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 2011

The board (the "Board") of directors (the "Directors") of Artel Solutions Group Holdings Limited (the "Company") announces the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2011 (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:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

For the six months ended 30 June 2011

		Six months ended 30 June	
		2011	2010
	Notes	**(Unaudited)**	(Unaudited)
		HK$'000	*HK$'000*
Revenue from distribution of computer components and information technology products	*3*	**4,914**	2,885
Cost of revenue		**(4,372)**	(2,797)
		542	88
Dividend income from held for trading investments	*3*	**341**	359
Gain on disposal of held for trading investments	*3*	**1,103**	438
(Loss)/gain on fair value changes on held for trading investments	*3*	**(864)**	1,112
Gross profit		**1,122**	1,997
Other income		**686**	76
Administrative expenses		**(2,082)**	(1,913)
Interests on unsecured other loans		**(147)**	(147)
(Loss)/profit before taxation	*4*	**(421)**	13
Taxation	*5*	**–**	–
(Loss)/profit for the period attributable to equity shareholders of the Company		**(421)**	13
Other comprehensive loss for the period (after tax)			
Exchange difference arising on translation of foreign operations before and after tax effects		**(47)**	(18)
Total comprehensive loss for the period attributable to equity shareholders of the Company		**(468)**	(5)
(Loss)/earnings per share (HK cents)	*7*		
– Basic		**(0.0084)**	0.0003
– Diluted		**N/A**	0.0001

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2011

	Notes	As at 30 June 2011 (Unaudited) HK$'000	As at 31 December 2010 (Audited) HK$'000
Non-current assets			
Plant and equipment		**353**	429
Deposits for acquisition of investment properties		**7,244**	–
		7,597	429
Current assets			
Held for trading investments		**17,739**	9,288
Trade receivables, prepayments and deposits	*8*	**2,447**	1,443
Bank balances and cash		**220,183**	235,776
		240,369	246,507
Current liabilities			
Trade payables, accrued charges and other payables	*9*	**13,180**	11,682
Unsecured other loans		**2,031**	2,031
		15,211	13,713
Net current assets		**225,158**	232,794
Net assets		**232,755**	233,223
Capital and reserves			
Share capital		**50,334**	50,334
Reserves		**182,421**	182,889
Shareholders' funds		**232,755**	233,223

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.

The accounting policies are adopted consistently with those followed in the preparation of the Group's annual audited consolidated financial statements for the year ended 31 December 2010.

In the current period, the Group initially applied the following new or revised standards, amendments and interpretations (hereinafter collectively referred to as "Hong Kong Financial Reporting Standards"):–

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

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.

The Group has not applied the new or revised Hong Kong Financial Reporting Standards that have been issued but were not yet effective for the accounting period of these financial statements. 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	
	2011	2010
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Revenue from distribution of computer components and information technology products	**4,914**	2,885
Dividend income from held for trading investments	**341**	359
Gain on disposal of held for trading investments	**1,103**	438
(Loss)/gain on fair value changes on held for trading investments	**(864)**	1,112
	5,494	4,794

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 intra-group transactions and are eliminated as part of the consolidated 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.

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.

Segment information about the aforementioned businesses is set out below:–

	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	
	2011	2010	**2011**	2010	**2011**	2010
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)	**(unaudited)**	(unaudited)
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
TURNOVER						
External	**4,914**	2,885	**580**	1,909	**5,494**	4,794
RESULT						
Segment result	**424**	(46)	**359**	1,780	**783**	1,734
Other operating income					**686**	76
Unallocated corporate expenses					**(1,743)**	(1,650)
Finance costs					**(147)**	(147)
(Loss)/profit before taxation					**(421)**	13
Taxation					**–**	–
(Loss)/profit for the period					**(421)**	13

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

During the Period, the Group has only one customer (2010: one).

4. (LOSS)/PROFIT BEFORE TAXATION

	Six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
(Loss)/profit before taxation has been arrived at after charging/(crediting):–		
Depreciation of plant and equipment	**76**	76
Interest income	**(685)**	(73)

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 (2010: Nil).

7. (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share of the Company (the "Share") attributable to equity shareholders of the Company for the Period is based on the loss for the Period of approximately HK$421,000 (2010: profit of approximately HK$13,000) and the weighted average number of 5,033,418,081 (2010: 4,812,423,606) Shares in issue.

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

8. TRADE RECEIVABLES, PREPAYMENTS AND DEPOSITS

	As at 30 June 2011 (Unaudited) ***HK$'000***	As at 31 December 2010 (Audited) *HK$'000*
Trade receivables	**1,306**	106
Prepayment and deposits	**1,141**	1,337
	2,447	1,443

The Group allows its trade customers with a credit period normally ranging from cash on delivery to 30 days. The trade receivables of approximately HK$1,306,000 were not past due as at 30 June 2011 (31 December 2010: approximately HK$106,000 past due within 60 days but not impaired).

For the year ended 31 December 2010, trade receivables that were past due but not impaired were related to the customer that had a good track record with the Group. Based on the past experience, management believed that no impairment allowance was necessary in respect of these balances as there had not been a significant change in credit quality and the balances were considered fully recoverable. The Group did not hold any collateral over the balances.

9. TRADE PAYABLES, ACCRUED CHARGES AND OTHER PAYABLES

The aged analysis of trade payables as at 30 June 2011 and 31 December 2010 is as follows:–

	As at 30 June 2011 (Unaudited) ***HK$'000***	As at 31 December 2010 (Audited) *HK$'000*
Trade payables	**8,060**	6,851
Accrued charges and other payables	**5,120**	4,831
	13,180	11,682

Except for the trade payables of approximately HK$1,162,000 (31 December 2010: Nil) which were not past due as at 30 June 2011, all other trade payables were past due over 1 year.

10. 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.

There was no conversion during both periods and the outstanding principal amount of the Convertible Notes as at 1 January 2010, 30 June 2010, 1 January 2011 and 30 June 2011 was HK$241,000,000.

11. CAPITAL COMMITMENTS

As at 30 June 2011, the Company had capital commitments in respect of acquisition of investment properties, which were contracted but not provided for, of approximately HK$68,620,000, in which, the capital commitment of HK$19.5 million was related to a property purchased from a connected person of the Company, BK Capital Limited ("BK Capital"), of which 999,999 issued shares were held by Mr. Kan and the remaining one issued share was held by Mrs. Kan Kung Chuen Lai, an executive Director. Therefore, the transaction constituted a connected transaction of the Company under the Listing Rules.

MANAGEMENT DISCUSSION AND ANALYSIS

Business and Financial Review

For the six months ended 30 June 2011, the turnover of the Group was approximately HK$5.5 million, being 14.6% higher than the turnover of approximately HK$4.8 million for the previous corresponding period. The increase in turnover was mainly resulted from the increase in sale of computer components and information technology products. Turnover generated from the trading business increased by 70.3% to approximately HK$4.9 million as compared with the turnover of approximately HK$2.9 million for the previous corresponding period. Resulting from the Group's effort in trading business by looking for new products for existing customers, gross profit from the trading business was approximately HK$542,000 for the six months ended 30 June 2011, increased by more than 5 times from the gross profit of approximately HK$88,000 as compared with the previous corresponding period. Moreover, the average gross profit margin for the Period increased to 11% from 3%.

For the business of trading of securities, the turnover of the dividend income and the net realized and unrealized gain from trading of securities for the six months ended 30 June 2011 was decreased from approximately HK$1.9 million to HK$0.6 million, being 69.6% lower than the previous corresponding period. The decrease was mainly attributable to the loss on fair value changes on held for trading investments of approximately HK$0.9 million for the six months ended 30 June 2011 as compared with the gain of approximately HK$1.1 million for the previous corresponding period. After offsetting with the increase in bank interest income of approximately HK$0.6 million for the Period, the results of the Group changed from a net profit of approximately HK$13,000 for the six months ended 30 June 2010 to a loss of approximately HK$421,000 for the six months ended 30 June 2011.

Regarding the two framework agreements (the "Framework Agreements") entered into by the Company with 山西蘭花煤炭實業集團有限公司 (Shanxilanhua Coal Industrial Group Co. Ltd.) ("Shanxilanhua") in relation to the possible acquisition by the Company of approximately 28.01% equity interest in the registered capital of Shanxilanhua, a joint venture agreement entered into between Shanxilanhua, Deluxe Full Holdings Limited and the Company (the "JV Agreement") in respect of the formation of a joint venture in the People's Republic of China and a cooperative letter of intent 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") (the "LOI") in respect of the proposed capital injection in Ju Shan by the Company, during the Period, the Group could not agree with the counterparties of each of the Framework Agreements, the JV Agreement and the LOI on the terms of the respective agreements. Hence, the Group decided not to proceed with the Framework Agreements, the JV Agreement and the LOI.

In order to broaden the income base of the Group, the Directors considered that it was an opportune time to acquire the properties in Hong Kong for investment purpose.

On 5 May 2011, ACE Vantage Investments Limited ("ACE"), a wholly-owned subsidiary of the Company, entered into the provisional agreement for acquisition of a property (the "Central Property") located in Central Mid-levels with a gross floor area of approximately 3,052 square feet, for residential purpose, at a cash consideration of HK$36.8 million, which will be satisfied by internal resources of the Group. The acquisition of the Central Property by ACE was completed on 18 August 2011. The Group is preparing to lease out the Central Property for rental income purpose.

On 27 June 2011, Strong Mix Limited ("Strong Mix"), a wholly-owned subsidiary of the Company, entered into the provisional agreement for acquisition of a property (the "KT Property") located at Kwu Tung, New Territories with a gross floor area of resident unit of approximately 2,811 square feet, for residential purpose, at a cash consideration of HK$18 million, which will be satisfied by internal resources of the Group. The acquisition of the KT Property was completed on 8 August 2011 while on the same date, Strong Mix and the previous owner of the KT Property entered into a tenancy agreement as landlord and tenant respectively of the KT Property with a monthly rental of HK$60,000 for the period from 8 August 2011 to 7 August 2012 both days inclusive.

On 28 June 2011, Smart Look Limited, a wholly-owned subsidiary of the Company, entered into the property acquisition agreement with BK Capital for the purchase of a property (the "RB Property") located at the Repulse Bay with a gross floor area of approximately 1,220 square feet, for residential purpose, at a cash consideration of HK$19.5 million, which will be satisfied by internal resources of the Group. The acquisition of the RB Property will be completed on 28 September 2011. The Group intends to lease out the RB Property for residential purpose upon completion of acquisition of the RB Property. The transaction constituted a connected transaction of the Company under the Listing Rules.

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.

During the Period, the Group acquired the above residential properties for investment purpose. The Directors are optimistic about the long term prospect of residential properties in Hong Kong and of the view that acquisition of the properties in Hong Kong can generate recurring and stable income and can provide capital appreciation potential to the Group.

Liquidity and financial resources

The Group had total cash and bank balances of approximately HK$220 million as at 30 June 2011 (31 December 2010: approximately HK$236 million). Balance of other short-term borrowings was approximately HK$2 million as at 30 June 2011 (31 December 2010: approximately HK$2 million). The gearing ratio of the Group as at 30 June 2011 calculated as a ratio of total other loans to total assets was approximately 0.8% (31 December 2010: approximately 0.8%). Net assets were approximately HK$233 million as at 30 June 2011 (31 December 2010: approximately HK$233 million).

The Group recorded total current assets value of approximately HK$240 million as at 30 June 2011 (31 December 2010: approximately HK$247 million) and total current liabilities value of approximately HK$15 million (31 December 2010: 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 15.8 as at 30 June 2011 (31 December 2010: approximately 18.0).

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2011.

FOREIGN EXCHANGE EXPOSURE

Transactions of the Group were mainly denominated either in Hong Kong dollars or United Stated 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 2011.

SHARE CAPITAL

As at 30 June 2011, 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$24,502,000 and disposed part of these listed securities of approximately HK$18,213,000. As at 30 June 2011, the held for trading investment represented the equity securities listed in Hong Kong at fair value of approximately HK$17,739,000. 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 2011.

SEGMENTAL INFORMATION

Details of segmental information for the six months ended 30 June 2011 are set out in Note 3 to this announcement.

CONTINGENT LIABILITIES

The Group had no significant contingent liabilities as at 30 June 2011.

STAFF AND REMUNERATION POLICIES

As at 30 June 2011, the Group had 7 employees (31 December 2010: 7 employees). The Group's total staff costs amounted to approximately HK$736,000 (2010: HK$722,000) 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 2011.

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 2011 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 2011.

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

Hong Kong, 30 August 2011

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.