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 2009

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 2009 (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 purpose only*

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

For the six months ended 30 June 2009

	Notes	Six months ended 30 June 2009 (Unaudited) HK$'000	2008 (Unaudited) HK$'000
Revenue from distribution of computer components and information technology products	*3*	**260**	7,392
Cost of sales		**(236)**	(6,609)
		24	783
Dividend income from held for trading investments	*3*	**3,510**	–
Loss on fair value changes on held for trading investments	*3*	**(4,536)**	–
Gross (loss)/profit		**(1,002)**	783
Other income		**269**	1,085
Administrative expenses		**(1,373)**	(3,734)
Finance costs	*4*	**(147)**	(156)
Loss before taxation	*5*	**(2,253)**	(2,022)
Taxation	*6*	**–**	(3)
Loss for the period attributable to equity shareholders of the Company		**(2,253)**	(2,025)
Other comprehensive loss for the period			
Exchange difference arising on translation of foreign operations		**(16)**	(264)
Total comprehensive loss for the period		**(2,269)**	(2,289)
Loss per share (HK cents)			
– Basic	*8*	**(0.08)**	(0.09)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2009

	Note	**30 June 2009 (Unaudited)** *HK$'000*	31 December 2008 (Audited) *HK$'000*
Non-current assets			
Plant and equipment		**9**	11
Deposits for acquisition of plant and equipment		**307**	–
		316	11
Current assets			
Held for trading investments		**5,454**	9,990
Prepayments, deposits and other receivables		**1,045**	1,034
Bank balances and cash		**33,351**	31,328
		39,850	42,352
Current liabilities			
Trade payables, accrued charges and other payables	*9*	**11,333**	11,261
Unsecured other loans		**2,031**	2,031
		13,364	13,292
Net current assets		**26,486**	29,060
Net assets		**26,802**	29,071
Capital and reserves			
Share capital		**46,334**	26,386
Reserves		**(19,532)**	2,685
Shareholders' funds		**26,802**	29,071

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 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 are effective for the financial year beginning on 1 January 2009. 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 2008.

HKAS 1 (Revised) *Presentation of Financial Statements*
(effective for annual periods beginning on or after 1 January 2009)

HKAS 1 (Revised) has introduced a number of terminology changes (including revised titles for the condensed consolidated financial statements) and has resulted in a number of changes in presentation and disclosure. However, HKAS 1 (Revised) has had no impact on the reported results or financial position of the Group.

The following new or revised standards, amendments and interpretations in issue 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 2009:

HKFRSs (Amendments)	Improvements to HKFRSs [1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009 [2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements [3]
HKAS 39 (Amendment)	Eligible Hedged Items [3]
HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards [3]
HKFRS 2 (Amendments)	Group Cash-settled Share-based Payment Transactions [6]
HKFRS 3 (Revised)	Business Combinations [3]
HK(IFRIC)-Int 9 & HKAS 39 (Amendments)	Embedded Derivatives [4]
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners [3]
HK(IFRIC)-Int 18	Transfers of Assets from Customers [5]

1 Amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009

2 Effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate

3 Effective for annual periods beginning on or after 1 July 2009

4 Effective for annual periods ending on or after 30 June 2009

5 Effective for transfers on or after 1 July 2009

6 Effective for annual periods beginning on or after 1 January 2010

The application of HKFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in the Company's ownership interest in a subsidiary. The directors of the Company (the "Directors") anticipate that the application of the other new or revised standards, amendments and 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	
	2009	2008
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Revenue from distribution of computer components and information technology products	**260**	7,392
Loss on fair value changes on held for trading investments	**(4,536)**	–
Dividend income from held for trading investments	**3,510**	–
	(766)	7,392

The Group operated in distribution of computer components and information technology products and trading of securities during the Period. It was engaged in distribution of computer components and information technology products during the preceding period.

	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	
	2009	2008	**2009**	2008	**2009**	2008
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(Unaudited)
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
TURNOVER						
External sales	**260**	7,392	**(1,026)**	–	**(766)**	7,392
RESULTS						
Segment results	**(395)**	400	**(1,043)**	–	**(1,438)**	400
Other unallocated income					**269**	1,085
Unallocated corporate expenses					**(937)**	(3,351)
Finance costs					**(147)**	(156)
Loss before taxation					**(2,253)**	(2,022)
Taxation					**–**	(3)
Loss for the period					**(2,253)**	(2,025)

Segment results represent the results of each segment without allocation of central administration costs, other income and finance costs. This is the measure reported to the Group's management for the purposes of resource allocation and assessment of segment performance.

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

4. Finance Costs

	Six months ended 30 June	
	2009	2008
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interests on unsecured other loans	**147**	147
Bank charges	**–**	9
	147	156

5. Loss Before Taxation

	Six months ended 30 June	
	2009	2008
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Loss before taxation has been arrived at after charging/(crediting):–		
Depreciation of plant and equipment	**1**	1
Interest income	**(46)**	(214)

6. 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 the Period.

Hong Kong Profits Tax has been provided for at the rate of 16.5% on the estimated assessable profit of a subsidiary operating in Hong Kong for the preceding 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.

7. Dividend

The Directors do not recommend the payment of an interim dividend for the Period (2008: 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$2,253,000 (2008: HK$2,025,000) and the weighted average number of 2,781,587,434 (2008: 2,174,555,701) Shares in issue.

Diluted loss per Share has not been calculated as the exercise of the convertible notes in the aggregate principal amount of HK$358 million issued by the Company on 13 February 2008 would result in a decrease in the loss per Share for both periods.

9. Trade Payables, Accrued Charges and Other Payables

The aged analysis of trade payables as at 30 June 2009 and 31 December 2008 is as follows:–

	30 June 2009 (Unaudited) ***HK$'000***	31 December 2008 (Audited) *HK$'000*
Trade payables aged over 1 year	**6,760**	6,744
Accrued charges and other payables	**4,573**	4,517
	11,333	11,261

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 initial conversion price is HK$0.0386 per Share. Assuming that the conversion rights attached 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 day. 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 attached to the Convertible 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 4 June 2009 and 22 June 2009, Mr. Kan exercised the conversion rights attached to the Convertible Notes in relation to the conversion of the principal amount of HK$17,000,000 and HK$60,000,000 of the Convertible Notes respectively and 440,414,507 Shares and 1,554,404,145 Shares were allotted and issued to Mr. Kan respectively. Save as disclosed, there was no other conversion thereafter during the Period and the outstanding principal amount of the Convertible Notes as at 30 June 2009 was HK$241,000,000.

11. Events After the Balance Sheet Date

On 2 January 2009, Key Fit Group Limited ("Key Fit"), a wholly owned subsidiary of the Company, entered into a sale and purchase agreement (the "Agreement") with BK Capital Limited for the acquisition of an office unit (the "Property") in Hong Kong at a consideration of HK$7,000,000 (details of which are set out in the announcement of the Company dated 6 January 2009). In relation to BK Capital Limited, 999,999 shares of which were held by Mr. Kan and one share of which were held by Mrs. Kan Kung Chuen Lai, an executive Director, BK Capital Limited is therefore regarded as a connected person of the Company under the Listing Rules. Thus, such transaction constituted a connected transaction of the Company under the Listing Rules. The acquisition has been completed on 1 September 2009 according to the terms and conditions in the Agreement.

On 30 July 2009, Key Fit entered into a provisional sale and purchase agreement with an independent third party and the same parties further entered into a sub-sale and purchase agreement (the "Formal Agreement") on 14 August 2009 for the disposal (the "Disposal") of its interest of and in the Agreement and the Property at a consideration of HK$7,900,000, resulting in a gain on the Disposal of HK$900,000. The Disposal has been completed on 1 September 2009 according to the terms and conditions in the Formal Agreement.

MANAGEMENT DISCUSSION AND ANALYSIS

Business and financial review

During the Period, most customers of the Group had ceased business with the Group as they have been affected by the global financial crisis and the Group's tightened credit term. Furthermore, the computer related business has slowed down worldwide, therefore, the Group's turnover from trading of computer components and information technology products was only approximately HK$260,000 (2008: approximately HK$7,392,000), representing a decrease of approximately 96% compared with that of 2008.

The Group's negative turnover for the six months ended 30 June 2009 amounted to approximately HK$766,000 and the Group recorded a gross loss of approximately HK$1 million for the six months ended 30 June 2009. The gross loss mainly resulted from the net loss on investment in trading securities of approximately HK$1,026,000 during the Period. In summary, the Group recorded a loss of approximately HK$2,253,000 for the six months ended 30 June 2009.

On 2 January 2009, Key Fit, a wholly owned subsidiary of the Company, entered into the Agreement with BK Capital Limited for the acquisition of the Property at a consideration of HK$7,000,000.

Subsequent to the end of the Period, on 30 July 2009, Key Fit disposed its interest of and in the Agreement and the Property at a consideration of HK$7,900,000, resulting in a gain on the Disposal of HK$900,000.

Prospects

During the Period, the Group continued to look for new business opportunities that provide better returns for the shareholders of the Company. In addition to the existing principal activities of distribution of computer components and information technology products and trading of securities, the Group intended to invest in a coal company, which was established in the People's Republic of China (the "PRC").

On 12 June 2009, the Company has signed a framework agreement in relation to acquisition of 28.01% equity interest (the "Sale Interests") in 山西蘭花煤炭實業集團有限公司 (Shanxilanhua Coal Industrial Group Co. Ltd.) (the "Target") from two existing owners of the Target ("Target Vendors"). On 14 September 2009, another framework agreement (the "Framework Agreement II") in relation to acquisition of the Sale Interests was entered into between the Target and the Company. Pursuant to the Framework Agreement II, the Target shall procure the Target Vendors to negotiate with the Company the definitive terms regarding the transfer of the Sale Interests. The Company intends to take advantage of its fund raising capacity in the capital market of Hong Kong to invest in projects sourced by the Target for mutual interests and mutual developments, and will support the Target in projects in respect of, among others, tourism, pharmaceutical, nano materials and coal mining.

The Target has a diverse business portfolio covering coal mining, manufacturing and sale of chemical fertilizers, refined chemicals, pharmaceutical products and machinery, property development and tourism business. It has a controlling interest in 山西蘭花科技創業股份有限公司 (Shanxilanhua Sci-Tech Venture Co. Ltd.) (stock code: 600123), the shares of which are listed on the Shanghai Stock Exchange and it ranked among the top 10 Blue Chip Coal Mining Enterprises in the PRC.

As at the date of this announcement, no formal agreement in relation to the acquisition of the Sale Interests has been entered into. The acquisition of the Sale Interests will be financed by Mr. Kan, the controlling shareholder of the Company, and other fund raising activities. On 5 July 2009, the Company entered into a facility letter with Mr. Kan in respect of an unsecured demand loan facility of up to HK$65 million.

The Board believes that the acquisition of the Sale Interests, if completed smoothly, will allow the Group to gain foothold in the lucrative energy sector in the PRC which has been growing at rocketing speed and broaden its income base. Riding on the proven track record and formidable assets base of the Target, the Group is confident that the investment will bring excellent returns to shareholders of the Company in the future.

Liquidity and financial resources

The Group had total cash and bank balances of approximately HK$33 million as at 30 June 2009 (31 December 2008: approximately HK$31 million). Balance of other short-term borrowings were approximately HK$2 million as at 30 June 2009 (31 December 2008: approximately HK$2 million). The gearing ratio of the Group as at 30 June 2009 calculated as a ratio of total other loans to total assets was approximately 5.1% (31 December 2008: approximately 4.8%). Net assets were approximately HK$27 million (31 December 2008: approximately HK$29 million) as at 30 June 2009.

The Group recorded total current assets value of approximately HK$40 million as at 30 June 2009 (31 December 2008: approximately HK$42 million) and total current liabilities value of approximately HK$13 million (31 December 2008: approximately HK$13 million). The current ratio of the Group, calculated by dividing the total current assets value by the total current liabilities value, was about 3.0 as at 30 June 2009 (31 December 2008: approximately 3.2).

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2009.

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 2009.

SHARE CAPITAL

As at 30 June 2009, the issued share capital of the Company comprised 4,633,418,081 ordinary Shares of HK$0.01 each.

SIGNIFICANT INVESTMENTS

The Group held 2,700,000 shares of HK$0.25 each in the capital of PCCW Limited ("PCCW"), representing approximately 0.04% equity interest of PCCW at fair value of approximately HK$5,454,000 as at 30 June 2009. The shares of PCCW are listed on the Stock Exchange. The Board will seize the opportunity to dispose the shares of PCCW in future in order to capture the potential gain. On the other hand, the Board expected a steady return of dividend yield from PCCW before the disposal of the shares of PCCW.

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 2009.

SEGMENTAL INFORMATION

Details of segmental information for the six months ended 30 June 2009 are set out in Note 3 to this announcement.

CONTINGENT LIABILITIES

The Group had no significant contingent liabilities as at 30 June 2009.

STAFF AND REMUNERATION POLICIES

As at 30 June 2009, the Group had 7 employees (31 December 2008: 7 employees). The Group's total staff costs amounted to approximately HK$765,000 (2008: HK$653,000) 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 2009.

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 2009 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 Issuer (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 2009.

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

Hong Kong, 22 September 2009

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.