Name of entity	Place of establishment and operation	Form of business structure	Registered and paid-up capital	Proportion of registered voting capital and power held by the Group	Principal activities
China Artel Golden Safe Digital Leasing Holdings Ltd. 中國宏通嘉信滙金數碼 租賃控股有限公司	British Virgin Islands	Incorporated	US\$50,000	50%	Not yet commenced business

21. INVENTORIES

	2005 HK\$'000	2004 HK\$'000
Finished goods	<u>54,868</u>	<u>361,288</u>

22. TRADE RECEIVABLES, REBATES RECEIVABLES, PREPAYMENTS AND DEPOSITS

	2005 HK\$'000	2004 HK\$'000
Trade receivables	499,830	450,963
Less: Allowance for doubtful debts	<u>(403,484)</u>	<u>(1,512)</u>
	96,346	449,451
Rebates receivables (<i>note</i>)	7,351	119,775
Prepayments, deposits and other receivables	<u>5,873</u>	<u>3,022</u>
	<u>109,570</u>	<u>572,248</u>

Note: The rebates receivables include amount of HK\$92,705,000 (2004: nil) relating to an allowance for rebates receivables.

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:

	2005 HK\$'000	2004 HK\$'000
Aged:		
0 to 30 days	9,360	114,548
31 to 60 days	1,139	62,355
61 to 90 days	7,202	65,310
91 to 180 days	<u>78,645</u>	<u>207,238</u>
Total trade receivables	<u>96,346</u>	<u>449,451</u>

The directors consider the carrying amount of trade receivables and rebates receivables approximates their fair value.

23. AMOUNT DUE FROM AN ASSOCIATE

The amount is unsecured, interest-free and repayable on demand. The directors consider the carrying amount of amount due from an associate approximates its fair value.

24. PLEDGED BANK DEPOSITS

The amounts represent deposits pledged to banks to secure short-term banking facilities granted to the Group and are therefore classified as current assets.

The deposits carried fixed interest rate ranged from 4.09% to 4.13%. The pledged bank deposits will be released upon the settlement of relevant bank borrowings. The fair value of pledged bank deposits at 31 December 2005 approximates to the corresponding carrying amount.

25. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less at prevailing interest rates. The directors consider that the carrying amount of these assets approximate their fair value.

26. TRADE PAYABLES, SALES DEPOSITS AND ACCRUED CHARGES

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

	2005 HK\$'000	2004 HK\$'000
Aged:		
0 to 30 days	4,646	136,647
31 to 60 days	–	58,546
61 to 90 days	–	1,544
91 to 120 days	127,187	12,079
	<u>131,833</u>	<u>208,816</u>
Total trade payables	131,833	208,816
Sales deposits	2,848	3,483
Accrued charges	3,506	5,315
	<u>138,187</u>	<u>217,614</u>

One of the major suppliers has taken legal action to recover the amounts due by the Group.

The directors consider the carrying amount of trade payables approximate its fair value.

27. AMOUNT DUE TO A DIRECTOR

The amount is unsecured, interest free and repayable on demand. The directors consider the carrying amount of amount due to a director approximates its fair value.

28. BANK OVERDRAFTS AND BANK BORROWINGS

	2005 HK\$'000	2004 HK\$'000
Bank overdrafts	21,776	268
Bank borrowings	208,373	418,019
	230,149	418,287
Less: Amount due within one year included under current liabilities	<u>(230,149)</u>	<u>(387,487)</u>
Amount due after one year, but not exceeding two years	<u>–</u>	<u>30,800</u>
Secured	130,668	350,622
Unsecured	99,481	67,665
	<u>230,149</u>	<u>418,287</u>

Bank overdrafts are arranged at prevailing market interest rates and repayable on demand.

Short-term bank borrowings are arranged at fixed interest rate ranged from 5% to 11% per annum.

The repayment term of certain bank borrowings amounting to HK\$205,223,000 (2004: HK\$nil) have matured before the year end date. Certain banks have taken legal action to recover the bank borrowings granted. The remaining bank borrowings also become repayable on demand at the balance sheet date.

The Group's borrowings that are denominated in currencies other than the functional currencies of the relevant group entities are set out below.

	US Dollars <i>HK\$'000</i>
At 31 December 2005	183,338
At 31 December 2004	<u>356,419</u>

The directors consider the carrying amount of bank overdrafts and bank borrowings approximate its fair value.

29. DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives

	2005 <i>HK\$'000</i>
Interest rate swaps	<u>1,057</u>

Major terms of the interest rate swaps are as follows:

Notional amount	Maturity	Swaps
US\$10,000,000	22 April 2008	From LIBOR plus 1.5% subject to cap to LIBOR
US\$10,000,000	19 May 2008	From LIBOR plus 1.5% subject to cap to LIBOR

The above derivatives are measured at fair value at each balance sheet date. Their fair values are determined based on quotations provided by banks for equivalent instruments at the balance sheet date.

30. SHARE CAPITAL

	No. of shares	<i>HK\$'000</i>
Shares of HK\$0.01 each		
Authorised:		
At 1 January 2004, 31 December 2004 and 31 December 2005	<u>10,000,000,000</u>	<u>100,000</u>
Issued and fully paid:		
At 1 January 2004, 31 December 2004 and 31 December 2005	<u>1,600,000,000</u>	<u>16,000</u>

31. DEFERRED TAXATION

The following are the major deferred tax liability and asset recognised and movements thereon during the current and prior accounting years:

	Accelerated tax depreciation <i>HK\$'000</i>	Tax loss <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2004	–	–	–
Charge (credit) to income statement for the year	1,474	(908)	566
At 1 January 2005	1,474	(908)	566
(Credit) charge to income statement for the year (Note 15)	(174)	908	734
	<u>1,300</u>	<u>–</u>	<u>1,300</u>

For purpose of the balance sheet presentation, the above deferred tax assets and liabilities were offset. A deferred tax asset has been recognised for the year ended 31 December 2004 in respect of tax losses of HK\$5,191,000 (2005: nil).

At the balance sheet date, the Group had unused tax losses of approximately HK\$16,132,000 (2004: HK\$16,088,000) available for offset against future profits. Regarding the remote possibility for utilising the tax loss in the foreseeable future, a deferred tax asset has been reversed for the year ended 31 December 2005 in respect of HK\$5,191,000 (2004: HK\$ nil) of such losses. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams of relevant subsidiaries. The unrecognised tax losses may be carried forward indefinitely except the losses of HK\$2,152,000 (2004: HK\$2,099,000) which will expire as follows:

Year of expiry	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
2006	496	496
2007	707	707
2008	616	616
2009	279	280
2010	54	–
	<u>2,152</u>	<u>2,099</u>

At the balance sheet date, the Group has deductible temporary differences of HK\$560,337,000 (2004: Nil). No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

32. 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 certain the inventories supplied and in any proceeds (including accounts receivables) 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:

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Assets pledged	<u>29,558</u>	<u>77,748</u>

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

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Bank deposits pledged	<u>43,797</u>	<u>67,493</u>

33. MAJOR NON-CASH TRANSACTION

During the year ended 31 December 2004, the Group transferred an amount of HK\$8,190,000 (2005: HK\$nil) from deposits paid in respect of an accounting software to plant and equipment.

34. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group had commitments for future minimum lease payments in respect of land and buildings under non-cancellable operating leases which fall due as follows:

	THE GROUP	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Within one year	1,131	1,706
In the second to fifth year inclusive	<u>487</u>	<u>1,593</u>
	<u>1,618</u>	<u>3,299</u>

Operating lease payments represent rentals payable by the Group for certain of its office premises and employees' quarters. Leases are negotiated for an average of 2 years.

35. CAPITAL COMMITMENTS

The Group has entered a shareholders' agreement with an independent third party to establish a joint venture in which the Group will invest approximately HK\$39,000,000 to develop distributing channel of internet protocol television in the PRC.

Apart from the above, the Group had no other material capital commitments at the balance sheet date.

36. 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, eligible employees and others 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, to subscribe for shares in the Company.

Subject to the condition that the total number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Option Scheme and any other schemes of the Company must not exceed 30% of the shares of the Company in issue from time to time, the total number of shares in respect of which options may be granted under the Option Schemes, when aggregated with any shares subject to any other schemes is not permitted to exceed 10% of the issued share capital of the Company immediately upon the listing of the shares on the Stock Exchange, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual in aggregate in any 12-month period is not permitted to exceed 1% of the shares of the Company in issue, without prior approval from the Company's shareholders.

Options granted must be taken up within 28 days of the date of grant, upon payment of HK\$1 per option. Options may be exercised at any time from the expiry of 6 months from the date of acceptance of the share option to such date as determined by the board of directors but in any event not exceeding 10 years. The exercise price is determined by the directors of the Company and will not be less than the higher of the average closing price of the shares for the five business days immediately preceding the date of grant or the closing price of the shares on the date of grant.

As the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") relating to the share option schemes were amended on 1 September 2001, share option can be granted under the Option Scheme provided that the existing Listing Rules on share option schemes are complied with.

On 30 May 2003, the shareholders of the Company resolved to make certain amendments to the Option Scheme. Under the amendments, the board of the 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 the directors of the Company, have contributed or may contribute to the Group. The options granted may be exercised at any time during a period to be determined and notified by the board of directors of the Company but in any event shall not exceed the period of 10 years from a business date immediately after the date of acceptance.

The following table discloses details of the Company's share options held by a director and employees and movements in such holdings during the year:

	Outstanding at 1 January	Granted during the year	Reallocation during the year	Outstanding at 31 December
For the year ended 31 December 2005				
Director (<i>Note a</i>)	2,080,000	–	(2,080,000)	–
Employees	57,590,000	–	2,080,000	59,670,000
Principal buyers (<i>Note c</i>)	43,680,000	–	–	43,680,000
Suppliers of services	10,745,000	–	–	10,745,000
	<u>114,095,000</u>	<u>–</u>	<u>–</u>	<u>114,095,000</u>

	Outstanding at 1 January	Granted during the year	Reallocation during the year	Outstanding at 31 December
For the year ended 31 December 2004				
Director (<i>Note b</i>)	–	–	2,080,000	2,080,000
Employees	45,370,000	14,300,000	(2,080,000)	57,590,000
Principal buyers (<i>Note c</i>)	12,980,000	30,700,000	–	43,680,000
Suppliers of services	10,745,000	–	–	10,745,000
	<u>69,095,000</u>	<u>45,000,000</u>	<u>–</u>	<u>114,095,000</u>

Notes:

- (a) Mr. Yen Chung Chuan resigned as an executive director of the Company on 7 December 2005. Subsequent to the resignation, Mr. Yen was an employee of one of the subsidiaries of the Company.
- (b) Mr. Yen Chung Chuan was appointed as an executive director of the Company on 5 February 2004. Prior to the appointment, Mr. Yen was an employee of one of the subsidiaries of the Company.
- (c) Principal buyers are the former employees of the Group.

Details of options granted are as follows:

Date of grant and vesting date	Exercise period	Exercise price per share HK\$
9 October 2003	10 October 2003 – 28 August 2011	0.3810
16 November 2004	17 November 2004 – 28 August 2011	0.2166

Total consideration received during the year from employees for taking up the options amounted to HK\$nil (2004: HK\$3).

The fair value of the Company's share at the date of offer of the above options, being the closing price of the Company's shares as stated in the daily quotation sheets issued by The Stock Exchange on the trading day immediately preceding that day, was HK\$0.38 and HK\$0.21 respectively.

37. RETIREMENT BENEFITS SCHEMES

The Group operates a defined contribution Mandatory Provident Fund Scheme under the Mandatory Provident Fund Scheme Ordinance for all qualifying employees in Hong Kong since December 2000. The assets of the scheme are held separately from those of the Group in funds under the control of trustees.

The employees of the Group's subsidiaries in other jurisdictions are members of state-managed retirement benefits schemes operated by the government of the jurisdictions. The subsidiaries are required to contribute a specified percentage of their payroll costs to the retirement benefits schemes. The only obligation of the Group with respect to the retirement benefits schemes is to make the specified contributions.

The total cost charged to the income statement of HK\$207,000 (2004: HK\$194,000) represents contributions payable to the schemes by the Group at rates specified in the rules of the schemes. As at 31 December 2005, contributions of HK\$11,000 (2004: HK\$19,000) due in respect of the current reporting year had not been paid to the schemes.

38. RELATED PARTY TRANSACTIONS

- (i) Apart from the disclosure in notes 23 and 27 above, during the year, the Group also had the following transactions with the related parties:

	2005 HK\$'000	2004 HK\$'000
Transactions with a Director:		
Rentals for office and staff quarter charged to the Group	178	185
Transactions with an associate:		
Logistics charges paid by the Group	<u>880</u>	<u>227</u>

- (ii) Compensation of key management personnel

The remuneration of key management during the year was as follows:

	2005 HK\$'000	2004 HK\$'000
Short-term benefits	3,732	6,303
Post-employment benefits	<u>25</u>	<u>25</u>
	<u>3,757</u>	<u>6,328</u>

The remuneration of key management is determined by the Remuneration Committee having regard to the performance of individuals and market trends.

39. EVENTS AFTER THE BALANCE SHEET DATE

The Group is in negotiation with a potential new investor for the introduction of new equity capital to restore the liquidity and financial position of the Group. The negotiation is yet to be finalised at the date of the approval of the consolidated financial statements.

40. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's subsidiaries, all of which are wholly owned at 31 December 2005 are as follows:

Name of subsidiary	Place of incorporation and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company		Principal activities
			Directly	Indirectly	
Advance Great Limited	Hong Kong	HK\$10,000	-	100%	Trading of computer components
Ariel International Technology Co., Limited	Hong Kong	HK\$10	-	100%	Trading of networking equipment
亞邦電腦國際貿易(上海)有限公司**	PRC	US\$200,000	-	100%	Trading of computer components and networking products and provision of technical support and after-sales services

APPENDIX II
FINANCIAL INFORMATION ON THE GROUP

Name of subsidiary	Place of incorporation and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company		Principal activities
			Directly	Indirectly	
Artel Computer Solutions Limited	British Virgin Islands	US\$200,000	-	100%	Investment holding
Artel e-Solutions Limited	British Virgin Islands	US\$110	-	100%	Investment holding
Artel International Holdings Limited	British Virgin Islands	US\$5	100%	-	Investment holding
Artel Industries Limited	Hong Kong	Ordinary - HK\$2 Deferred - HK\$8,000,000*	-	100%	Trading of computer components and networking equipment and provision of integrated e-enabling solutions
Artel International Investments Limited	British Virgin Islands	US\$1	-	100%	Inactive
Artel Macao Commercial Offshore Limited	Macao	MOP1,000,000	-	100%	Trading of computer components and networking equipment and provision of integrated e-enabling solutions
ASEP Solutions Limited	Hong Kong	HK\$2	-	100%	Provision of e-enabling solutions and technical services
Best Hero Limited	Hong Kong	HK\$10,000	-	100%	Trading of computer components
Cyber King Group Limited	British Virgin Islands	US\$1	-	100%	Inactive
Hashan Development Company, Limited	Hong Kong	HK\$100,000	-	100%	Assets holding
Yiu Fai Trading Limited	British Virgin Islands	US\$50,000	-	100%	Investing holdings

* *The deferred shares are not held by the Group and practically carry no right to dividend or to receive notice of or to attend or vote at any annual general meeting of the subsidiary or to participate in any distribution on winding up.*

** *This subsidiary is a wholly foreign owned enterprise.*

None of the subsidiaries had issued any debt securities at the end of the year.

UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE
SIX MONTHS ENDED 30 JUNE 2006

Condensed Consolidated Profit and Loss Account

For the period ended 30 June 2006

	Notes	Six months ended 30 June	
		2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Turnover		32,319	853,792
Cost of sales		<u>(23,263)</u>	<u>(811,408)</u>
Gross profit		9,056	42,384
Other operating income		160	6,381
Distribution costs		(94)	(3,010)
Administrative expenses		<u>(11,081)</u>	<u>(13,390)</u>
(Loss)/Profit from operations	4	(1,959)	32,365
Finance costs		(13,586)	(9,190)
Share of results of associates		–	13
Impairment loss recognized in respect of goodwill of associates		<u>–</u>	<u>(10,605)</u>
(Loss)/Profit before taxation		(15,545)	12,583
Taxation	5	<u>(2)</u>	<u>(4,185)</u>
(Loss)/Profit for the period attributable to equity shareholders of the Company		<u><u>(15,547)</u></u>	<u><u>8,398</u></u>
Dividend	6	<u><u>–</u></u>	<u><u>–</u></u>
(Loss)/Earnings per share	7		
– Basic, HK cents		<u><u>(0.97)</u></u>	<u><u>0.5</u></u>
– Diluted, HK cents		<u><u>N/A</u></u>	<u><u>N/A</u></u>

Condensed Consolidated Balance Sheet*As at 30 June 2006*

		30 June 2006	31 December 2005
		(Unaudited)	(Audited)
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
ASSETS & LIABILITIES			
Non-current assets			
Plant and equipment		7,000	8,519
Interests in associates		792	792
Interest in jointly controlled entity		195	195
		<u>7,987</u>	<u>9,506</u>
Current Assets			
Inventories		54,527	54,868
Trade receivables, rebates receivables, prepayments and deposits	8	112,411	109,570
Amount due from an associate		874	874
Pledged bank deposits	11	–	43,797
Bank balances and cash		1,222	7,676
		<u>169,034</u>	<u>216,785</u>
Current liabilities			
Trade payables, sales deposits and accrued charges	9	69,936	138,187
Amount due to a director		1,998	195
Bank overdrafts and bank borrowings	10	263,928	230,149
Derivate financial instruments		–	1,057
		<u>335,862</u>	<u>369,588</u>
Net current liabilities		<u>(166,828)</u>	<u>(152,803)</u>
Total assets less current liabilities		<u><u>(158,841)</u></u>	<u><u>(143,297)</u></u>
Capital and reserves			
Share capital		16,000	16,000
Reserves		(176,141)	(160,597)
Equity attributable to equity shareholders of the Company		(160,141)	(144,597)
Non-current liabilities			
Deferred taxation		1,300	1,300
		<u>1,300</u>	<u>1,300</u>
		<u><u>(158,841)</u></u>	<u><u>(143,297)</u></u>

Condensed Consolidated Statement of Changes in Equity

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Special reserve <i>HK\$'000</i>	Retained profit/ (accumulated loss) <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2005 (Audited)	16,000	122,357	9,370	304,126	451,853
Profit for the period	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,398</u>	<u>8,398</u>
At 30 June 2005 (Unaudited)	16,000	122,357	9,370	312,524	460,251
(Loss) for the period	<u>-</u>	<u>-</u>	<u>-</u>	<u>(604,848)</u>	<u>(604,848)</u>
At 31 December 2005 (Audited)	16,000	122,357	9,370	(292,324)	(144,597)
(Loss) for the period	<u>-</u>	<u>-</u>	<u>3</u>	<u>(15,547)</u>	<u>(15,544)</u>
At 30 June 2006 (Unaudited)	<u>16,000</u>	<u>122,357</u>	<u>9,373</u>	<u>(307,871)</u>	<u>(160,141)</u>

Condensed Consolidated Cash Flow Statement*For the period ended 30 June 2006*

	Six months ended 30 June	
	2006	2005
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash outflow from operating activities		
Cash used in operations	(43,188)	(8,382)
Interest paid	(13,586)	(9,110)
	<u>(56,774)</u>	<u>(17,492)</u>
Net cash (outflow)/inflow from investing activities		
Decrease/(Increase) in pledged bank deposits	43,797	(21,463)
Other investing cash flows	158	1,874
	<u>43,955</u>	<u>(19,589)</u>
Net cash inflow from financing activities	<u>–</u>	<u>(5,022)</u>
Decrease in cash and cash equivalents	(12,819)	(42,103)
Cash and cash equivalents at beginning of the period	<u>(14,100)</u>	<u>50,485</u>
Cash and cash equivalents at end of period	<u><u>(26,919)</u></u>	<u><u>8,382</u></u>
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	1,222	8,382
Bank overdrafts	(28,141)	–
	<u>(26,919)</u>	<u>8,382</u>

Notes to the Condensed Financial Statements

1. Basis of preparation

In preparing the financial statements, the directors of the Company have given careful consideration to the future liquidity of the Group in light of its net current liabilities of approximately HK\$167 million and net liabilities of approximately HK\$159 million as at 30 June 2006.

However, restoring the liquidity and financial position of the Group is dependent upon the introduction of new equity capital and debts assignment by new investor. Provided that new equity capital can be injected into the Group, the directors of the Company are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements set out in Appendix 16 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

2. Principal accounting policies

The condensed financial statements have been prepared under the historical cost basis except for certain financial instruments which are measured at fair value.

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Group's annual audited financial statements for the year ended 31 December 2005 except in relation to the following amendments to and interpretation of HKFRSs issued by HKICPA that affect the Group and are adopted to the first time for the current period's financial statements:

HKAS 39 (Amendment)	The Fair Value Option ⁽¹⁾
HKAS 39 & HKFRS 4	Financial Instruments: Recognition and Measurement and Insurance Contracts – Financial Guarantee ⁽¹⁾
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease ⁽¹⁾
HK(IFRIC)-Int 8	Scope of HKFRS 2 ⁽²⁾

⁽¹⁾ Effective for annual periods beginning on or after 1 January 2006

⁽²⁾ Effective for annual periods beginning on or after 1 May 2006

The adoption of the above HKFRSs did not result in material impact on the accounting policies of the Group's condensed consolidated financial statements.

The Group has not early adopted certain accounting Standards or Interpretations that have been issued but not yet effective. The adoption of such Standards and Interpretations will not result in substantial changes to the Group's accounting policies.

3. Segment information

(a) Business segments

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

	Distribution of computer components and information technology products		Provision of integrated e-enabling solutions		Consolidated	
	Six months ended		Six months ended		Six months ended	
	30 June		30 June		30 June	
	2006	2005	2006	2005	2006	2005
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER						
External sales	<u>32,319</u>	<u>823,736</u>	<u>-</u>	<u>30,056</u>	<u>32,319</u>	<u>853,792</u>
SEGMENT RESULTS	<u>(1,781)</u>	<u>23,341</u>	<u>(15)</u>	<u>4,539</u>	<u>(1,796)</u>	<u>27,880</u>
Other operating income					-	6,381
Unallocated corporate expenses					<u>(163)</u>	<u>(1,896)</u>
(Loss)/Profit from operations					(1,959)	32,365
Finance costs					(13,586)	(9,190)
Share of results of associates					-	13
Impairment loss recognized in respect of goodwill of associates					<u>-</u>	<u>(10,605)</u>
(Loss)/Profit before taxation					(15,545)	12,583
Taxation					<u>(2)</u>	<u>(4,185)</u>
(Loss)/Profit for the period attributable to equity shareholders of the Company					<u>(15,547)</u>	<u>8,398</u>

(b) Geographical segments

	Six months ended 30 June	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Turnover by geographical market		
The People's Republic of China (the "PRC")	32,319	701,128
Hong Kong	<u>-</u>	<u>152,664</u>
	<u>32,319</u>	<u>853,792</u>

4. (Loss)/Profit from operations

	Six months ended 30 June	
	2006	2005
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
(Loss)/Profit from operations has been arrived at after charging (crediting):		
Allowance for inventories	–	10,379
Depreciation of plant and equipment	1,519	1,485
Interest income	(158)	(2,906)
Share of tax of associates included in share of results of associates	–	4
	<u>–</u>	<u>4</u>

5. Taxation

	Six months ended 30 June	
	2006	2005
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
The charge comprises:		
Hong Kong Profits Tax:		
Current year	2	3,451
Deferred tax	–	734
	<u>2</u>	<u>4,185</u>
Taxation attributable to the Company and its subsidiaries	<u>2</u>	<u>4,185</u>

Hong Kong Profits Tax is calculated at 17.5% (2005: 17.5%) of the estimated assessable profit for the period.

No provision for taxation has been made in respect of the Company's subsidiaries operating in other jurisdictions as they did not have assessable profits for both periods.

6. Dividend

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2006 (2005: Nil).

7. (Loss)/Earnings per share

The calculation of the basic (loss)/earnings per share for the period is based on the net loss for the period of HK\$15,547,000 (2005: profit of HK\$8,398,000) and on the 1,600,000,000 (2005:1,600,000,000) shares in issue.

Dilutive loss per share for the period was not presented because the exercise of the Company's share options will reduce loss per share which is anti-dilutive.

8. 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 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
Aged:		
0 – 30 days	–	9,360
31 – 60 days	–	1,139
61 – 90 days	–	7,202
91 – 180 days	–	78,645
More than 180 days	103,440	–
Total trade receivables	103,440	96,346
Rebates receivables	7,351	7,351
Prepayments, deposits and other receivables	1,620	5,873
	<u>112,411</u>	<u>109,570</u>

9. Trade payables, sales deposits and accrued charges

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

	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
Aged:		
0 – 30 days	–	4,646
31 – 90 days	–	–
91 – 180 days	–	127,187
More than 180 days	65,498	–
Total trade payables	65,498	131,833
Sales deposits	837	2,848
Accrued charges	3,601	3,506
	<u>69,936</u>	<u>138,187</u>

Note: In December 2006, Intel Semiconductor (US) Ltd. (“Intel”), a major supplier of the Group, Fine Elite Limited (“Fine Elite”), a private company incorporated in the British Virgin Islands, a third party independent of the Group and is not connected person of the Group, and the Company have entered the deed of assignment and settlement deed in the sum of US\$7,567,165.75 (equivalent to HK\$59,023,893) of the debt subject to certain conditions precedent. Pursuant to the Agreement, the debt will not be assigned to Fine Elite unless the conditions are fulfilled.

10. Bank overdrafts and bank borrowings

	30 June 2006 (Unaudited) <i>HK\$'000</i>	31 December 2005 (Audited) <i>HK\$'000</i>
Bank overdrafts	28,141	21,776
Bank borrowings	235,787	208,373
	<u>263,928</u>	<u>230,149</u>
Secured	130,668	130,668
Unsecured	133,260	99,481
	<u>263,928</u>	<u>230,149</u>

Note: The repayment term of certain bank borrowings and syndicated borrowings have matured before the period end date. Certain banks have been taken legal action to recover the bank borrowing and syndicated borrowing granted. The bank borrowings also become repayable on demand at the balance date.

In October 2006, HSH Nordbank AG Hong Kong Branch (the "Coordinating Bank") and other financial institutions have entered a debt assignment agreement with Fine Elite in the sum of approximately HK\$256 million and accrued interest subject to certain conditions precedent. Pursuant to the Agreement, the debt will not be assigned to third party unless the conditions are fulfilled. Therefore, HSH Nordbank AG Hong Kong Branch and the other financial institutions will not take any further legal action at the current stage.

11. 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 trade receivables) as security for any outstanding amount due by the Group. The aggregate amount of relevant assets pledged at the respective balance sheet date is as follows:

	30 June 2006 (Unaudited) <i>HK\$'000</i>	31 December 2005 (Audited) <i>HK\$'000</i>
Assets pledged	–	29,558

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

	30 June 2006 (Unaudited) <i>HK\$'000</i>	31 December 2005 (Audited) <i>HK\$'000</i>
Bank deposits pledged	–	43,797

12. Capital commitments

The Group has entered a shareholders' agreement with an independent third party to establish a joint venture in which the Group will invest approximately HK\$39,000,000 to develop distributing channel of internet protocol television in the PRC.

13. Contingent liabilities

As at 30 June 2006, the Group did not have any significant contingent liabilities.

14. Post balance sheet events

The Group have the following litigations after the period ended 30 June 2006:

- a.* On 11 July 2006 and 16 August 2006, Intel Semiconductor (US) Ltd. ("Intel"), a major supplier of the Group, took statutory demand against Artel Macao Commercial Offshore Ltd, a company wholly owned subsidiary of the Company, and the Company respectively claiming outstanding accounts payables in the sum of US\$7,567,165.75 (equivalent to HK\$59,023,893) (the "Debt and Guarantee Debt").

In December 2006, Intel, Fine Elite Limited ("Fine Elite"), a private company incorporated in the British Virgin Islands, a third party independent of the Group and is not connected person of the Group, and the Company have entered the deed of assignment and settlement deed in the sum of US\$7,567,165.75 (equivalent to HK\$59,023,893) of the Debt and Guarantee Debt subject to certain conditions precedent. Therefore, Intel will not take any further legal action at the current stage.

- b.* On 18 September 2006, former employees of the Company brought claims numbered LBTC4162/2006 and LBTC4919/2006 against the Company at the Labour Tribunal (the "Tribunal") claiming arrears of payroll in the aggregate amount of HK\$365,739.83 and HK\$42,387.09 respectively.
- c.* On 29 September 2006, a former Senior Vice President took against Artel Industries Ltd. claiming arrears of payroll in the aggregate amount of HK\$240,000.
- d.* On 29 September 2006, A Plus Financial Press Limited brought an action in District Court under DCCJ 4897/2006 against the Company claiming HK\$286,431 for services rendered. On 6 December 2006, the Company has received a purported Statutory Demand pursuant to Section 327(4)(a) of the Companies Ordinance by A Plus Financial Press Limited claiming the services rendered and the interest of judgment debt.
- e.* On 4 October 2006, International Trademart Company Ltd. (the "Landlord") brought an action in the High Court under HCA 2211/2006 against Artel Industries Ltd. a company wholly owned subsidiary of the Company, claiming HK\$120,224.80 in respect of overdue office rental and management fee of the premises situated at Units 51, 51A, 53, 55 and 57, 8th Floor, HITEC, 1 Trademark Drive, Kowloon Bay, Kowloon, Hong Kong.

f. Winding-up petition of 474/2006

On 7 September 2006, the Company received a petition for winding up of the Company (the "Petition") dated 5 September 2006, by HSH Nordbank AG, Hong Kong Branch (the "Petitioner"), due to the reason that the Company was unable to repay the outstanding debts of US\$8,807,366.07 (the "Debt") owed by two companies which the Company is a guarantor, the hearing of which is scheduled for 1 November 2006 and a summons dated 6 September 2006 for an application by the Petitioner to appoint provisional liquidators of the Company. The application for appointment of provisional liquidators was subsequently withdrawn on 19 September 2006 by way of consent summons between the parties.

On 1 November 2006, which the Petition was scheduled to be heard, immediately before the hearing for the Petition, the solicitors for both the Petitioner and the Company signed the consent summons (the "Consent Summons") for dismissal of the Petition. However, as the Petition had already been advertised, the Master hearing did not have jurisdiction to order a dismissal of the Petition and had to adjourn the case to 6 November 2006 before the Companies Judge. On 6 November 2006, upon the agreement of the Company and the Petitioner, and there being no objecting creditors, the Companies Judge ordered the Petition to be dismissed and an order had been sealed on 10 November 2006.

The reason of dismissal was that the Petitioner has entered into a debt assignment agreement (the "Agreement") with Fine Elite limited ("Fine Elite"), a private company incorporated in the British Virgin Islands, a third party independent of the Group and is not connected person of the Group, to assign the debt in the sum of approximately US\$8.8 million owed by the Company to the Petitioner subject to certain conditions precedent including but not limited to the resumption in trading in Shares. The Agreement was entered into between the Petitioner and Fine Elite, which the Company is not a party to the Agreement. The Company has not entered into any term or arrangement with Fine Elite and the Company has not given any security or guarantee to the Petition over the Debt.

Since in October 2006, HSH Nordbank AG Hong Kong Branch and other financial institutions have entered a debt assignment agreement with Fine Elite in the sum of approximately HK\$256 million and accrued interest subject to certain conditions precedent. Pursuant to the Agreement, the debt will not be assigned to third party unless the conditions is fulfilled. Therefore, HSH Nordbank AG Hong Kong Branch and the other financial institutions will not take any further legal action at the current stage. As at the date of this report, the liability of the Company to repay the Debt has been unchanged.

INDEBTEDNESS

As at the close of business on 31 August 2007, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this document, the Group had the following indebtedness.

Borrowings

As at 31 August 2007, the Group had outstanding borrowings of approximately HK\$331,329,000 comprising the followings.

	<i>HK\$</i>
(a) Short-term unsecured other loans	2,381,000
(b) Unsecured amount due to a director	198,000
(c) Unsecured amount due to Mr. Kan Che Kin, Billy Albert	328,750,000
	<hr/>
	331,329,000
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Contingent liabilities

As at 31 August 2007, the Group did not have any significant contingent liabilities.

Commitments

As at 31 August 2007, the Group had capital commitments in respect of the establishment of a joint venture in which the Group will invest approximately HK\$39,000,000 to develop distributing channel of internet protocol television in the PRC.

Save as disclosed above, as at the close of business on 31 August 2007, the Group did not have any bank overdrafts or loans, or other similar indebtedness, mortgages, charges, hire purchase commitments, or guarantees or other material contingent liabilities.

MATERIAL CHANGES

As at the Latest Practicable Date, the Board was aware of the following material changes in the financial or trading position or outlook subsequent to 31 December 2005, being the date to which the latest audited financial statements of the Group were made up:

Trading operation

As stated in the 2006 interim report of the Group, the Group was adversely affected by the lack of working capital from banks and a major supplier to finance the trading operation since February 2006. As a result, the scale of the Group's trading operation has been reduced and the level of turnover dropped substantially after 31 December 2005.

During the period ended 30 June 2006, turnover of the Group amounted to approximately HK\$32.3 million, representing a decrease of approximately 96.2% as compared to the same period in 2005. Gross profit during the six months ended 30 June 2006 amounted to HK\$9.1 million, representing a decrease of 78.6% as compared to the same period in 2005. Products traded by the Group remain to be computer, multimedia and related components while the geographic focus has been directed principally to mainland China.

As stated in the paragraph headed "Litigation" below, certain bankers and Intel, previously a major supplier of the Group, took legal actions against the Group during 2006 due to the Group's default in repayment of certain bank borrowings and trade payables. The Group's ability to make purchases from Intel had been substantially impaired and the Group ceased its trading relationship with Intel since January 2006. Instead, the Company had been sourcing products from new suppliers to maintain its business of distribution of computer components and information technology products.

As disclosed in the 2005 annual report, the Group has made substantial provisions for doubtful debts due to the aging of debtors balances. The situation has not improved after 31 December 2005 and substantially all of the debtors balances as at 31 December 2005 remained unsettled as at the Latest Practicable Date. To maintain its trading business, the Group has been soliciting new customers after 31 December 2005 and offers shorter credit period in order to control credit risks. In addition, due to the fast changing market demand for computer components, most of the Group's inventories as at 31 December 2005 became obsolete and there had been insignificant movement in these inventory items after 31 December 2005. With a view to minimising inventory obsolescence and reducing stock holding costs, starting from 2007, the Group conducts its trading business mostly on an indent basis and products are purchased to meet specific sales orders.

Litigation

- (a) On 11 July 2006 and 16 August 2006, Intel, a major supplier of the Group, made a statutory demand against the Group claiming the Intel Debt. In December 2006, the Company, Intel and Fine Elite Limited ("Fine Elite") (which are third parties independent of the Group) entered into a deed of assignment and a settlement deed for the Intel Debt subject to certain conditions precedent. These deed of assignment and settlement deed were subsequently terminated as the aforementioned conditions could not be met. The Intel Debt was subsequently acquired by the Offeror following the completion of the debt restructuring as detailed in the paragraph headed "Debt restructuring" below.
- (b) Two former employees of the Company brought claims (numbered LBTC 4162/2006 and LBTC4919/2006) against the Company at the Labour Tribunal claiming arrears of payroll. In accordance with the decision made by the Labour Tribunal on 8 September 2006 and 18 September 2006, the Company was ordered to make payment in an aggregate amount of approximately HK\$250,000 to the first employee and in accordance with the decision made by the Labour Tribunal on 24 October 2006, the Company was ordered to make payment of approximately HK\$42,000 to the second employee. As at the Latest Practicable Date, the claims had not been fully settled.

- (c) On 29 September 2006, A.Plus Financial Press Limited (“A.Plus”) brought an action in District Court (numbered DCCJ4897/2006) against the Company claiming the outstanding payable arising from provision of services to the Company together with the overdue interest charged thereon totalling of approximately HK\$299,000. On 6 December 2006, the Company received a Statutory Demand pursuant to Section 327(4)(a) of the Companies Ordinance by A.Plus claiming the aforementioned payable and interest due aggregating approximately HK\$334,000. On 15 November 2006, judgment was made against the Company. As at the Latest Practicable Date, the claim had not been fully settled.
- (d) On 4 October 2006, International Trademart Company Limited brought an action in the High Court under HCA221/2006 against Artel Industries claiming the outstanding rent and other charges of approximately HK\$120,000 together with the overdue interest charged thereon. The claim has not been settled as at the Latest Practicable Date.
- (e) On 7 September 2006, the Company received a petition for winding up of the Company (the “Petition”) dated 5 September 2006 by HSH Nordbank AG, Hong Kong Branch (the “Petitioner”), due to the reason that the Company was unable to repay the outstanding debts of approximately US\$8,807,000 owed by two subsidiaries for which the Company act as a guarantor. On the same day, the Company also received a summons dated 6 September 2006 for an application by the Petitioner to appoint provisional liquidators of the Company. The hearing was scheduled for 1 November 2006. The application for appointment of provisional liquidators was subsequently withdrawn on 19 September 2006 by way of consent summons between the parties.

On 1 November 2006, immediately before the hearing for the Petition, the solicitors for both the Petitioner and the Company signed the consent summons (the “Consent Summons”) for dismissal of the Petition. However, as the Petition had already been advertised, the Master hearing the Petition did not have jurisdiction to order a dismissal of the Petition and had to adjourn the case to 6 November 2006 before the Companies Judge. On 6 November 2006, upon the agreement of the Company and the Petitioner, and there being no objecting creditors, the Companies Judge ordered the Petition to be dismissed and an order had been sealed on 10 November 2006.

The reason of dismissal was that the Petitioner, one of the creditors of the Company, has entered into a debt assignment agreement with Fine Elite to assign the debt in the sum of approximately US\$9 million owed by the Company to the Petitioner subject to certain conditions precedent including but not limited to the resumption in trading in the Shares. The Company had not entered into any term or arrangement with Fine Elite and the Company had not given any security or guarantee to the Petitioner over the debt.

In November 2006, the Bank Creditors entered into a debt acquisition agreement with Fine Elite pursuant to which each of the Bank Creditors agreed to assign all its right, title, interest and benefit in the Bank Debts and all other rights under the corresponding loan documents owed by Artel Macao and Artel Industries to Fine Elite subject to certain conditions precedent. The debt acquisition agreement was subsequently terminated as those conditions could not be met. The Bank Debts were subsequently acquired by the Offeror following the completion of the debt restructuring as detailed in the paragraph headed "Debt restructuring" below.

Debt restructuring

On 31 August 2007, the Company was informed by the Offeror that he had acquired the Bank Debts (with an aggregate balance of approximately HK\$256 million at as 12 December 2005) from the Bank Creditors by way of assignment for a consideration of HK\$30,300,000. On 5 September 2007, the Company was informed by the Offeror that he had acquired the Intel Debt (with a balance of approximately US\$7,567,165 as at 5 September 2006) from Intel by way of assignment for a consideration of US\$840,000 (equivalent to approximately HK\$6,552,000).

Assets position

As discussed above, in view of the fact that substantially all of the Group's debtors balances as at 31 December 2005 remained unsettled as at the Latest Practicable Date, the Group's inventories as at 31 December 2005 may have been obsolete due to the fast changing market demand for computer components and the recent relocation of the Group's principal place of business, the Directors will consider if provisions against the balances of the Group's debtors, inventories and furniture, fixtures and equipment are required for the purpose of preparing the Company's audited financial statements for the year ended 31 December 2006.

Cash and working capital position

The Group had pledged bank deposits and bank balances and cash of approximately HK\$51.5 million in total as at 31 December 2005. Due to the deterioration in the trading business of the Group, the cash balances of the Group reduced significantly after 31 December 2005. As at 30 June 2006, cash balance of the Group dropped significantly to approximately HK\$1.2 million. Due to the lack of working capital from bank and major supplier since February 2006, the Group currently finances its operations by the cashflow generated from its trading business as well as an interest-free loan from the Offeror.

1. RESPONSIBILITY STATEMENT

This Composite Document includes particulars given in compliance with the Takeovers Code for the purpose of providing information to the Independent Shareholders and the Optionholders with regards to the Group and the Offers.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this Composite Document (other than information relating to the Offeror, his associates or parties acting in concert with him) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Composite Document (other than information relating to the Offeror, his associates or parties acting in concert with him) have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document (other than information relating to the Offeror, his associates or parties acting in concert with him) the omission of which would make any statement in this Composite Document misleading.

The Offeror accepts full responsibility for the accuracy of the information contained in this Composite Document (other than those information relating to the Group, the Vendor and Mr. Yu) and confirms, having made all reasonable enquiries, that to the best of his knowledge, opinions expressed in this Composite Document (other than those information relating to the Group, the Vendor and Mr. Yu) have been arrived at after due and careful consideration and there are no other facts (other than those information relating to the Group, the Vendor and Mr. Yu) not contained in this Composite Document the omission of which would make any statement in this Composite Document misleading.

2. SHARE CAPITAL

As at the Latest Practicable Date, the authorised and issued share capital of the Company were as follows:

	Number of Shares	HK\$
Authorised:	<u>10,000,000,000</u>	<u>100,000,000.00</u>
Issued and fully paid or credited as fully paid:	<u>1,600,000,000</u>	<u>16,000,000.00</u>

All of the Shares currently in issue rank pari passu in all respects with each other, including, in particular, as to dividends, voting rights and return of capital.

No Shares have been issued since 31 December 2005 (being the date to which the latest published audited consolidated financial statements of the Company were made up) up to and including the Latest Practicable Date.

Save for the outstanding Share Options entitling the holders to subscribe for an aggregate of 114,095,000 Shares, the Company did not have any outstanding options, warrants or other securities carrying rights of conversion into or exchange or subscription for the Shares as at the Latest Practicable Date.

3. DISCLOSURE OF INTERESTS

(i) Director's interests and short positions in the securities of the Company and its associated corporations

As at the Latest Practicable Date, none of the Directors or the chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they have taken or deemed to have taken under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules.

(ii) Substantial Shareholders and persons having 5% or more interests in securities of the Company

So far as is known to the Directors and the chief executives of the Company, as at the Latest Practicable Date, the following persons (not being Directors or chief executives of the Company) had, an interest or a short position in the Shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had any options in respect of such shares:

Long positions

Name of shareholder	Name of member of the Group	Capacity	Number of shares held	Approximate percentage of the existing issued share capital of that member of the Group
The Offeror	The Company	Beneficial owner	1,200,000,000 Shares	75%
Kan Kung Chuen Lai	The Company	Interest of Spouse (<i>Note</i>)	1,200,000,000 Shares	75%
Futac Technologies Limited	Artel Futac Technologies Limited	Beneficial owner	4,900 shares of HK\$1.00 each	49%
Golden Safe Holdings Group Limited	China Artel Golden Safe Digital Leasing Holdings Limited	Beneficial owner	25,000 shares of US\$1.00 each	50%

Note: Mrs. Kan Kung Chuen Lai is the spouse of the Offeror. Therefore, she is deemed to be interested in the 1,200,000,000 Shares held by the Offeror pursuant to the SFO.

Save as disclosed above, as at the Latest Practicable Date, so far as was known to the Directors, no person (other than a Director or chief executive of the Company) had any interest or short position in the Shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or who had any options in respect of such capital.

Save as disclosed, none of the Offeror and parties acting in concert with him had any interest in the securities, convertible securities, warrants, options and derivatives of the Company as at the Latest Practicable Date.

(iii) Other interests in the Company

As at the Latest Practicable Date,

- (a) no subsidiary of the Company, or pension fund of the Company or of any member of the Group, owned or controlled any securities, convertible securities, warrants, options and derivatives of the Company;
- (b) no Shares, convertible securities, warrants, options or derivatives of the Company was managed on a discretionary basis by fund managers (other than exempted fund managers) connected with the Company;
- (c) none of the professional advisers named under the section headed "Experts and consents" in this Appendix or any adviser to the Company as specified in class (2) of the definition of "associate" under the Takeovers Code owned or controlled any securities, convertible securities, warrants, options and derivatives of the Company;
- (d) no person, who had an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Offeror or party acting in concert with him, owned or controlled any interest in any securities, convertible securities, warrants, options and derivatives of the Company; and
- (e) no person who had an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of "associate" under the Takeovers Code owned or controlled any of the securities, convertible securities, warrants, options and derivatives of the Company in respect of any of them.

4. DEALINGS IN SECURITIES

During the period beginning six months prior to the date of the Announcement (being the commencement date of the Offers period pursuant to the Takeovers Code) up to and including the Latest Practicable Date,

- (i) save for the Acquisition, neither the Company nor any of the Directors had dealt for value in the securities, convertible securities, warrants, options and derivatives of the Company;
- (ii) none of the subsidiaries of the Company, nor any pension fund of the Company or of any members of the Group, had dealt for value in any securities, convertible securities, warrants, options and derivatives of the Company;

- (iii) CIMB-GK as the financial adviser to the Offeror, being an associate of the Offeror as specified in class (2) of the definition of “associate” under the Takeovers Code, had not dealt for value in any securities, convertible securities, warrants, options and derivatives of the Company;
- (iv) none of the professional advisers named under the section headed “Experts and consents” in this Appendix and as specified in class (2) of the definition of “associate” under the Takeovers Code had dealt for value in any securities, convertible securities, warrants, options and derivatives of the Company;
- (v) no person who had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any of its associates by virtue of classes (1), (2), (3) and (4) of the definition of “associate” under the Takeovers Code had dealt for value in any securities, convertible securities, warrants, options and derivatives of the Company;
- (vi) save for the Acquisition, none of the Offeror, the parties acting in concert with him or persons who had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Offeror or with any parties acting in concert with him had dealt for value in any securities, convertible securities, warrants, options and derivatives of the Company; and
- (vii) no fund managers (other than exempted fund managers) who managed funds on a discretionary basis or connected with the Company had dealt for value in any securities, convertible securities, warrants, options and derivatives of the Company.

5. ARRANGEMENT IN CONNECTION WITH THE OFFERS

As at the Latest Practicable Date,

- (i) there was no agreement, arrangement or understanding existed whereby any securities to be acquired pursuant to the Offers will be transferred, charged or pledged to any other persons;
- (ii) save for the Sale and Purchase Agreement, there was no agreement, arrangement or understanding (including any compensation arrangement) existed between the Offeror or any parties acting in concert with him and any of the Directors, recent Directors, Shareholders or recent Shareholders having any connection with or dependence upon the Offers;
- (iii) there was no agreement or arrangement to which the Offeror was a party which related to the circumstances in which it might or might not invoke or seek to invoke a condition to the Offers;

- (iv) none of the Offeror or parties acting in concert with him had any arrangements with any persons of the kind referred to in Note 8 to Rule 22 of the Takeovers Code; and
- (v) there was no arrangement to which the Offeror was a party (whether by way of option, indemnity or otherwise) in relation to the Shares and which might be material to the Offers.

6. MARKET PRICES

Trading in the Shares on the Stock Exchange has been suspended since 7 September 2006 pending the release of an announcement regarding price sensitive information and will remain suspended until further notice. In this regard, no reference is made to the closing prices per Share as quoted on the Stock Exchange on the last Business Day in each of the calendar months during the period commencing six months preceding the date of the Announcement and ending on the Latest Practicable Date. The closing price per Share as at 6 September 2006, being the full trading day immediately prior to the suspension of trading in Shares on the Stock Exchange, was HK\$0.037.

7. MATERIAL CONTRACTS

No material contract was entered into by the Company or its subsidiaries which was not in the ordinary course of business carried on or intended to be carried on by the Group in the two years immediately preceding the date of the Announcement and up to and including the Latest Practicable Date.

8. ARRANGEMENT AFFECTING DIRECTORS

As at the Latest Practicable Date,

- (i) no benefit (other than statutory compensation) would be given to any Director as compensation for loss of office or otherwise in connection with the Offers;
- (ii) save for the Sale and Purchase Agreement, no agreement or arrangement was entered into between any Director and any other person which was conditional on or dependent upon the outcome of the Offers or was otherwise connected with the Offers; and
- (iii) save for the Sale and Purchase Agreement, no material contract was entered into by the Offeror in which any Director had a material personal interest.

9. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any service contracts with the Company or any of its subsidiaries or associated companies in force which (i) (including both continuous and fixed terms contracts) were entered into or amended within six months before the date of the Announcement; (ii) were continuous contracts with a notice period of 12 months or more; or (iii) were fixed term contracts with more than 12 months to run irrespective of the notice period.

10. LITIGATION

As at the Latest Practicable Date, the Company was not engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened against the Company.

11. EXPERTS AND CONSENTS

The following are the qualifications of the experts who have given an opinion or advice on the information contained in this Composite Document:

Name	Qualifications
CIMB-GK	a corporation licensed to carry on Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
Optima Capital	a corporation licensed to carry on Type 6 (advising on corporate finance) regulated activities under the SFO

Each of CIMB-GK and Optimal Capital has given and has not withdrawn its written consent to the issue of this Composite Document with the inclusion of its letter and/or reference to its name in the form and context in which it respectively appears herein.

12. GENERAL

- (a) As at the Latest Practicable Date, no person had irrevocably committed himself to accept or reject the Offers.
- (b) The correspondence address of Mr. Kan Che Kin, Billy Albert (being the Offeror) is at Flat 18, 1/F, Flourish Industrial Building, 33 Sheung Yee Road, Kowloon Bay, Hong Kong.
- (c) The registered office of E-Career Investments Limited is at P. O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands.

- (d) The correspondence address of Mr. Yu is at Flat 18, 1/F, Flourish Industrial Building, 33 Sheung Yee Road, Kowloon Bay, Hong Kong.
- (e) The registered office of CIMB-GK is at 25/F, Central Tower, 28 Queen's Road Central, Hong Kong.
- (f) The registered office of Optima Capital is at Unit 3618, 36th Floor, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong.
- (g) The Company's branch share registrar in Hong Kong is Tricor Standard Limited, situated at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.
- (h) The English text of this Composite Document and the Forms of Acceptance shall prevail over the Chinese text in the case of inconsistency.

13. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be made available for inspection at the principal place of business of the Company at Flat 18, 1/F, Flourish Industrial Building, 33 Sheung Yee Road, Kowloon Bay, Hong Kong during normal business hours from 9:00 a.m. to 6:00 p.m. on any Business Day; and will also be displayed on the websites of the Company (www.finance.thestandard.com.hk/en/0931artelsolutions/index.asp) and the SFC (www.sfc.hk) until (and including) the Closing Date:

- (a) the memorandum and articles of associations of the Company;
- (b) the annual reports of the Company for the two years ended 31 December 2005 and the interim report of the Company for the six months ended 30 June 2006;
- (c) the letter from CIMB-GK, the text of which is set out on pages 5 to 12 of this Composite Document;
- (d) the letter from the independent non-executive Director, the text of which is set out on pages 20 to 21 of this Composite Document;
- (e) the letter from Optima Capital, the text of which is set out on pages 22 to 36 of this Composite Document; and
- (f) the written consents from the experts referred to in the section headed "Experts and consents" in this Appendix.