ARTEL

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 2008

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 2008 (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 INCOME STATEMENT
For the period ended 30 June 2008

		Six months ended 30 June	
		2008	2007
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
Turnover	*3*	**7,392**	20,390
Cost of sales		**(6,609)**	(20,067)
Gross profit		**783**	323
Other operating income		**1,085**	325
Administrative expenses		**(3,734)**	(1,226)
Finance costs	*4*	**(156)**	(9)
Share of results of associates		**–**	(245)
Loss on disposal of interests in associates		**–**	(374)
Loss before taxation	*5*	**(2,022)**	(1,206)
Taxation	*6*	**(3)**	–
Loss for the period attributable to equity shareholders of the Company		**(2,025)**	(1,206)
Dividend	*7*	**–**	–
Loss per share (HK cents)	*8*		
– Basic		**(0.09)**	(0.08)

* *for identification purpose only*

CONDENSED CONSOLIDATED BALANCE SHEET
As at 30 June 2008

	Notes	30 June 2008 (Unaudited) HK$'000	31 December 2007 (Audited) HK$'000
Non-current asset			
Plant and equipment		**12**	13
Current assets			
Trade receivables, prepayments, deposits and other receivables	9	**979**	1,579
Bank balances and cash		**42,598**	4,845
		43,577	6,424
Current liabilities			
Trade payables, accrued charges and other payables	10	**11,762**	12,140
Amounts due to directors		**–**	318,184
Unsecured other loans		**2,031**	2,031
Provision for taxation		**190**	187
		13,983	332,542
Net current assets/(liabilities)		**29,594**	(326,118)
Net assets/(liabilities)		**29,606**	(326,105)
Capital and reserves			
Share capital		**23,795**	16,023
Reserves		**5,811**	(342,128)
Total equity/(capital deficiency)		**29,606**	(326,105)

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 (the "HKICPA").

2. SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis.

The accounting policies and methods of computation followed in the preparation of the condensed consolidated financial statements are the same as those followed in the preparation of the Group's annual audited consolidated financial statements for the year ended 31 December 2007.

In the current interim Period, the Group has applied, for the first time, the following new interpretations issued by the HKICPA, which are effective for the Group's financial year beginning on 1 January 2008.

HK(IFRIC) 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC) 12	Service Concession Arrangements
HK(IFRIC) 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of these new interpretations 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 early applied the following new or revised standards, amendments and interpretations that have been issued but are not yet effective on 1 January 2008.

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKAS 32 and HKAS 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[1]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combinations[2]
HKFRS 8	Operating Segments[1]
HK(IFRIC) – Int 13	Customer Loyalty Programmes[3]

[1] Effective for annual periods beginning on or after 1 January 2009
[2] Effective for annual periods beginning on or after 1 July 2009
[3] Effective for annual periods beginning on or after 1 July 2008

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

Turnover represents the net amount received and receivable for computer components and information technology products sold to outside customers, less trade discounts and returns, for the Period.

The Group operates in the distribution of computer components and information technology products and provision of integrated e-enabling solutions. As the Group did not derive any income from the provision of integrated e-enabling solutions during both periods, no business segment analysis is presented. Furthermore, as the Group participated primarily in one geographical location classified by location of sales, i.e. Hong Kong, no geographical segment analysis is presented.

4. FINANCE COSTS

	Six months ended 30 June	
	2008	2007
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interests on unsecured other loans	**147**	–
Bank charges	**9**	9
	156	9

5. LOSS BEFORE TAXATION

	Six months ended 30 June	
	2008	2007
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Loss before taxation has been arrived at after charging/(crediting) :–		
Depreciation of plant and equipment	**1**	–
Gain on disposal of plant and equipment	**–**	(324)
Interest income	**(214)**	(1)

6. TAXATION

Taxation for the Period represents provision for Hong Kong Profits Tax calculated at the rate of 16.5% of the estimated assessable profit of a subsidiary operating in Hong Kong for the Period. The Hong Kong Profits Tax rate decreased from 17.5% to 16.5% with effect from the year of assessment 2008/09. The effect of this decrease has been reflected in the calculation of current tax balance as at 30 June 2008.

No provision for Hong Kong Profits Tax has been made in the condensed consolidated financial statements for preceding period 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 periods.

7. DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2008 (2007 : Nil).

8. LOSS PER SHARE

The calculation of the basic loss 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 HK$2,025,000 (2007: HK$1,206,000) and the weighted average number of 2,174,555,701 (2007: 1,600,000,000) Shares in issue.

Diluted loss per Share has not been calculated for the Period as the exercise of the convertible notes would result in a decrease in the loss per Share. For the six months ended 30 June 2007, the calculation of diluted loss per Share did not assume the exercise of the Company's outstanding share options as the exercise price of those options was higher than the average market price for Share before the suspension of trading in the Shares in September 2006.

9. TRADE RECEIVABLES, PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

The credit terms of the Group range from 30 to 60 days. The aged analysis of trade receivables as at 30 June 2008 and 31 December 2007 is as follows :–

	30 June 2008 (Unaudited)	31 December 2007 (Audited)
	HK$'000	*HK$'000*
Aged :–		
0 to 30 days	**257**	411
Over 1 year	**506,884**	506,884
	507,141	507,295
Less : Allowance for doubtful debts	**(506,884)**	(506,884)
Total trade receivables	**257**	411
Prepayments, deposits and other receivables	**722**	1,168
	979	1,579

10. TRADE PAYABLES, ACCRUED CHARGES AND OTHER PAYABLES

The aged analysis of trade payables as at 30 June 2008 and 31 December 2007 is as follows :–

	30 June 2008 (Unaudited)	31 December 2007 (Audited)
	HK$'000	*HK$'000*
Aged :–		
0 to 30 days	**234**	329
Over 1 year	**6,744**	6,474
Total trade payables	**6,978**	6,803
Accrued charges and other payables	**4,784**	5,337
	11,762	12,140

11. CONVERTIBLE NOTES

On 15 January 2008, the Company and Mr. Kan Che Kin, Billy Albert ("Mr. Kan"), an executive Director and the chairman 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.

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 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.

On 18 February 2008, Mr. Kan exercised the conversion rights attaching to the Convertible Notes in relation to the conversion of an aggregate principal amount of HK$30,000,000 of the Convertible Notes and an aggregate of 777,202,072 Shares were allotted and issued to Mr. Kan. There was no other conversion thereafter during the Period and the outstanding principal amount of the Convertible Notes as at 30 June 2008 was HK$328,000,000.

Subsequent to the balance sheet date, on 31 July 2008, Mr. Kan exercised the conversion rights attaching to the Convertible Notes in relation to the conversion of an aggregate principal amount of HK$10,000,000 of the Convertible Notes and an aggregate of 259,067,357 Shares were allotted and issued to Mr. Kan.

MANAGEMENT DISCUSSION AND ANALYSIS

Business and financial review

Trading in the Shares on the Stock Exchange has been suspended since 7 September 2006 and has been resumed on 18 February 2008.

After the issurance of the Convertible Notes of an aggregate principal amount of HK$358 million by the Company on 13 February 2008, the Group became almost debt free. Save for the current liabilities such as trade payables, other borrowings and other payables, there were approximately HK$40 million of cash injected as general working capital of the Group. Accordingly, the financial position of the Group has been improved with net assets of approximately HK$30 million as at 30 June 2008 (31 December 2007: net liabilities of approximately HK$326 million).

The Group recorded a loss of approximately HK$2,025,000 for the six months ended 30 June 2008. The Group's turnover for the six months ended 30 June 2008 amounted to approximately HK$7,392,000. The Group recorded a gross profit of approximately HK$0.8 million for the six months ended 30 June 2008, representing an increase of approximately 142% compared with that of 2007.

The Group is actively pursuing a number of e-enabling solution projects with higher profit margins and is looking for new business opportunities that afford better returns for our shareholders.

Liquidity and financial resources

The Group had total cash and bank balances of approximately HK$42.6 million as at 30 June 2008 (31 December 2007: approximately HK$4.8 million). Balance of other short-term borrowings were approximately HK$2 million as at 30 June 2008 (31 December 2007: approximately HK$2 million).

The Group recorded total current assets value of approximately HK$43.6 million as at 30 June 2008 (31 December 2007: approximately HK$6.4 million) and total current liabilities value of approximately HK$14 million (31 December 2007: approximately HK$333 million). The current ratio of the Group, calculated by dividing the total current assets value by the total current liabilities value, was about 3.12 as at 30 June 2008 (31 December 2007: approximately 0.02).

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2008.

TREASURY POLICIES

The Group's major borrowings are in HK dollars and with fixed interest rates. 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 2008.

INVESTMENTS

The Group had not held any significant investment for the six months ended 30 June 2008.

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 2008.

SEGMENTAL INFORMATION

Details of segmental information for the six months ended 30 June 2008 are set out in Note 3 to this announcement.

CONTINGENT LIABILITIES

The Group had no significant contingent liabilities as at 30 June 2008.

STAFF AND REMUNERATION POLICIES

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 interim results of the Group for the six months ended 30 June 2008.

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 2008 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 after the resignation of Mr. Yu Pen Hung as an executive Director and the chief executive officer of the Company with effect from 23 May 2008. 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 2008.

By order of the Board
Artel Solutions Group Holdings Limited
Kan Che Kin, Billy Albert
Chairman

Hong Kong, 22 September 2008

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