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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)

**ANNOUNCEMENT OF INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2010**

The board (the "Board") of directors (the "Directors") of Artel Solutions Group Holdings Limited (the "Company") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2010 (the "Period") together with the comparative figures for the previous corresponding period prepared in accordance with generally accepted accounting principles in Hong Kong as follows:

* For identification purposes only

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

For the six months ended 30 June 2010

		Six months ended 30 June	
	Notes	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Revenue from distribution of computer components and information technology products	3	2,885	260
Cost of revenue		(2,797)	(236)
		88	24
Dividend income from held for trading investments	3	359	3,510
Gain on disposal of held for trading investments	3	438	–
Gain/(loss) on fair value changes on held for trading investments	3	1,112	(4,536)
Gross profit/(loss)		1,997	(1,002)
Other income		76	269
Administrative expenses		(1,913)	(1,373)
Interests on unsecured other loans		(147)	(147)
Profit/(loss) before taxation	4	13	(2,253)
Taxation	5	–	–
Profit/(loss) for the period attributable to equity shareholders of the Company		13	(2,253)
Other comprehensive loss for the period (after tax)			
Exchange difference arising on translation of foreign operation before and after tax effects		(18)	(16)
Total comprehensive loss for the period attributable to equity shareholders of the Company		(5)	(2,269)
Earnings/(loss) per share (HK cents)	7		
– Basic		0.0003	(0.0810)
– Diluted		0.0001	NA

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2010

	Note	30 June 2010 (Unaudited) HK\$'000	31 December 2009 (Audited) HK\$'000
Non-current asset			
Plant and equipment		503	579
Current assets			
Held for trading investments		8,571	5,049
Prepayments and deposits		1,090	1,337
Bank balances and cash		234,287	31,466
		243,948	37,852
Current liabilities			
Trade payables, accrued charges and other payables	8	14,359	11,569
Unsecured other loans		2,031	2,031
		16,390	13,600
Net current assets		227,558	24,252
Net assets		228,061	24,831
Capital and reserves			
Share capital		50,334	46,334
Reserves		177,727	(21,503)
Shareholders' funds		228,061	24,831

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Preparation

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

2. Significant Accounting Policies

The condensed consolidated financial statements have been prepared using the historical cost basis as modified by the revaluation of held for trading investments.

A number of new or revised standards, amendments and interpretations (hereinafter collectively referred to as "Hong Kong Financial Reporting Standards") are effective for the financial year beginning on 1 January 2010. Except as described below, the same accounting policies, presentation and methods of computation have been followed in these condensed consolidated financial statements as were applied in the preparation of the Group's annual audited consolidated financial statements for the year ended 31 December 2009.

In the current period, the Group initially applied the following Hong Kong Financial Reporting Standards:—

HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards
HKFRS 3 (Revised)	Business Combinations
HK(IFRIC) – Int 17	Distributions of Non-Cash Assets to Owners
Amendments to HKAS 39	Eligible Hedged items
Amendments to HKFRS 1	Additional Exemptions for First-time Adopters
Amendments to HKFRS 2	Group Cash-settled Share-based Payment Transactions
Amendments to HKFRSs 2008	Amendments to HKFRS 5 as part of Improvements to HKFRSs 2008
Amendments to HKFRSs 2009	Improvements to HKFRSs 2009

The adoption of these new and revised Hong Kong Financial Reporting Standards had no material effect on the results and financial position of the Group for the current and/or prior accounting periods. Accordingly, no prior period adjustment has been required.

2. Significant Accounting Policies (continued)

The following new or revised standards, amendments and interpretations in issue as at the date of authorisation of these condensed consolidated financial statements have not been applied in the preparation of the Group's condensed consolidated financial statements for the Period since they were not yet effective for the annual period beginning on 1 January 2010:–

HKAS 24 (Revised)	Related Party Disclosures ¹
HKFRS 9	Financial Instruments ²
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments ³
Amendments to HKAS 32	Classification of Rights Issues ⁴
Amendments to HKFRS 1	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters ³
Amendments to HK(IFRIC) – Int 14	Prepayments of a Minimum Funding Requirement ¹
HKFRSs (Amendments)	Improvements to HKFRSs 2010 ⁵

¹ Effective for annual periods beginning on or after 1 January 2011

² Effective for annual periods beginning on or after 1 January 2013

³ Effective for annual periods beginning on or after 1 July 2010

⁴ Effective for annual periods beginning on or after 1 February 2010

⁵ Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate

The Directors anticipate that the application of these standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. Turnover and Segment Information

The Group's turnover represents the aggregate of the net amounts received and receivable for goods sold to outside customers, less returns and allowance, net realised and unrealised gains or losses from trading of securities and dividend income from held for trading investments, and is analysed as follows:–

	Six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Revenue from distribution of computer components and information technology products	2,885	260
Gain on disposal of held for trading investments	438	–
Gain/(loss) on fair value changes on held for trading investments	1,112	(4,536)
Dividend income from held for trading investments	359	3,510
	4,794	(766)

For management purposes, the Group is organised into two operating divisions. These divisions are the basis on which the Group reports its segment information.

Principal activities are as follows :–

- Distribution of computer components and information technology products
- Trading of securities

Segment revenue, expenses and results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue and expenses are determined before intragroup transactions are eliminated as part of the consolidation process, except to the extent that such intra-group transactions are between group enterprises within a single segment. Unallocated items comprise corporate and financial expenses. This is the measure reported to the Group's management for the purposes of resource allocation and assessment of segment performance.

3. Turnover and Segment Information (continued)

The measure used for reporting segment result is "adjusted EBIT" i.e. adjusted earnings before interest and taxes. To arrive at adjusted EBIT, the Group's earnings are further adjusted for items not specifically attributed to individual segments, such as other head office or corporate administration costs.

	Distribution of computer components and information technology products		Trading of securities		Consolidated	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2010	2009	2010	2009	2010	2009
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER						
External	2,885	260	1,909	(1,026)	4,794	(766)
RESULTS						
Segment results	(46)	(395)	1,780	(1,043)	1,734	(1,438)
Other unallocated income					76	269
Unallocated corporate expenses					(1,650)	(937)
Finance costs					(147)	(147)
Profit/(loss) before taxation					13	(2,253)
Taxation					-	-
Profit/(loss) for the period					13	(2,253)

The Group's operations are located in Hong Kong during both periods.

During the Period, the Group has only one customer (2009: one).

4. Profit/(Loss) Before Taxation

	Six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Profit/(loss) before taxation has been arrived at after charging/(crediting):–		
Depreciation of plant and equipment	76	1
Interest income	(73)	(46)

5. Taxation

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

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 Period (2009: Nil).

7. Earnings/(Loss) Per Share

The calculation of basic earnings/(loss) per share of the Company (the "Share") attributable to equity shareholders of the Company for the Period is based on the profit for the Period of HK\$13,000 (2009: loss of HK\$2,253,000) and the weighted average number of 4,812,423,606 (2009: 2,781,587,434) Shares in issue.

The calculation of diluted earnings per Share attributable to equity shareholders of the Company for the Period is based on the profit for the Period of HK\$13,000 and the weighted average number of 11,055,946,922 Shares. Diluted loss per Share has not been calculated for the preceding period as the exercise of the outstanding convertible notes would result in a decrease in the loss per Share.

8. Trade Payables, Accrued Charges and Other Payables

The aged analysis of trade payables as at 30 June 2010 and 31 December 2009 is as follows:–

	30 June	31 December
	2010	2009
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Trade payables aged over 1 year	6,783	6,765
Accrued charges and other payables	7,576	4,804
	14,359	11,569

9. Convertible Notes

On 15 January 2008, the Company and Mr. Kan Che Kin, Billy Albert ("Mr. Kan"), an executive Director and the substantial shareholder of the Company, entered into a subscription agreement (the "Subscription Agreement") pursuant to which the Company had conditionally agreed to issue and Mr. Kan had conditionally agreed to subscribe for the zero-coupon and non-redeemable convertible notes (the "Convertible Notes") of the Company in an aggregate principal amount of HK\$358 million. The conversion price is HK\$0.0386 per Share. Assuming that the conversion rights attaching to the Convertible Notes are exercised in full at the conversion price of HK\$0.0386 per Share, an aggregate of 9,274,611,398 Shares will be issued.

Completion of the Subscription Agreement took place on 13 February 2008 and the Convertible Notes were issued by the Company to Mr. Kan pursuant to the Subscription Agreement on the same date. The subscription price of the Convertible Notes of HK\$358 million was satisfied in part of approximately HK\$318 million by setting off the full amount of (i) the bank overdraft and borrowings of approximately HK\$256 million and the debt of approximately HK\$59 million due to a supplier which had been assigned to Mr. Kan; and (ii) the loan of approximately HK\$3 million advanced by Mr. Kan, against such amount of the subscription price of the Convertible Notes on a dollar for dollar basis. The remaining balance of the subscription price of approximately HK\$40 million was settled in cash, which was used as general working capital of the Group. The maturity date of the conversion rights attaching to the Conversion Notes is 13 February 2013, being the date falling on the fifth anniversary from the date of issue of the Convertible Notes. In the event the compulsory conversion of the outstanding principal amount of the Convertible Notes on the maturity date would render the then issued Shares held in the public hands being less than the minimum public float as required under the Listing Rules from time to time, the Convertible Notes will be renewed automatically for successive term of one year commencing the day next after the expiry of the then current term of the Convertible Notes.

The outstanding principal amount of the Convertible Notes as at 1 January 2009 was HK\$318,000,000. On 4 June 2009 and 22 June 2009, Mr. Kan exercised the conversion rights attaching to the Convertible Notes in relation to the conversion of an aggregate principal amount of HK\$17,000,000 and HK\$60,000,000 of the Convertible Notes respectively and an aggregate of 440,414,507 Shares and 1,554,404,145 Shares were allotted and issued to Mr. Kan respectively.

The outstanding principal amount of the Convertible Notes as at 1 January 2010 was HK\$241,000,000. There was no conversion during the Period and the outstanding principal amount of the Convertible Notes as at 30 June 2010 was HK\$241,000,000.

10. Capital Commitments

On 3 February 2010, the Company entered into the joint venture agreement (the "JV Agreement") with the joint venture partners (the "JV Partners"), 山西蘭花煤炭實業集團有限公司 (Shanxilanhua Coal Industrial Group Co. Ltd.) ("Shanxilanhua"), a company established in the People's Republic of China ("PRC") and Deluxe Full Holdings Limited ("Deluxe"), a company incorporated in the British Virgin Islands and wholly owned by Mr. Li Kai Yien, Arthur Albert, an executive Director, to set up the joint venture company (the "JV Company") in the PRC. The JV Company will be principally engaged in the manufacturing and operating of gangue, and investment in projects in relation to the coal, coke and coal chemical industry.

The JV Company will have an initial registered capital of RMB10 million (equivalent to approximately HK\$11.4 million), among which, the Company shall contribute RMB4.7 million (equivalent to approximately HK\$5.4 million) in cash, representing 47% equity interest of the JV Company, Shanxilanhua shall contribute RMB4.8 million (equivalent to approximately HK\$5.5 million) in cash, representing 48% equity interest of the JV Company, and Deluxe shall contribute RMB0.5 million (equivalent to approximately HK\$0.6 million) in cash, representing 5% equity interest of the JV Company. The total investment amount of the JV Company is RMB14.28 million (equivalent to approximately HK\$16.28 million) and shall be contributed by the Company and the JV Partners in proportion to their respective interest in the JV Company. Parties to the JV Agreement shall make their respective capital contribution within 30 days after the JV Company obtains its business license. As at 30 June 2010, the JV Company did not yet obtain its business license.

MANAGEMENT DISCUSSION AND ANALYSIS

Business and financial review

Although the result of the Group from distribution of computer components and information technology products was seriously affected by the global financial crisis last year, during the Period, the Company put more effort in trading business by looking for new customers and new products. Therefore, the Group's turnover from trading of computer components and information technology products was approximately HK\$2,885,000 (2009: approximately HK\$260,000), representing an increase of 1010% compared with that of 2009. Besides, the Group also concentrated on the business of trading of securities during the Period. The dividend income and the net realised and unrealised gain from trading of securities during the Period was approximately HK\$1,909,000 (2009: loss of approximately HK\$1,026,000), representing an increase of 286% compared with that of 2009. As a result, the results of the Group changed from a loss of approximately HK\$2,253,000 for the six months ended 30 June 2009 to a net profit of approximately HK\$13,000 for the six months ended 30 June 2010.

Prospects

Besides the business of trading of computer components and information technology products and trading of securities, the Group continued to look for new business opportunities to diversify its business into industries that provide better returns for the shareholders of the Company. The Directors have been focusing to grow the Group by acquisition of energy and resources projects and operations.

On 3 February 2010, the Company entered into the JV Agreement with the JV Partners to set up the JV Company, details of which are set out in Note 10 to this announcement.

On 13 April 2010, the Company completed the placing of 400 million new Shares at the price of HK\$0.52 per Share that raised approximately HK\$203 million, ear-marked for part of the capital investment needs for the energy and resources projects and operations.

On 26 May 2010, the Company entered into a cooperative letter of intent (the "LOI") with 山西蘭花集團莒山煤礦有限公司 (Shanxilanhua Group Ju Shan Coal Mining Co. Ltd) ("Ju Shan"), which was established in the PRC in 1959 and is one of the core members of Shanxilanhua, in respect of the proposed participation of the Company in the capital injection of Ju Shan (the "Capital Injection"). Ju Shan is a state owned enterprise principally engaged in coal manufacturing and processing business in the PRC. Pursuant to the LOI, the Company will invest in Ju Shan after the Company and the existing shareholders of Ju Shan enter into a definitive capital injection agreement (the "Capital Injection Agreement"), subject to the terms and conditions of the Capital Injection Agreement. Pursuant to the LOI, the Company will invest in Ju Shan by way of cash injection after the relevant parties agree with the capital increase plan of Ju Shan. Upon completion of the proposed Capital Injection, the Company will hold a maximum of 49% interest in Ju Shan. As at 30 June 2010, the Company did not yet enter into the Capital Injection Agreement with the existing shareholders of Ju Shan.

The above investments will be financed by Mr. Kan and/or other fund raising activities.

Apart from our continuing search to pursue business scope in coal mining development, the Group is also in negotiations to invest in other oil and gas related projects. The Directors believe that the Group's business will further improve in the future.

Liquidity and financial resources

The Group had total cash and bank balances of approximately HK\$234 million as at 30 June 2010 (31 December 2009: approximately HK\$31 million). Balance of other short-term borrowings was approximately HK\$2 million as at 30 June 2010 (31 December 2009: approximately HK\$2 million). The gearing ratio of the Group as at 30 June 2010 calculated as a ratio of total other loans to total assets was approximately 0.8% (31 December 2009: approximately 5.3%). Net assets were approximately HK\$228 million (31 December 2009: approximately HK\$25 million) as at 30 June 2010.

The Group recorded total current assets value of approximately HK\$244 million as at 30 June 2010 (31 December 2009: approximately HK\$38 million) and total current liabilities value of approximately HK\$16 million (31 December 2009: approximately HK\$14 million). The current ratio of the Group, calculated by dividing the total current assets value by the total current liabilities value, was about 14.9 as at 30 June 2010 (31 December 2009: approximately 2.8).

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2010.

FOREIGN EXCHANGE EXPOSURE

Transactions of the Group were mainly denominated either in Hong Kong dollars or United States dollars. In view of the stability of the exchange rate between these currencies, the Directors did not consider that the Group was significantly exposed to foreign exchange risk for the Period.

TREASURY POLICIES

The Group's major borrowings are in Hong Kong dollars and with fixed interest rates. Bank balances and cash held by the Group were denominated in Hong Kong dollars and United States dollars. The Group currently does not have a foreign currency and interest rate hedging policy. However, the management of the Group monitors foreign exchange and interest rate exposure from time to time and will consider hedging significant foreign currency and interest rate exposure should the need arise.

PLEDGE OF ASSETS

The Group had no pledged assets as at 30 June 2010.

SHARE CAPITAL

As at 30 June 2010, the issued share capital of the Company comprised 5,033,418,081 ordinary Shares of HK\$0.01 each.

SIGNIFICANT INVESTMENTS

During the Period, the Group acquired equity securities listed in Hong Kong of approximately HK\$11,763,000 and disposed part of these listed securities of approximately HK\$9,353,000. As at 30 June 2010, the held for trading investment represented the equity securities listed in Hong Kong at fair value of approximately HK\$8,571,000. The Board will seize the opportunity to dispose these listed securities in future in order to capture the potential gain. Details of the performance of these listed securities are set out in Note 3 to this announcement.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES OR ASSOCIATED COMPANIES

The Group had no material acquisition or disposal of subsidiaries or associated companies during the six months ended 30 June 2010.

SEGMENTAL INFORMATION

Details of segmental information for the six months ended 30 June 2010 are set out in Note 3 to this announcement.

CONTINGENT LIABILITIES

The Group had no significant contingent liabilities as at 30 June 2010.

STAFF AND REMUNERATION POLICIES

As at 30 June 2010, the Group had 7 employees (31 December 2009: 7 employees). The Group's total staff costs amounted to approximately HK\$797,000 (2009: HK\$765,000) for the Period. The Group remunerated its employees mainly based on industry practice and individual's performance and experience.

Apart from the basic remuneration, discretionary bonus and share options may be granted to eligible employees by reference to the Group's performance as well as individual's performance. Other benefits include medical and retirement schemes.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased or sold or redeemed any of the Company's listed securities during the Period.

AUDIT COMMITTEE

The principal responsibilities of the audit committee of the Company (the "Audit Committee") include the review and supervision of the Group's financial reporting process and internal controls. The Audit Committee has reviewed the unaudited condensed consolidated interim results of the Group for the six months ended 30 June 2010.

The Audit Committee currently comprises three independent non-executive Directors, namely Mr. Li Siu Yui, Mr. Ip Woon Lai and Mr. Lee Kong Leong.

CORPORATE GOVERNANCE REPORT

The Company has complied with the code provisions as set out in the Code on Corporate Governance Practices under Appendix 14 to the Listing Rules throughout the six months ended 30 June 2010 except for the following deviations:

1. Under the Code Provision A.2.1, the roles of chairman and chief executive officer should be separate. The positions of chairman and chief executive officer of the Company are held by Mr. Kan. The Board believes that holding of both positions of chairman and chief executive officer by the same person allows more effective planning and execution of business strategies. The Board has full confidence in Mr. Kan and believes that his dual roles will be beneficial to the Group.
2. Under the Code Provisions A.4.1 and A.4.2, non-executive Director should be appointed for a specific term and each Director should be subject to retirement by rotation at least once every three years. The existing independent non-executive Directors are not appointed for specific terms but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the articles of association of the Company at least once every three years.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. Having made specific enquiry of all Directors, they have confirmed that they complied with the required standards as set out in the Model Code during the six months ended 30 June 2010.

On behalf of the Board
Kan Che Kin, Billy Albert
Chairman

Hong Kong, 30 August 2010

As at the date of this announcement, the Board comprises Mr. Kan Che Kin, Billy Albert, Mrs. Kan Kung Chuen Lai, Ms. Li Shu Han, Eleanor Stella and Mr. Li Kai Yien, Arthur Albert, all being the executive Directors and Mr. Li Siu Yui, Mr. Ip Woon Lai and Mr. Lee Kong Leong, all being the independent non-executive Directors.