Artel Group
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ARTEL SOLUTIONS GROUP HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 931)

Annual Report 2010

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Kan Che Kin, Billy Albert
(Chairman and Chief Executive Officer)
Mrs. Kan Kung Chuen Lai
Ms. Li Shu Han, Eleanor Stella
Mr. Li Kai Yien, Arthur Albert

Independent Non-Executive Directors

Mr. Li Siu Yui
Mr. Ip Woon Lai
Mr. Lee Kong Leong

AUDIT COMMITTEE

Mr. Li Siu Yui *(Chairman)*
Mr. Ip Woon Lai
Mr. Lee Kong Leong

REMUNERATION COMMITTEE

Mr. Kan Che Kin, Billy Albert *(Chairman)*
Mr. Li Siu Yui
Mr. Ip Woon Lai

NOMINATION COMMITTEE

Mr. Kan Che Kin, Billy Albert *(Chairman)*
Mr. Li Siu Yui
Mr. Ip Woon Lai

COMPANY SECRETARY & QUALIFIED ACCOUNTANT

Ms. Seto Ying

INDEPENDENT AUDITORS

PKF

AUTHORISED REPRESENTATIVES

Mr. Kan Che Kin, Billy Albert
Ms. Seto Ying

PRINCIPAL BANKERS

UBS AG
Hang Seng Bank Limited

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit A, 8/F, St. John's Building
33 Garden Road
Central, Hong Kong

PRINCIPAL SHARE REGISTRAR

Butterfield Fulcrum Group (Cayman) Limited

HONG KONG BRANCH SHARE REGISTRAR

Tricor Standard Limited
26th Floor, Tesbury Centre
28 Queen's Road East, Wanchai
Hong Kong

WEBSITE

www.todayir.com/e/showcases_details.php?code=931

STOCK CODE

931

Chairman's Statement

On behalf of the board of directors (the "Directors") of Artel Solutions Group Holdings Limited (the "Company"), I now present the annual report of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2010.

BUSINESS REVIEW

The turnover of the Group for the year ended 31 December 2010 increased significantly to approximately HK$18 million as compared with the negative turnover of approximately HK$1 million for the year ended 31 December 2009. The increase in turnover was resulted from both the increase in the sale of computer components and information technology products and the gain from trading of securities. From the gradual improvement in global business environment, turnover generated from the trading business increased from HK$260,000 to approximately HK$9 million as compared with last year. From total acquisition of approximately HK$41 million in securities listed in Hong Kong, the dividend income and the net realized and unrealized gain for the year ended 31 December 2010 being classified as turnover for the gain from trading of securities improved from a loss of approximately HK$1 million to a gain of approximately HK$8 million. Overall, the results of the Group improved from a loss of approximately HK$4 million to a profit of approximately HK$5 million.

PROSPECTS

Besides the business of trading of computer components and information technology products and trading of securities, the Group will continue to look for new business opportunities so as to diversify into industries that provide better returns for the shareholders of the Company.

In the second half of 2009, the Group entered into various framework agreements to purchase approximately 28.01% equity interest in the registered capital of 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") from two existing owners of Shanxilanhua (the "Sellers") (the "Possible Acquisition"). The Company cannot assess the likelihood of a successful completion of the Possible Acquisition but intends to continue the negotiation. Accordingly, at this moment in time we do not know the timetable to complete the Possible Acquisition.

On 3 February 2010, the Company entered into the joint venture agreement with the joint venture partners, Shanxilanhua and Deluxe Full Holdings Limited, 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"). The JV Company will principally engage in the manufacturing and operation of gangue, and investment in projects in relation to the coal, coke and coal chemical industry. The relevant principal activity to be engaged by the JV Company has been approved by the Jincheng Government Authorities in May 2010. However, the approval for the formation of the JV Company is still in progress and the certificate of approval in relation to the establishment of the JV Company and the business license of the JV Company have not yet been obtained from the relevant government authorities in the PRC. The formation of the JV Company is expected to be completed around the end of June 2011. After the JV Company obtains its business license, the Company shall make its capital contribution in proportion to its respective interest in the JV Company within 30 days of the license.

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 abovementioned energy and resources projects and operations.

On 26 May 2010, the Company entered into 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"), 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"). The proposed Capital Injection comprises of the acquisition of an existing mine of Shanxilanhua and three non-related mines (one in Mongolia and two in the Shanxi area). Valuation work was conducted on the Mongolia mine but the Company decided not to proceed further with its acquisition. Furthermore, negotiation for the acquisition of the other two non-related mines in the Shanxi area had been postponed until the formation of the JV Company is completed.

The Group will continue its search to pursue business scope in coal mining development both in the PRC and overseas, as well as investing in other energy and resources projects and operations.

Kan Che Kin, Billy Albert
Chairman
Hong Kong, 30 March 2011

Management Discussion and Analysis

FINANCIAL REVIEW

For the year ended 31 December 2010, the profit attributable to the shareholders of the Company was approximately HK$5 million, compared with the loss attributable to the shareholders of the Company of approximately HK$4 million for the year ended 31 December 2009.

From the effort in both business of trading of computer components and information technology products and trading of securities, the Group's turnover increased significantly by approximately HK$19 million from negative turnover of approximately HK$1 million to turnover of approximately HK$18 million, in which, approximately HK$9 million was generated from computer products trading business and approximately HK$9 million was generated from securities trading business.

For the computer products trading business, the increase in turnover by approximately HK$9 million as compared with 2009 was due to the exploration of different products for the group's major customer during the year.

For the securities trading business, dividend income derived from one of the Group's investment securities, PCCW Limited, decreased by approximately HK$3 million from approximately HK$3.5 million to approximately HK$0.5 million. The net realized and unrealized gain on disposal of the investment securities was approximately HK$8 million, representing an increase by approximately HK$13 million as compared with a net loss of approximately HK$5 million in 2009.

Other operating income decreased by approximately HK$0.85 million from approximately HK$1.18 million to approximately HK$0.33 million due to a gain on disposal of an investment property in Hong Kong of approximately HK$0.9 million in 2009.

Overall, the results of the Group improved from a loss of approximately HK$4 million to a profit of approximately HK$5 million during the year.

LIQUIDITY, FINANCIAL RESOURCES AND GEARING RATIO

The Group had total cash and bank balances of approximately HK$236 million as at 31 December 2010 (2009: approximately HK$31 million). Balance of other short-term borrowings was approximately HK$2 million as at 31 December 2010 (2009: approximately HK$2 million). The gearing ratio of the Group as at 31 December 2010 calculated as a ratio of total interest-bearing loans to total assets was approximately 0.8% (2009: approximately 5%). Net assets were approximately HK$233 million as at 31 December 2010 (2009: approximately HK$25 million).

The Group recorded total current asset value of approximately HK$247 million as at 31 December 2010 (2009: approximately HK$38 million) and total current liability value of approximately HK$14 million as at 31 December 2010 (2009: approximately HK$14 million). The current ratio of the Group, calculated by dividing the total current asset value by the total current liability value, was approximately 17.98 as at 31 December 2010 (2009: approximately 2.78).

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 of the Company did not consider that the Group was significantly exposed to foreign exchange risk for the year.

TREASURY POLICIES

The Group's major borrowings were 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 monitored 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 31 December 2010.

SIGNIFICANT INVESTMENT

During the year, the Group acquired equity securities listed in Hong Kong of approximately HKD$41 million and disposed all of these listed securities, resulting in a gain on disposal of listed securities of approximately HK$4 million. As at 31 December 2010, the held for trading investment represented the equity securities listed in Hong Kong at fair value of approximately HKD9 million. Details of the performance of these listed securities are set out in Note 7 to the consolidated financial statements.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES OR ASSOCIATED COMPANIES

The Group had no material acquisition or disposal of subsidiaries or associated companies for the year ended 31 December 2010.

SEGMENTAL INFORMATION

Details of segmental information for the year ended 31 December 2010 are set out in note 7 to the consolidated financial statements.

CONTINGENT LIABILITIES

The Group had no significant contingent liabilities as at 31 December 2010.

STAFF AND REMUNERATION POLICIES

As at 31 December 2010, the Group had 7 employees (2009: 7 employees). The Group's total staff costs amounted to approximately HK$1,698,000 (2009: HK$1,632,000) for the year ended 31 December 2010.

The Group remunerated its employees mainly based on the industry practice, 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.

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 control. The Audit Committee has reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2010 and was of the opinion that the audited consolidated financial statements of the Group have been properly prepared in accordance with the statutory requirements and applicable accounting standards.

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

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Kan Che Kin, Billy Albert ("Mr. Kan")

Mr. Kan, aged 58, joined the Board on 10 October 2007 and is an executive Director, the chairman and the chief executive officer of the Company. He graduated from the University of East Anglia with a Bachelor of Science degree. Mr. Kan is an associate member of the Institute of Chartered Accountants in England and Wales, the Hong Kong Institute of Certified Public Accountants and Hong Kong Securities Institute. Mr. Kan had worked with Deloitte Touche Tohmatsu and KPMG and is equipped with extensive experience in accounting, taxation and corporate finance. In addition, Mr. Kan has over 20 years of experience in serving on the board of directors of financial institutions and listed companies in Hong Kong, including Security Pacific Finance Limited, Burlingame International Company Limited (now renamed Interchina Holdings Company Limited) (stock code: 202) and Greater China Holdings Limited (stock code: 431). Mr. Kan resigned as a director of Interchina Holdings Company Limited in September 2000 and of Greater China Holdings Limited in June 2004. Mrs. Kan Kung Chuen Lai is the wife of Mr. Kan, Ms. Li Shu Han, Eleanor Stella is a niece of Mr. Kan, Mr. Li Kai Yien, Arthur Albert is a nephew of Mr. Kan.

Mrs. Kan Kung Chuen Lai ("Mrs. Kan")

Mrs. Kan, aged 60, joined the Board on 10 October 2007 and is an executive Director. Mrs. Kan is a director of BK Capital Limited, a private company engaged in merchandise trading, properties investment and securities trading, for over 10 years. She has extensive secretarial and administrative experience for over 10 years with an international audit firm. Mrs. Kan is the wife of Mr. Kan.

Ms. Li Shu Han, Eleanor Stella ("Ms. Li")

Ms. Li, aged 41, joined the Board on 10 October 2007 and is an executive Director. She holds a Bachelor of Science Accounting degree from University of Southern California. Ms. Li was admitted as a member of American Institute of Certified Public Accountants and the Hong Kong Institute of Certified Public Accountants in 1995. She has extensive experience in accounting, corporate finance and corporate restructuring. Ms. Li is currently a director of Wealth Loyal Development Limited, a private company engaged in investment holding. Ms. Li is a niece of Mr. Kan and sister of Mr. Li Kai Yien, Arthur Albert.

Mr. Li Kai Yien, Arthur Albert ("Mr. Li")

Mr. Li, aged 38, joined the Board on 10 October 2007 and is an executive Director. Mr. Li graduated from University of Southern California with a Bachelor of Science degree in 1995. Mr. Li has been a Certified Public Accountant since 2001 and has more than 10 years' experience in accounting and securities dealing. Mr. Li is currently a dealer representative of Phillip Securities (HK) Ltd. Mr. Li is a nephew of Mr. Kan and brother of Ms. Li.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Li Siu Yui

Mr. Li Siu Yui, aged 40, joined the Board on 10 October 2007 and is an independent non-executive Director. He holds a Master's degree in Business Administration from University of Wales. He has over 10 years' experience in the area of investment. He was working in securities companies during the period from 1997 to 2002. He has been engaged as an investment manager in two private companies since 2002.

Mr. Ip Woon Lai ("Mr. Ip")

Mr. Ip, aged 40, joined the Board on 10 October 2007 and is an independent non-executive Director. Mr. Ip holds a Bachelor of Commerce in Accounting and Finance degree from University of New South Wales and was admitted as a certified practicing accountant of the Australian Society of Certified Practicing Accountants in 1998. He began his professional career with Arthur Andersen & Co. in Hong Kong in 1994. Mr. Ip has extensive corporate finance and investment banking experience and had worked for various international investment banks including Warburg Dillon Read and ING Bank N.V.. He had also worked in Hysan Development Company Limited where he served as deputy head of corporate finance from 2005 to 2006. After that, Mr. Ip has been working in private equity industry in the Greater China region.

Mr. Lee Kong Leong ("Mr. Lee")

Mr. Lee, aged 46, joined the Board on 7 December 2006 and is an independent non-executive Director. Mr. Lee holds a Bachelor of Commerce in Accounting and Information Systems degree from the University of New South Wales. He began his professional career with Coopers & Lybrand in Malaysia in 1988. From 1989 to 1995, he held senior positions with PriceWaterhouseCoopers and C.P. Pokphand Ltd. in Hong Kong. He is a certified practicing accountant with the Australian Society of Certified Public Accountants and a member of the Hong Kong Institute of Certified Public Accountants. From 2001 to 2004, he was a director of Harbin Brewery Group Limited, a company listed on the Stock Exchange from 2002 to 2004.

SENIOR MANAGEMENT

Ms. Seto Ying ("Ms. Seto")

Ms. Seto, aged 34, was appointed as the chief financial officer and company secretary of the Company in October 2007. Ms. Seto graduated from the Chinese University of Hong Kong in 1998 with a bachelor's degree of business administration in accountancy. She is a fellow of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants. Ms. Seto has more than 10 years of working experience in the field of finance and accounting including with international accounting firm. Ms. Seto is also a director of two subsidiaries of the Company.

Corporate Governance Report

CODE ON CORPORATE GOVERNANCE PRACTICES

Artel Solutions Group Holdings Limited (the "Company") is committed to maintaining a high standard of corporate governance. It believes that high standards of corporate governance provide a framework and solid foundation for the Company and its subsidiaries (collectively, the "Group") to manage business risks, enhance transparency, maintain high standards of accountability and protect interests of shareholders of the Company (the "Shareholders") and other stakeholders.

The Company has complied with the code provisions as set out in the Code on Corporate Governance Practices (the "Code") under Appendix 14 to the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") throughout the year ended 31 December 2010 except the followings:

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 were held by Mr. Kan Che Kin, Billy Albert ("Mr. Kan"). The board (the "Board") of directors (the "Directors") of the Company 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 (the "Articles of Association") of the Company at least once every three years.

3. Under the Code Provision A.5.4, Directors must comply with their obligations under the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. During the year, a Director breached the Mode Code A.3(a)(i) and B.8. Details of the non-compliance are set out in the section headed "Model Code for Securities Transactions by Directors" in this Corporate Governance Report.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code. According to the Model Code A.3(a)(i) and B.8, a Director must not deal in any securities of the listed issuer during the period of 60 days immediately preceding the publication date of the annual results and a Director must not deal in any securities of the listed issuer without first notifying in writing the chairman or a Director other than him and receiving a dated written acknowledgement. During the prohibition period (from 25 February 2010 to 26 April 2010, the "Prohibition Period") in relation to the publication of the annual results for the year ended 31 December 2009, Mr. Kan, a Director, mistakenly disposed 600,000 shares of the Company (the "Shares") at HK$0.465 per Share and 4,400,000 Shares at HK$0.46 per Share on 15 March 2010 without notifying the Company. Further to the transaction occurred in the Prohibition Period, Mr. Kan disposed 850,000 Shares at HK$0.40 per Share on 3 February 2010 and acquired 275,000 Shares at HK$0.65 per Share on 30 April 2010 without notifying the Company. In November 2010, Mr. Kan notified the Company the above transactions and undertook that he will comply with the required standards as set out in the Mode Code in future. Save as disclosed above, the Company has made specific enquiry of all Directors, they all confirmed that they have fully complied with the required standards as set out in the Model Code during the year ended 31 December 2010.

BOARD OF DIRECTORS

The Board is responsible for approving and monitoring the Group's strategies, policies and business plans, revaluating the performance of the Group and supervising the work of management. The management is responsible for the daily operations of the Group including the preparation of annual and interim accounts for Board approval before publication, execution of business strategies and initiatives adopted by the Board, implementation of adequate systems of internal controls and risk management procedures, and ensuring compliance in accordance with the relevant statutory requirements and rules and regulations.

For a Director to be considered independent, the Board must determine that the Director does not have any direct or indirect material relationship with the Group. The Board follows the requirements set out in the Listing Rules to determine the independence of Directors. The Company has received from each of its independent non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and considers all independent non-executive Directors are independent.

The independent non-executive Directors are not appointed for specific terms but are subject to retirement by rotation and re-election in accordance with the Articles of Association at least once every three years.

The roles of the chairman and the chief executive officer were both held by Mr. Kan. The reasons have been explained in the paragraph 1 under the section headed "Code on Corporate Governance Practices" in this Corporate Governance Report.

REMUNERATION COMMITTEE

The remuneration committee of the Company (the "Remuneration Committee") consists of one executive Director and two independent non-executive Directors and its members during the year were:

Mr. Kan Che Kin, Billy Albert *(Chairman)*
Mr. Li Siu Yui
Mr. Ip Woon Lai

The Remuneration Committee is responsible for determining the specific remuneration packages of all executive Directors and senior management, including benefits-in-kind, pension rights and compensation payments, and to advise the Board on the remuneration of the non-executive Directors. In developing remuneration policies and making recommendation as to the remuneration of the Directors and senior management, the Remuneration Committee takes into account the performance of the Group as well as individual Directors and senior management.

REMUNERATION COMMITTEE (continued)

No Directors can determine their own remuneration package. During the year, the Remuneration Committee held one meeting. Matters considered at the meeting included revision of the compensation payable to all Directors and senior management of the Group and recommendation to the Board on the Group's remuneration policy and structure.

Directors' emoluments comprise payments to the Directors by the Group in connection with the management of the affairs of the Group and other benefits. The amounts paid to each Director for the year ended 31 December 2010 are shown in note 9 to the consolidated financial statements.

AUDIT COMMITTEE

The Company's audit committee (the "Audit Committee") was formed to review and supervise the financial reporting process and internal control of the Company. The Audit Committee comprises solely the three independent nonexecutive Directors and both Mr. Ip Woon Lai and Mr. Lee Kong Leong possess the appropriate professional qualifications, business and financial experience and skills. The Audit Committee members during the year were:

Mr. Li Siu Yui *(Chairman)*
Mr. Lee Kong Leong
Mr. Ip Woon Lai

Under its terms of reference, which were prepared and adopted with reference to the Code and "A Guide for the Formation of an Audit Committee" published by the Hong Kong Institute of Certified Public Accountants, the Audit Committee is required, amongst other things, to oversee the relationship with the external auditors, to review the Group's interim and annual results, to review the scope, extent and effectiveness of internal control of the Group, to review accounting policies and practices adopted by the Group, to engage independent legal or other advisers as it determine is necessary and to perform investigations.

During the year, the Audit Committee held two meetings. Matters considered at the meetings included revision of the Group's 2009 annual results, 2010 interim results, the fees for engaging the external auditors to provide the audit for the year 2009 and the interim review for the year 2010, the independence of the external auditors, the fees for nonaudit services, the Company's financial control, internal control and risk management system.

DIRECTORS' ATTENDANCE AT BOARD, REMUNERATION COMMITTEE, NOMINATION COMMITTEE AND AUDIT COMMITTEE MEETINGS

	Attendance/Number of meetings held during the year			
Directors	**Board meeting**	**Audit Committee meeting**	**Remuneration Committee meeting**	**Nomination Committee meeting**
Executive Directors				
Mr. Kan Che Kin, Billy Albert* *(Chairman)*	6/6	N/A	1/1	1/1
Mrs. Kan Kung Chuen Lai*	6/6	N/A	N/A	N/A
Ms. Li Shu Han, Eleanor Stella*	5/6	N/A	N/A	N/A
Mr. Li Kai Yien, Arthur Albert*	5/6	N/A	N/A	N/A
Independent Non-executive Directors				
Mr. Li Siu Yui	6/6	2/2	1/1	1/1
Mr. Ip Woon Lai	5/6	2/2	1/1	1/1
Mr. Lee Kong Leong	6/6	2/2	N/A	N/A

* Mrs. Kan Kung Chuen Lai is the spouse of Mr. Kan, Ms. Li Shu Han, Eleanor Stella is the niece of Mr. Kan and sister of Mr. Li Kai Yien, Arthur Albert. Mr. Li Kai Yien, Arthur Albert is the nephew of Mr. Kan.

NOMINATION OF DIRECTORS

The Company has established a nomination committee (the "Nomination Committee") in October 2007. The Nomination Committee consists of one executive Director and two independent non-executive Directors and its members during the year were:

Mr. Kan Che Kin, Billy Albert *(Chairman)*
Mr. Li Siu Yui
Mr. Ip Woon Lai

The Nomination Committee has established formal procedures for the appointments of new Directors and re-nomination and re-election of Directors. In nominating candidates for appointment of Directors, the Nomination Committee will consider their necessary expertise and experience. The Nomination Committee held one meeting during the year. Matters considered at the meeting included revision of the structure, size and composition of the Board, qualifications for all Directors and senior management of the Group and independence of the independent non-executive Directors.

AUDITORS' REMUNERATION

The amount of auditors' remuneration for the year ended 31 December 2010 was HK$310,000. Messrs. PKF also provided non-audit services including taxation services to the Group for the year ended 31 December 2010. In considering the re-appointment of external auditors, the Audit Committee has taken into consideration their relationship with the Company and their independence in the provision of non-audit services. Based on the results of the review and after taking into account the opinion of the management of the Group, the Audit Committee recommended the Board to re-appoint Messrs. PKF as the external auditors of the Company for the year 2011, subject to approval by the Shareholders at the forthcoming annual general meeting to be held on 18 May 2011. There is no former partner of the existing firm auditing the accounts of the Company acting as a member of the Audit Committee within one year commencing on the date of his ceasing to be a partner of the firm. In addition, the Audit Committee is of the view that the auditors' independence is not affected by the non-audit services rendered.

INTERNAL CONTROL

The Board has conducted a review of the effectiveness of the system of internal control of the Group during the year. The review has covered all material aspects of internal control including financial, operational and compliance controls and risk management functions of the Group.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the audited consolidated financial statements of the Group for the year ended 31 December 2010. The Directors ensure that the audited consolidated financial statements of the Group for the year ended 31 December 2010 have been properly prepared in accordance with the statutory requirements and applicable accounting standards.

A report of the independent auditors of the Group is set out on pages 21 to 22 of this annual report.

Report of the Directors

The board (the "Board") of directors (the "Directors") of Artel Solutions Group Holdings Limited (the "Company") presents the annual report and the audited consolidated financial statements of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2010.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company and the principal activities of the Group are distribution of computer components and information technology products and trading of securities. The principal activities of its subsidiaries are set out in note 29 to the consolidated financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2010 are set out in the consolidated statement of comprehensive income on page 23 of this annual report.

The Directors do not recommend any payment of dividend for the year ended 31 December 2010.

SHARE CAPITAL

Details of share capital of the Company are set out in note 22(a) to the consolidated financial statements.

CONVERTIBLE NOTES

The Company issued the convertible notes (the "Convertible Notes") in an aggregate principal amount of HK$358 million to Mr. Kan Che Kin, Billy Albert ("Mr. Kan") on 13 February 2008. Details of the issue and movements in the Convertible Notes during the year are set out in note 23 to the consolidated financial statements.

OTHER BORROWINGS

Details of other borrowings of the Group as at 31 December 2010 are set out in note 20 to the consolidated financial statements.

FIVE YEAR SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 56 of the annual report.

PLANT AND EQUIPMENT

Details of movements in plant and equipment of the Group during the year are set out in note 14 to the consolidated financial statements.

SHARE OPTION SCHEME

Details of share option scheme adopted by the Company (the "Option Scheme") are set out in note 26 to the consolidated financial statements.

As at the date of this annual report, the total number of shares of the Company (the "Shares") available for issue under the Option Scheme is 127,725,000 Shares, representing approximately 2.54% of the issued share capital of the Company.

There was no outstanding share option to subscribe for Shares as at 1 January 2010 and no share option to subscribe for Shares had been granted during the year ended 31 December 2010. Accordingly, there was no share option to subscribe for Shares outstanding as at 31 December 2010.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The Directors during the year and up to the date of this report were:-

Executive Directors:-
Mr. Kan Che Kin, Billy Albert *(Chairman)*
Mrs. Kan Kung Chuen Lai
Ms. Li Shu Han, Eleanor Stella
Mr. Li Kai Yien, Arthur Albert

Independent Non-Executive Directors:-
Mr. Li Siu Yui
Mr. Ip Woon Lai
Mr. Lee Kong Leong

In accordance with the provisions of the Company's articles of association (the "Articles of Association"), Mr. Kan Che Kin, Billy Albert, Mrs. Kan Kung Chuen Lai and Mr. Li Siu Yui will retire at the forthcoming annual general meeting of the Company (the "AGM") and, being eligible, offer themselves for re-election.

The Company has not entered into any service agreement with Directors.

Each of the independent non-executive Directors was appointed in accordance with the Articles of Association.

None of the Directors being proposed for re-election at the forthcoming AGM has entered into a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

CONFIRMATIONS OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the three independent non-executive Directors an annual confirmation of his independence as required under Rule 3.13 of the Rules (the "Listing Rules") Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") and considers all the independent non-executive Directors are independent.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2010, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken or deemed to have taken under such provisions of the SFO) or as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:-

Long positions

Name of Director	Name of company in which interests were held	Nature of interests	Number of shares held	Approximate percentage of shareholding
Mr. Kan	The Company	Beneficial owner	9,070,642,719 Shares	180.21% *(Note 1)*
Mrs. Kan Kung Chuen Lai	The Company	Interest of spouse *(Note 2)*	9,070,642,719 Shares	180.21%
Mr. Li Kai Yien, Arthur Albert	The Company	Beneficial owner	3,000,000 Shares	0.06%
Ms. Li Shu Han, Eleanor Stella	The Company	Beneficial owner	2,000,000 Shares	0.04%
Mr. Ip Woon Lai	The Company	Beneficial owner	1,000,000 Shares	0.02%

Notes:-

1. These Shares represent: (i) 2,827,119,403 Shares held by Mr. Kan; and (ii) 6,243,523,316 Shares to be allotted and issued to Mr. Kan upon the exercise in full of the conversion rights attaching to the outstanding Convertible Notes.

2. Mrs. Kan Kung Chuen Lai is the spouse of Mr. Kan. Therefore, she is deemed to be interested in the Shares for which Mr. Kan is interested pursuant to the SFO.

Save as disclosed above, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise to be notified to the Company and the Stock Exchange pursuant to the Model Code as at 31 December 2010.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save for the Convertible Notes as set out in note 23 to the consolidated financial statements, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors or chief executives of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the Directors nor the chief executives of the Company, nor any of their spouses or children under the age of 18, had any right to subscribe for securities of the Company or had exercised any such right.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save for the Convertible Notes as set out in note 23 to the consolidated financial statements, no contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year, nor had there been any contract of significance entered into between the Group and a controlling shareholder of the Company during the year.

REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the Directors and the five highest paid individuals of the Group are set out in note 9 to the consolidated financial statements.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2010, so far as was known to the Directors and chief executives of the Company, no person (other than a Director or chief executive of the Company) had any interest or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders of the Company as at 31 December 2010 and 2009 were as follows:-

	2010	2009
	HK$'000	HK$'000
Share premium	**409,146**	209,911
Contributed surplus	**112,369**	112,369
Accumulated losses	**(567,950)**	(566,862)
Total	**(46,435)**	(244,582)

Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium is available for paying distributions or dividends to shareholders of the Company subject to the provisions of its Memorandum and Articles of Association and provided that immediately following the distribution of dividend, the Company is able to pay its debts as they fall due in the ordinary course of business. The Articles of Association provide that an ordinary resolution passed by the shareholders of the Company is required for any distribution out of the share premium account. In the opinion of the Directors, the reserves of the Company available for distribution comprise share premium, contributed surplus and accumulated losses.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the remuneration committee of the Company (the "Remuneration Committee") on the basis of their merit, qualifications and competence.

The emoluments of the Directors are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted the Option Scheme as an incentive to Directors and eligible employees, details of which are set out in note 26 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIER

The Group's revenue and cost of revenue from distribution of computer components and information technology products was derived from one customer and one supplier during the year.

None of the Directors, their respective associates or any shareholders of the Company (which to the knowledge of the Directors own more than 5% of the Company's issued share capital) had any interest in any of the supplier or customer of the Group for the year ended 31 December 2010.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Articles of Association or the laws of the Cayman Islands, which would oblige the Company to offer new Shares on a pro-rata basis to its existing shareholders.

RETIREMENT BENEFITS SCHEMES

Details of the retirement benefits schemes maintained by the Group are set out in note 27 to the consolidated financial statements.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors was interested in any business apart from the Group's business, which competed or was likely to compete either directly or indirectly with business of the Group during the year.

SUFFICIENCY OF PUBLIC FLOAT

To the best knowledge of the Directors and based on information publicly available to the Company, there was sufficient public float throughout the year ended 31 December 2010 and as at the latest practicable date prior to the issue of this annual report.

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

During the year ended 31 December 2010, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

POST BALANCE SHEET EVENTS

No significant event occurred after the balance sheet date.

AUDITORS

Messrs. PKF will retire and a resolution to re-appoint Messrs. PKF as auditors of the Company will be proposed at the forthcoming AGM.

On behalf of the Board

Kan Che Kin, Billy Albert
Chairman

Hong Kong
30 March 2011

To the Members of
Artel Solutions Group Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Artel Solutions Group Holdings Limited and its subsidiaries (collectively, the "Group") set out on pages 23 to 55 which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an independent opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of the Group's affairs as at 31 December 2010 and of its profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PKF
Certified Public Accountants
Hong Kong
30 March 2011

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
Revenue from distribution of computer components and information technology products	6	**8,883**	260
Cost of revenue		**(8,524)**	(236)
		359	24
Dividend income from held for trading investments	6	**533**	3,510
Gain on disposal of held for trading investments	6	**4,134**	–
Gain/(loss) on fair value changes on held for trading investments	6	**4,239**	(4,941)
Gross profit/(loss)		**9,265**	(1,407)
Other operating income	8	**328**	1,179
Administrative expenses		**(4,057)**	(3,698)
Interests on unsecured other loans		**(293)**	(293)
Profit/(loss) before taxation	10	**5,243**	(4,219)
Taxation	11	**–**	–
Profit/(loss) for the year attributable to equity shareholders of the Company		**5,243**	(4,219)
Other comprehensive loss for the year (after tax)			
Exchange difference arising on translation of foreign operation before and after tax effects		**(86)**	(21)
Total comprehensive income/(loss) for the year attributable to equity shareholders of the Company		**5,157**	(4,240)
Earnings/(loss) per share (HK cents)	13		
– Basic		**0.11**	(0.11)
– Diluted		**0.05**	N/A

Consolidated Statement of Financial Position

At 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
Non-current asset			
Plant and equipment	14	**429**	579
Current assets			
Held for trading investments	16	**9,288**	5,049
Trade receivables, prepayments and deposits	17	**1,443**	1,337
Bank balances and cash	18	**235,776**	31,466
		246,507	37,852
Current liabilities			
Trade payables, accrued charges and other payables	19	**11,682**	11,569
Unsecured other loans	20	**2,031**	2,031
		13,713	13,600
Net current assets		**232,794**	24,252
Net assets		**233,223**	24,831
Capital and reserves			
Share capital	22(a)	**50,334**	46,334
Reserves		**182,889**	(21,503)
Shareholders' funds		**233,223**	24,831

The consolidated financial statements set out on pages 23 to 55 were approved and authorised for issue by the Board of Directors on 30 March 2011 and are signed on its behalf by:-

Kan Che Kin, Billy Albert
Director

Li Kai Yien, Arthur Albert
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

	Share capital HK$'000	Share premium HK$'000	Special reserve HK$'000	Convertible notes reserve HK$'000	Exchange reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2009	26,386	152,859	9,370	318,000	(264)	(477,280)	29,071
Conversion of convertible notes	19,948	57,052	–	(77,000)	–	–	–
Total comprehensive loss for the year	–	–	–	–	(21)	(4,219)	(4,240)
At 31 December 2009 and 1 January 2010	46,334	209,911	9,370	241,000	(285)	(481,499)	24,831
Issue of shares	4,000	199,235	–	–	–	–	203,235
Total comprehensive (loss)/income for the year	–	–	–	–	(86)	5,243	5,157
At 31 December 2010	**50,334**	**409,146**	**9,370**	**241,000**	**(371)**	**(476,256)**	**233,223**

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	2010 HK$'000	2009 HK$'000
OPERATING ACTIVITIES		
Profit/(loss) before taxation	**5,243**	(4,219)
Adjustments for:-		
Gain on disposal of interest in purchasing an investment property	**–**	(900)
Interest income on bank deposits	**(326)**	(56)
(Gain)/loss on fair value changes on held for trading investments	**(4,239)**	4,941
Interest expenses	**293**	293
Depreciation	**152**	65
Operating cash flows before movements in working capital	**1,123**	124
Increase in trade receivables, prepayments and deposits	**(106)**	(324)
(Decrease)/increase in trade payables, accrued charges and other payables	**(266)**	15
NET CASH FROM / (USED IN) OPERATING ACTIVITIES	**751**	(185)
INVESTING ACTIVITIES		
Interest received	**326**	56
Purchase of plant and equipment	**(2)**	(633)
Net sales proceeds from disposal of interest in purchasing an investment property	**–**	900
NET CASH FROM INVESTING ACTIVITIES	**324**	323
FINANCING ACTIVITIES		
Net proceeds from issue of shares	**203,235**	–
NET CASH FROM FINANCING ACTIVITIES	**203,235**	–
NET INCREASE IN CASH AND CASH EQUIVALENTS	**204,310**	138
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**31,466**	31,328
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTED BY BANK BALANCES AND CASH	**235,776**	31,466

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

1. GENERAL INFORMATION

Artel Solutions Group Holding Limited (the "Company" together with its subsidiaries, the "Group") was incorporated in the Cayman Islands on 5 December 2000 as an exempted company with limited liability under the Companies Law (2001 Second Revision) Chapter 22 of the Cayman Islands. The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information of the annual report.

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

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

The Company is an investment holding company and the principal activities of the Group are distribution of computer components and information technology products and trading of securities.

2. BASIS OF PREPARATION

(a) The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"), Hong Kong Accounting Standards ("HKAS") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (hereinafter collectively referred to as "Hong Kong Financial Reporting Standards").

In addition, the consolidated financial statements include applicable disclosures required by the Rules (the "Listing Rules") Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

(b) Initial application of Hong Kong Financial Reporting Standards

In the current year, 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
HK-Int 5	Presentation of Financial Statements-Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause
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 initial application of these Hong Kong Financial Reporting Standards does not necessitate material changes in the Group's accounting policies or retrospective adjustments of the comparatives presented.

2. BASIS OF PREPARATION (continued)

(c) Hong Kong Financial Reporting Standards in issue but not yet effective

The following Hong Kong Financial Reporting Standards in issue as at the date of authorisation of these consolidated financial statements have not been applied in the preparation of the Group's consolidated financial statements for the year ended 31 December 2010 since they were not yet effective for the annual period beginning on 1 January 2010:-

HKAS 24 (Revised)	Related Party Disclosures[4]
HKFRS 9	Financial Instruments[7]
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments[3]
Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Assets[6]
Amendments to HKAS 32	Classification of Rights Issues[1]
Amendment to HKFRS 1	First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adoptors[3]
Amendments to HKFRS 7	Financial Instruments: Disclosures-Transfers of Financial Assets[5]
Amendments to HK(IFRIC)-Int 14	Prepayments of a Minimum Funding Requirement[4]
Amendments to HKFRSs 2010	Improvements to HKFRSs 2010[2]

1 Effective for annual periods beginning on or after 1 February 2010
2 Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011 as appropriate
3 Effective for annual periods beginning on or after 1 July 2010
4 Effective for annual periods beginning on or after 1 January 2011
5 Effective for annual periods beginning on or after 1 July 2011
6 Effective for annual periods beginning on or after 1 January 2012
7 Effective for annual periods beginning on or after 1 January 2013

The Group is in the process of making an assessment of what the impact of these standards, amendments and interpretations are expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

3. SIGNIFICANT ACCOUNTING POLICIES

Measurement basis

The consolidated financial statements are prepared using the historical cost basis as modified by the revaluation of held for trading investments and investment properties.

Basis of consolidation

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

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

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

Revenue recognition

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

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

Dividend income from held for trading investments is recognised when the right to receive payment is established.

Realised gains or losses from held for trading investments are recognised on a trade date basis whilst the unrealised gains or losses are recognised from valuation at the end of the reporting period.

Interest income is recognised as it accrues using the effective interest method.

Leases

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the terms of the relevant leases.

Plant and equipment

Plant and equipment are stated at cost less accumulated depreciation and impairment losses. Depreciation is provided to write off the cost of items of plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment property

Property that is held for long-term rental yields or for capital appreciation or both, is classified as investment property.

Investment property comprises land held under operating leases and buildings held under finance leases.

Land held under operating leases is classified and accounted for as investment property when the rest definition of investment property is met. The operating lease is accounted for as if it was a finance lease.

Investment property is measured initially at cost, including related transaction costs.

After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections.

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions.

The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property. Some of those outflows are recognised as a liability, including finance lease liabilities in respect of land classified as investment property; others, including contingent rent payments, are not recognised in the financial statements.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in profit or loss during the financial period in which they are incurred.

Impairment

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

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

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

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

Borrowings costs

All borrowing costs are recognised as and included in finance costs in the consolidated statement of comprehensive income in the period when they are incurred, except that borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset.

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated statement of financial position when the group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into financial assets at fair value through profit or loss and loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Financial assets at fair value through profit or loss

The Group's financial assets at fair value through profit or loss include financial assets held for trading. A financial asset is classified as held for trading if:-

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

At each end of the reporting period subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each end of reporting period subsequent to initial recognition, loans and receivables, including trade receivables and bank balances, are carried at amortised cost using the effective interest rate method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company comprise share capital and convertible notes reserve.

The Group's financial liabilities, including trade payables, other payables and other unsecured loans, are generally classified as other financial liabilities. Other financial liabilities are subsequently measured at amortised cost, using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition. Interest expense is recognised on an effective interest basis.

Cash and cash equivalents

Cash and cash equivalents comprise bank balances and cash on hand.

Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition

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

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

Taxation

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

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

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits

(i) Retirement benefits schemes

The retirement benefits costs charged to profit or loss represent the contributions payable in respect of the current year to the Group's defined contribution retirement benefits schemes for its employees.

(ii) Termination benefits

Termination benefits are recognised when and only when the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic probability of withdrawal.

Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purpose of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

Related parties

An individual is related to the Group if the individual (i) has, directly or indirectly, control or joint control or significant influence over the Group, or (ii) is a member of the key management personnel of the Group, or (iii) is a close member of the family of the individuals in (i) or (ii).

An entity is related to the Group if the entity (i) has, directly or indirectly, control or joint control or significant influence over the Group, or (ii) is controlled by or under common control with the Group, or (iii) is an associate or a jointly controlled entity of the Group, or (iv) is controlled, jointly-controlled or significantly influenced by an individual related to the Group.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY AND JUDGEMENT

In the process of applying the Group's accounting policies which are described in note 3 to the consolidated financial statements, management has made the following estimation uncertainty and judgement that has most significant effect on the amounts recognised in the consolidated financial statements.

Impairment of plant and equipment

Determining whether plant and equipment are impaired requires an estimation of the value in use of the cash generating units to which the plant and equipment have been allocated. The calculation of value in use requires the Group to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate the present value.

Income tax

At 31 December 2010, no deferred tax assets had been recognised in respect of the tax losses of approximately HK$496,135,000 (2009: HK$502,034,000) due to the unpredictability of future taxable profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in future. In case where the actual future profit generated is more than expected, a material recognition of deferred tax assets may arise, which would be recognised in the consolidated statement of comprehensive income for the period in which such a recognition takes place.

5. FINANCIAL RISK MANAGEMENT

(a) Nature and extent of financial instrument risks

Credit risk

Credit risk is the risk that a party to a financial instrument will cause a financial loss for the group by failing to discharge an obligation. The Group manages credit risk by setting up credit control policy and periodic evaluation of credit performance of other parties, measured by the extent of past due or default and their financial healthiness.

As at 31 December 2010, the Group's maximum exposure to credit risk arises from the carrying amounts of the respective recognised financial assets as stated in the consolidated statement of financial position.

The credit risk on bank balances is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

5. FINANCIAL RISK MANAGEMENT (continued)

(a) Nature and extent of financial instrument risks (continued)

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities. The Group manages liquidity risk by monitoring its liquidity position through periodic preparation of cash flows and cash balances forecasts and periodic evaluation of the ability of the Group to meet its financial obligations, measured by the debt-to-equity capital ratio as mentioned in note 22(b) to the consolidated financial statements.

The Group's amounts of contractual undiscounted obligations as at 31 December 2010 are as follows:-

	2010	2009
	HK$'000	HK$'000
Trade payables, accrued charges and other payables	**11,682**	11,569
Unsecured other loans	**2,031**	2,031
	13,713	13,600
Due for payment within one year or on demand	**13,713**	13,600

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group considers hedging significant currency risk should the need arise.

The Group has minimal exposure to foreign currency risk as most of its business transactions, and recognised assets and liabilities are principally denominated in Hong Kong dollars and United States dollars ("USD"). Pursuant to Hong Kong's Linked Exchange Rate System under which Hong Kong dollars is pegged to the USD, the Group considers there are no significant foreign exchange risks with respect to the USD.

5. FINANCIAL RISK MANAGEMENT (continued)

(a) Nature and extent of financial instrument risks (continued)

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group manages interest rate risk, when it is considered significant, by entering into appropriate swap contracts.

As at 31 December 2010, other unsecured loans of approximately HK$2,031,000 (2009: HK$2,031,000) bearing fixed interests were exposed to fair value interest rate risks.

The Group's exposure to interest rate risk arises from its bank balances. These bank balances bear interests at rates varied with the then prevailing marketing condition.

If the interest rate as at 31 December 2010 had been 10 basis point lower or higher with all other variables held constant, there would be no significant change to the profit for the year.

Market price risk

Market price risk is the risk that the fair value or future cash flows of a financial instrument traded in the market will fluctuate because of changes in market prices. The Group manages market price risk, when it is considered significant, by maintaining a portfolio of investments with different risk and return profiles.

The Group is exposed to equity price risk through its investment in a listed equity security, which is quoted in the Stock Exchange. If the equity price of this equity security as at 31 December 2010 had been 15% lower or higher, post-tax profit for the year ended 31 December 2010 would increase or decrease by approximately HK$1,317,000 or HK$1,393,000 respectively (post-tax loss for 2009: HK$757,000).

(i) Financial instruments carried at fair value

The following table presents the carrying value of financial instruments measured at fair value 31 December 2010 across the three levels of the fair value hierarchy defined in HKFRS 7, Financial Instruments: Disclosures, with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:-

- Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments

- Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data

- Level 3 (lowest level): fair values measured using valuated techniques in which any significant input is not based on observable market data

5. FINANCIAL RISK MANAGEMENT (continued)

(a) Nature and extent of financial instrument risks (continued)

Market price risk (continued)

(i) Financial instruments carried at fair value (continued)

At the end of the reporting period, the Group had the following financial instruments carried at fair value all of which are based on the Level 1 of the fair value hierarchy:-

	2010	2009
	HK$'000	HK$'000
Assets		
Held for trading investments-Listed	**9,288**	5,049

During the year ended 31 December 2010, there were no significant transfers between financial instruments in Level 1 and Level 2.

(ii) Fair values of financial instruments carried at other than fair value

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

(iii) The fair values of financial assets and financial liabilities are determined as follows:-

- The fair values of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted active bid prices and ask prices respectively; and

- The fair values of other financial assets and financial liabilities are determined in accordance with generally accepted models based on discounted cash flow analysis using prices or rates from observable current market transactions as input.

6. TURNOVER

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

	2010	2009
	HK$'000	HK$'000
Distribution of computer components and information technology products	**8,883**	260
Dividend income from held for trading investments	**533**	3,510
Gain on disposal of held for trading investments	**4,134**	–
Gain/(loss) on fair value changes on held for trading investments	**4,239**	(4,941)
	17,789	(1,171)

7. SEGMENTS AND EQUITY – WIDE INFORMATION

Reportable segments

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

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:-

(1) Segment assets consist primarily of held for trading investments. Segment liabilities comprise operating liabilities and mainly exclude items such as income tax payable and deferred tax liabilities.

(2) Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intragroup transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment.

(3) Segment capital expenditure is the total cost incurred during the year to acquire segment assets (both tangible and intangible) that are expected to be used for more than one year.

(4) Unallocated items comprises financial and corporate assets, unsecured other loans, and corporate and financial expenses.

7. SEGMENTS AND EQUITY – WIDE INFORMATION (continued)

Reportable segments (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.

Segment information about the aforementioned businesses is set out as follows:-

	Distribution of computer components and information technology products		**Trading of securities**		**Consolidated**	
	2010 HK$'000	2009 HK$'000	**2010 HK$'000**	2009 HK$'000	**2010 HK$'000**	2009 HK$'000
TURNOVER						
External	**8,883**	260	**8,906**	(1,431)	**17,789**	(1,171)
RESULT						
Segment result	**98**	(423)	**8,486**	(1,524)	**8,584**	(1,947)
Other operating income					**328**	1,180
Unallocated corporate expenses					**(3,376)**	(3,159)
Finance costs					**(293)**	(293)
Profit/(loss) before taxation					**5,243**	(4,219)
Taxation					**–**	–
Profit/(loss) for the year					**5,243**	(4,219)
Assets						
Segment assets	**655**	655	**9,288**	5,049	**9,943**	5,704
Unallocated corporate assets					**236,993**	32,727
Consolidated total assets					**246,936**	38,431
Liabilities						
Segment liabilities	**6,851**	6,765	**–**	–	**6,851**	6,765
Unallocated corporate liabilities					**6,862**	6,835
Consolidated total liabilities					**13,713**	13,600
Other information						
Unallocated capital additions					**2**	633
Unallocated depreciation					**152**	65

7. SEGMENTS AND EQUITY-WIDE INFORMATION (continued)

Reportable segments (continued)

Entity-wide information

The Group's operations are substantially located in Hong Kong for both years. An analysis of the Group's geographical information is set out as follows:-

	2010	2009
	HK$'000	HK$'000
Revenue by geographical location of its customers:-		
Hong Kong	**8,883**	260

	2010	2009
	HK$'000	HK$'000
Carrying amount of non-current assets analysed by geographical area in which the assets are located of:-		
Hong Kong	**429**	579

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

8. OTHER OPERATING INCOME

	2010	2009
	HK$'000	HK$'000
Interest income on bank deposits	**326**	56
Exchange gain	**2**	–
Gain on disposal of interest in purchasing an investment property (Note 15)	**–**	900
Sundry income	**–**	223
	328	1,179

9. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

(i) Directors' remuneration

The emoluments paid or payable to each of the seven (2009: seven) directors are as follows:-

		Other emoluments		
	Fees HK$'000	**Salaries and other benefits HK$'000**	**Pension costs HK$'000**	**Total emoluments HK$'000**
For the year ended 31 December 2010				
Executive directors:-				
Kan Che Kin, Billy Albert	**10**	**–**	**–**	**10**
Kan Kung Chuen Lai	**10**	**–**	**–**	**10**
Li Shu Han, Eleanor Stella	**10**	**–**	**–**	**10**
Li Kai Yien, Arthur Albert	**10**	**–**	**–**	**10**
Independent non-executive directors:-				
Li Siu Yui	**50**	**–**	**–**	**50**
Ip Woon Lai	**50**	**–**	**–**	**50**
Lee Kong Leong	**50**	**–**	**–**	**50**
	190	**–**	**–**	**190**

		Other emoluments		
	Fees HK$'000	**Salaries and other benefits HK$'000**	**Pension costs HK$'000**	**Total emoluments HK$'000**
For the year ended 31 December 2009				
Executive directors:-				
Kan Che Kin, Billy Albert	10	–	–	10
Kan Kung Chuen Lai	10	–	–	10
Li Shu Han, Eleanor Stella	10	–	–	10
Li Kai Yien, Arthur Albert	10	–	–	10
Independent non-executive directors:-				
Li Siu Yui	50	–	–	50
Ip Woon Lai	50	–	–	50
Lee Kong Leong	50	–	–	50
	190	–	–	190

Note:-

(a) At 31 December 2010, the remuneration payable to the directors was approximately HK$48,000 (2009: HK$48,000) which was included in accrued charges and other payables in note 19 to the consolidated financial statements.

9. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (continued)

(ii) Employees' emoluments

During the year, the five (2009: five) highest paid individuals included two directors (2009: two directors) receiving the same amount of emoluments, details of which are set out above in paragraph (i). The emoluments of the remaining three (2009: three) highest paid individuals are as follows:-

	2010 **HK$'000**	2009 HK$'000
Salaries and other benefits	**1,426**	1,361
Retirement benefit scheme contributions	**32**	31
	1,458	1,392

The number of employees whose remuneration fell within the following bands was:-

	2010	2009
Nil-HK$1,000,000	**2**	2
HK$1,000,001-1,500,000	**1**	1
	3	3

There was no arrangement under which a Director waived or agreed to waive any emoluments and no remuneration was paid by the Group to the Directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

10. PROFIT/(LOSS) BEFORE TAXATION

	2010 HK$'000	2009 HK$'000
Profit/(loss) before taxation has been arrived at after charging:-		
Auditor's remuneration	**310**	298
Depreciation of plant and equipment	**152**	65
Operating lease rentals in respect of rented premises	**476**	378
Staff costs:-		
Directors' remuneration		
– fees	**190**	190
– other emoluments	**–**	–
	190	190
Staff costs excluding directors' remuneration	**1,476**	1,411
Retirement benefits scheme contributions, excluding amounts included in directors' remuneration	**32**	31
	1,508	1,442
Total staff costs	**1,698**	1,632

11. TAXATION

No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the assessable profit for the year was fully offset by tax losses brought forward. No provision for Hong Kong Profits Tax had been made in prior year as the Group had no assessable profit.

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

The taxation for the year can be reconciled to the profit/(loss) before taxation per the consolidated statement of comprehensive income as follows:-

	2010 HK$'000	2009 HK$'000
Profit/(loss) before taxation	**5,243**	(4,219)
Tax at Hong Kong Profits Tax rate of 16.5% (2009: 16.5%)	**865**	(696)
Tax effect of non-deductible expenses	**238**	269
Tax effect of non-taxable income	**(143)**	(603)
Tax effect of tax losses not recognised	**16**	1,071
Tax effect of deductible temporary differences not recognised	**4**	(41)
Utilisation of tax losses not previously recognised	**(980)**	–
Taxation for the year	**–**	–

12. DIVIDEND

No dividend was paid or proposed during the year ended 31 December 2010, nor has any dividend been proposed since the end of the reporting period.

13. EARNINGS/(LOSS) PER SHARE

The calculation of the basic earnings/(loss) per share of the Company (the "Share") attributable to equity shareholders of the Company for the year is based on the profit for the year of approximately HK$5,243,000 (loss for 2009: HK$4,219,000) and the weighted average number of 4,923,829,040 (2009: 3,715,113,021) Shares in issue.

The calculation of the diluted earnings per Share attributable to equity shareholders of the Company for the year is based on the profit for the year of approximately HK$5,243,000 and the weighted average number of 4,923,829,040 Shares in issue adjusted for potential diluted effect of 6,243,523,316 Shares to be allotted and issued upon the exercise in full of the conversion rights attaching to the outstanding convertible notes (see note 23)

No diluted loss per Share was presented for the year ended 31 December 2009 as the conversion of the outstanding convertible notes had an anti-dilutive effect on the basic loss per Share.

Weighted average number of Shares	**2010 Number of Shares**	2009 Number of Shares
Weighted average number of Shares (basic)	**4,923,829,040**	3,715,113,021
Effect of the exercise in full of the conversion rights attaching to the outstanding convertible notes	**6,243,523,316**	N/A
Weighted average number of Shares (diluted)	**11,167,352,356**	N/A

14. PLANT AND EQUIPMENT

	Furniture, fixtures and equipment HK$'000	Leasehold improvement HK$'000	Total HK$'000
COST			
At 1 January 2009	13,370	–	13,370
Additions	186	447	633
Written off	(13,356)	–	(13,356)
At 1 January 2010	200	447	647
Addition	2	–	2
At 31 December 2010	202	447	649
DEPRECIATION			
At 1 January 2009	7,661	–	7,661
Provided for the year	18	47	65
Written off	(7,658)	–	(7,658)
At 1 January 2010	21	47	68
Provided for the year	40	112	152
At 31 December 2010	61	159	220
IMPAIRMENT			
At 1 January 2009	5,698	–	5,698
Written off	(5,698)	–	(5,698)
At 1 January 2010 and 31 December 2010	–	–	–
CARRYING VALUES			
At 31 December 2010	141	288	429
At 31 December 2009	179	400	579

The above items of plant and equipment were depreciated on a straight-line basis at the following rates per annum:-

Furniture, fixtures and equipment	20%
Leasehold improvement	25%

15. INVESTMENT PROPERTY

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. 100% equity interest of BK Capital Limited are held by the executive Directors, Mr. Kan Che Kin, Billy Albert ("Mr. Kan") and Mrs. Kan Kung Chuen Lai, the spouse of Mr. Kan, BK Capital Limited is therefore regarded as a connected person of the Company under Chapter 14A of the Listing Rules. This transaction constituted a connected transaction of the Company under the Listing Rules.

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 on 14 August 2009 for the disposal of its interest in the Agreement and the Property at a consideration of HK$7,900,000. On 1 September 2009, Key Fit, BK Capital Limited and the independent third party entered into the assignment whereby all parties agreed that BK Capital Limited assigned the Property to the independent third party. This disposal has been completed on 1 September 2009 resulting in a gain of HK$900,000.

16. HELD FOR TRADING INVESTMENTS

	2010 **HK$'000**	2009 HK$'000
Equity securities listed in Hong Kong, at fair value	**9,288**	5,049

The fair value of the Group's investments in listed equity securities has been determined directly by reference to their published price quotations in active market as at 31 December 2010.

Details of the Group's investments as at 31 December 2010 are as follows:-

Name	**Place of incorporation**	**Principal activities**	**Particulars of investment**	**Approximate percentage of equity interest held**
PCCW Limited	Hong Kong	Provision of telecommunications services, internet access services, interactive multimedia and pay-TV services, the sale and rental of telecommunications equipment, and the provision of computer, engineering and other technical services; investments in, and development of, systems integration and technology-related businesses; and investments in, and development of, infrastructure and properties	Ordinary shares of HK$0.25 each	0.04%

17. TRADE RECEIVABLES, PREPAYMENTS AND DEPOSITS

	2010 HK$'000	2009 HK$'000
Trade receivables	**106**	–
Prepayment and deposits	**1,337**	1,337
	1,443	1,337

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$106,000 were past due within 60 days but not impaired as at 31 December 2010.

Trade receivables that were past due but not impaired are related to the customer that had a good track record with the Group. Based on the past experience, management believed that no impairment allowance is 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 does not hold any collateral over the balances.

18. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and short-term bank deposits with original maturity of three months or less at prevailing interest rates.

19. TRADE PAYABLES, ACCRUED CHARGES AND OTHER PAYABLES

	2010 HK$'000	2009 HK$'000
Trade payables	**6,851**	6,765
Accrued charges and other payables	**4,831**	4,804
	11,682	11,569

All trade payables are overdue more than one year. The trade payables are primarily denominated in Hong Kong dollars and USD.

20. UNSECURED OTHER LOANS

The loans are denominated in Hong Kong dollars, unsecured and repayable on demand.

The loan amounted to HK$1,800,000 (2009: HK$1,800,000) is interest-bearing at an annual rate of 15% while the remaining loan of approximately HK$231,000 (2009: HK$231,000) is interest-bearing at an annual rate of 10%.

21. DEFERRED TAXATION

At the end of the reporting period, the Group had unused tax losses of approximately HK$496,135,000 (2009: HK$502,034,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams . The unrecognised tax losses may be carried forward indefinitely except the losses of approximately HK$628,000 (2009: HK$682,000) which will expire as follows:-

Year of expiry	**2010** **HK$'000**	2009 HK$'000
2010	**–**	54
2011	**628**	628
	628	682

At the end of the reporting period, the Group had deductible temporary differences of approximately HK$1,448,000 (2009: HK$1,420,000) arising from the decelerated tax allowances. No deferred tax asset has been recognised in relation to these deductible temporary differences as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

22. SHARE CAPITAL

(a) Share capital

	2010 **Number of shares**	**Amount** **HK$'000**	2009 Number of shares	Amount HK$'000
Shares of HK$0.01 each				
Authorised:-				
At 1 January and 31 December	**40,000,000,000**	**400,000**	40,000,000,000	400,000
Issued and fully paid:-				
At 1 January	**4,633,418,081**	**46,334**	2,638,599,429	26,386
Conversion of convertible notes (Note 23)	**–**	**–**	1,994,818,652	19,948
Issue of shares	**400,000,000**	**4,000**	–	–
At 31 December	**5,033,418,081**	**50,334**	4,633,418,081	46,334

On 9 April 2010 and 13 April 2010, an aggregate of 400,000,000 Shares of HK$0.01 each were issued at HK$0.52 per Share by placement. All new Shares rank pari passu in all aspects with the existing Shares.

22. SHARE CAPITAL (continued)

(b) Capital management

The Group's equity capital management objectives are to safeguard the Group's ability to continue as a going concern and to provide an adequate return to shareholders commensurately with the level of risk. To meet these objectives, the Group manages the equity capital structure and makes adjustments to it in the light of changes in economic conditions by issuing new equity shares, and raising or repaying debts as appropriate.

The Group's equity capital management strategy, which is unchanged from the previous periods, is to maintain a reasonable proportion in total debts and equity capital. The Group monitors equity capital on the basis of the debt-to-equity capital ratio, which is calculated as net debts over equity capital.

The only externally imposed capital requirement is that under the Listing Rules, the Company has to maintain the minimum public float requirement of which at least 25% of the issued Shares being held in public hands. Details of sufficiency of public float have been included in the paragraph headed "Sufficiency of Public Float" in the section headed "Report of the Directors" of this annual report.

23. CONVERTIBLE NOTES

On 15 January 2008, the Company and 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 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.

23. CONVERTIBLE NOTES (continued)

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 year and the outstanding principal amount of the Convertible Notes as at 31 December 2010 was HK$241,000,000.

24. OPERATING LEASE COMMITMENTS

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

	2010 **HK$'000**	2009 HK$'000
Within one year	**571**	571
In the second to fifth year inclusive	**123**	694
	694	1,265

Operating lease payments represent rentals payable by the Group for its office premises. The lease is negotiated for a term of 3 years (2009: 3 years) and the lease is guaranteed by Mr. Kan.

25. 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 31 December 2010, the JV Company did not yet obtain its business license.

26. SHARE OPTION SCHEME

The Company's share option scheme (the "Option Scheme") was adopted pursuant to a resolution passed on 29 August 2001 for the purpose of recognition of the contribution from directors, eligible employees and others of the Group, and will expire in August 2011. Under the Option Scheme, the board (the "Board") of Directors may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for Shares.

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

Options granted must be taken up within 28 days of the date of grant, upon payment of HK$1 per option. The exercise price is determined by the Directors and will not be less than the higher of the average closing price of the Shares on the Stock Exchange for the five business days immediately preceding the date of grant or the closing price of the Shares on the Stock Exchange on the date of grant.

On 30 May 2003, the shareholders of the Company resolved to make certain amendments to the Option Scheme as the Listing Rules were amended on 1 September 2001. Pursuant to the amended Option Scheme, (i) the Board may grant options to eligible participants in recognition of their contribution to the Group. Eligible participants are defined as any full-time or part-time employees of the Group (including any executive, non-executive and independent non-executive directors of the Company or any of its subsidiaries) and any suppliers, consultants and distributors of the Group who, in the sole discretion of the Board, have contributed or may contribute to the Group; and (ii) the options granted may be exercised at any time during a period to be determined and notified by the Board, such period may commence on a business day immediately after the date of acceptance and in any event shall not exceed the period of 10 years from a business day immediately after the date of acceptance subject to the provisions for early termination.

There was no outstanding share option to subscribe for Shares as at 1 January 2009 and 2010 and no share option to subscribe for Shares had been granted during the years ended 31 December 2009 and 2010. Accordingly, there was no share options to subscribe for Shares outstanding as at 31 December 2009 and 2010.

27. RETIREMENT BENEFITS SCHEME

The Group operates a defined contribution Mandatory Provident Fund Scheme under the Mandatory Provident Fund Scheme Ordinance for all qualifying employees in Hong Kong since December 2000. The assets of the scheme are held separately from those of the Group in funds under the control of trustees. The Group's employer contributions vest fully with employees when contributed into the scheme. The only obligation of the Group with respect of the retirement benefits scheme is to make the required contributions under the scheme.

The total cost charged to the consolidated statement of comprehensive income of approximately HK$32,000 (2009: HK$31,000) represents contributions paid and payable to the scheme by the Group at rate specified in the rules of the scheme. When there are employees who leave the defined contribution retirement benefits scheme prior to becoming fully vested in the contributions, the amount of the forfeited contributions will be used to reduce future contributions payable by the Group. As at 31 December 2010 and 2009, no forfeited contributions were available to reduce the contributions payable in the future years.

28. RELATED PARTY TRANSACTIONS

(a) Apart from the information as disclosed in elsewhere in the consolidated financial statements, the Group did not have other material transactions with its related parties during the year.

(b) Compensation of key management personnel

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

	2010	2009
	HK$'000	HK$'000
Short-term benefits	**1,255**	1,204
Post-employment benefits	**12**	12
	1,267	1,216

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

These transactions do not fall within the definition of "connected transactions" in Chapter 14A of the Listing Rules.

29. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 December 2010 are as follows:-

Name of subsidiary	Place of incorporation and operation	Issued and fully paid share capital/registered capital	Attributable equity interest held by the Company Directly	Indirectly	Principal activities
Artel Computer International Trade (Shanghai) Co., Ltd. 亞邦電腦國際貿易（上海）有限公司 *	PRC	US$200,000	–	100%	Inactive
Artel Industries Limited	Hong Kong	Ordinary – HK$2 Deferred – HK$8,000,000**	–	100%	Inactive
Artel Macao Commercial Offshore Limited	Macau	MOP1,000,000	–	100%	Inactive
Key Fit Group Limited	Hong Kong	HK$1	100%	–	Trading of computer components, information technology products and securities
Wisdom Best Trading Limited	Hong Kong	HK$1	–	100%	Inactive

* The subsidiary is a wholly foreign owned enterprise under the PRC laws and regulations.

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

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

Financial Summary

For the year ended 31 December

	2006 HK$'000	2007 HK$'000	2008 HK$'000	2009 HK$'000	**2010** **HK$'000**
RESULTS					
Turnover	36,334	40,067	12,142	(1,171)	**17,789**
Profit/(loss) before taxation	(182,425)	(1,084)	(2,598)	(4,219)	**5,243**
Taxation	1,300	(187)	38	–	**–**
Profit/(loss) for the year	(181,125)	(1,271)	(2,560)	(4,219)	**5,243**
Earnings/(loss) per share (HK cents)					
Basic	(11.3)	(0.08)	(0.11)	(0.11)	**0.11**

At 31 December

	2006 HK$'000	2007 HK$'000	2008 HK$'000	2009 HK$'000	**2010** **HK$'000**
ASSETS AND LIABILITIES					
Total assets	5,390	6,437	42,363	38,431	**246,936**
Total liabilities	(331,112)	(332,542)	(13,292)	(13,600)	**(13,713)**
Shareholders' funds/(capital deficiencies)	(325,722)	(326,105)	29,071	24,831	**233,223**