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ARTEL SOLUTIONS GROUP HOLDINGS LIMITED

宏通集團控股有限公司*

(incorporated in Cayman Islands with limited liability)

(stock code: 931)

**PROPOSED CONNECTED TRANSACTION IN RELATION TO
ISSUE OF CONVERTIBLE NOTES**

AND

PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL

Financial adviser



CIMB-GK Securities (HK) Limited

BACKGROUND

Trading in the Shares on the Stock Exchange has been suspended since 7 September 2006 at the request of the Company. On 22 September 2006, the Company announced that on 7 September 2006, it had received a petition for winding up of the Company by the Petitioner due to the Company's failure to repay certain outstanding debts. On 15 November 2006, the Company announced that the said petition had been dismissed.

On 22 May 2007, the Company received a letter from the Stock Exchange dated 22 May 2007 stating that in view of the prolonged suspension of trading in the Shares and the Company's failure to demonstrate its compliance with Rule 13.24 of the Listing Rules, the Stock Exchange would place the Company in the second stage of the delisting procedures pursuant to Practice Note 17 to the Listing Rules and the Company was required to submit viable resumption proposals to the Stock Exchange within six months from the date of the letter.

* *for identification purposes only*

On 25 July 2007, the Company was notified by Mr. Kan that he had entered into the Sale and Purchase Agreement with E-Career Investments Limited and Mr. Yu Pen Hung on the same date to acquire the Sale Shares, representing 75% of the then issued share capital of the Company. Following completion of the Sale and Purchase Agreement, CIMB-GK Securities (HK) Limited on behalf of Mr. Kan made, in accordance with Rule 26.1 and Rule 13 of the Takeovers Code, the Offers. The Offers were closed on 31 October 2007.

On 31 August 2007, Mr. Kan acquired the Bank Debts from the Bank Creditors by way of assignment for a consideration of HK\$30.3 million. On 5 September 2007, Mr. Kan acquired the Intel Debt from Intel by way of assignment for a consideration of US\$840,000 (equivalent to approximately HK\$6,552,000).

On 31 October 2007, the Company submitted the Resumption Proposal to the Stock Exchange which set out, among other things, an update of the Group's existing business and financial position and the proposed issue of the Convertible Notes. After considering the Resumption Proposal, the Stock Exchange has in-principle agreed with the resumption of trading in the Shares on the Stock Exchange subject to the conditions as set out in the paragraph headed "Conditions for resumption of trading in the Shares" of this announcement.

THE SUBSCRIPTION AGREEMENT

The Group had unaudited total liabilities and net liabilities of approximately HK\$330 million and HK\$327 million respectively as at 30 June 2007. To revitalize the Group's financial position and to raise additional working capital for the Group's business expansion, on 15 January 2008, the Company and Mr. Kan entered into the Subscription Agreement pursuant to which the Company has conditionally agreed to issue and Mr. Kan has conditionally agreed to subscribe for the Convertible Notes in an aggregate principal amount of HK\$358 million.

The initial Conversion Price of HK\$0.0386 per Conversion Share is determined by the parties taking into account the Share Offer Price and the adverse financial position of the Company, in particular the net liabilities position of the Company, and represents (i) the Share Offer Price; (ii) a premium of approximately 4.32% over the closing price of Shares of HK\$0.0370 per Share as quoted on the Stock Exchange on 7 September 2006, being the last trading day immediately prior to the suspension of trading in the Shares on the Stock Exchange; (iii) a premium of HK\$0.2422 per Share over the audited consolidated net liabilities per Share of approximately HK\$0.2036 as at 31 December 2006; and (iv) a premium of HK\$0.2429 per Share over the unaudited consolidated net liabilities per Share of approximately HK\$0.2043 as at 30 June 2007.

Assuming that the conversion rights attaching to the Convertible Notes are exercised in full at the initial Conversion Price of HK\$0.0386 per Conversion Share, an aggregate of a maximum of 9,274,611,398 Conversion Shares will be issued which represents approximately 578.82% of the issued share capital of the Company as at the date of this announcement and approximately 85.27% of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares.

The gross proceeds of the Convertible Notes will be HK\$358 million. The net proceeds of the Convertible Notes will be approximately HK\$356 million of which approximately HK\$318 million will be used to set off the full amount of (i) the Bank Debts and the Intel Debt which have been assigned to Mr. Kan and (ii) the loan advanced by Mr. Kan to the Group subsequent to the completion of the Sale and Purchase Agreement, against such amount of the subscription price of the Convertible Notes on a dollar for dollar basis, and the remaining proceeds of approximately HK\$38 million will be used as general working capital of the Group.

PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL

The Company proposes to increase its authorised share capital from HK\$100,000,000 divided into 10,000,000,000 Shares to HK\$400,000,000 divided into 40,000,000,000 Shares by the creation of additional 30,000,000,000 Shares of HK\$0.01 each.

GENERAL

As at the date of this announcement, Mr. Kan, an executive Director and the chairman of the Company, holds 1,217,558,000 Shares, representing approximately 75.99% of the issued share capital of the Company. Accordingly, Mr. Kan is a connected person of the Company and the Subscription constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. Pursuant to the Listing Rules, the Subscription is therefore conditional upon the approval of the Independent Shareholders by way of poll at the EGM. Mr. Kan and his associates will be required to abstain from voting at the EGM in respect of such resolution(s).

An independent board committee, comprising all independent non-executive Directors, namely Mr. Li Siu Yui, Mr. Ip Woon Lai and Mr. Lee Kong Leong, has been established by the Company to consider the terms of the Subscription Agreement. An independent financial adviser will be appointed to advise the independent board committee of the Company and the Independent Shareholders in relation to the Subscription Agreement.

The increase in authorised share capital of the Company is conditional upon the passing of an ordinary resolution by the Shareholders at the EGM.

A Circular containing, among other things, (i) further information on the Subscription Agreement, the proposed increase in authorised share capital of the Company and actions taken by the Company to address the issues pertaining to the suspension of trading in the Shares; (ii) the recommendation from the independent board committee of the Company in relation to the Subscription Agreement; (iii) the advice of the independent financial adviser to the independent board committee of the Company and the Independent Shareholders in relation to the Subscription Agreement; and (iv) the notice of the EGM will be despatched to the Shareholders as soon as practicable in accordance with the Listing Rules. The Company will also publish a separate announcement containing, among other things, actions taken by the Company to address the issues pertaining to the suspension of trading in the Shares as soon as practicable.

Trading in the Shares on the Stock Exchange has been suspended since 7 September 2006. **The publication of this announcement does not necessarily indicate that the Resumption Proposal will be successfully implemented and completed as the conditions precedent to the Resumption Proposal may not be fulfilled or otherwise waived. Trading in the Shares may or may not be resumed as a result.**

BACKGROUND

Trading in the Shares on the Stock Exchange has been suspended since 7 September 2006 at the request of the Company. On 22 September 2006, the Company announced that on 7 September 2006, it had received a petition for winding up of the Company by the Petitioner due to the Company's failure to repay certain outstanding debts. On 15 November 2006, the Company announced that the said petition had been dismissed.

On 22 May 2007, the Company received a letter from the Stock Exchange dated 22 May 2007 stating that in view of the prolonged suspension of trading in the Shares and the Company's failure to demonstrate its compliance with Rule 13.24 of the Listing Rules, the Stock Exchange would place the Company in the second stage of the delisting procedures pursuant to Practice Note 17 to the Listing Rules and the Company was required to submit viable resumption proposals to the Stock Exchange within six months from the date of the letter.

On 25 July 2007, the Company was notified by Mr. Kan that he had entered into the Sale and Purchase Agreement with E-Career Investments Limited and Mr. Yu Pen Hung on the same date to acquire the Sale Shares, representing 75% of the then issued share capital of the Company. Following completion of the Sale and Purchase Agreement, CIMB-GK Securities (HK) Limited on behalf of Mr. Kan made, in accordance with Rule 26.1 and Rule 13 of the Takeovers Code, the Offers. The Offers were closed on 31 October 2007. Please refer to the announcement of the Company dated 19 September 2007 and the Composite Document for further details relating to the Offers.

On 31 August 2007, Mr. Kan acquired the Bank Debts from the Bank Creditors by way of assignment for a consideration of HK\$30.3 million. On 5 September 2007, Mr. Kan acquired the Intel Debt from Intel by way of assignment for a consideration of US\$840,000 (equivalent to approximately HK\$6,552,000).

On 31 October 2007, the Company submitted the Resumption Proposal to the Stock Exchange which set out, among other things, an update of the Group's existing business and financial position and the proposed issue of the Convertible Notes.

CONDITIONS FOR RESUMPTION OF TRADING IN THE SHARES

Based on the information provided to the Stock Exchange, the Company is allowed to proceed with the Resumption Proposal (as supplemented by the further submissions to the Stock Exchange) subject to fulfillment of the following conditions to the satisfaction of the Stock Exchange prior to resumption of trading in the Shares:

1. disclosing details of the Resumption Proposal and the actions taken by the Company to remedy those matters that gave rise to the Stock Exchange's proposal to cancel the listing of the Company by way of announcement(s);
2. inclusion of the opinion of an independent financial adviser on whether the Restructuring Proposal is fair and reasonable and in the interest of the Company and the Shareholders as a whole in the circular to the Shareholders in relation to the Restructuring Proposal (the "Circular");
3. inclusion in the Circular pro forma balance sheet of the Group upon completion of the Restructuring Proposal prepared in accordance with Rule 4.29 of the Listing Rules;

4. inclusion in the Circular a statement by the Directors as to the sufficiency of the working capital of the Group for the next twelve months from the date of the Circular, and submission to the Stock Exchange a comfort letter from the Company's auditors in respect of such working capital statement;
5. passing of the relevant resolution by the Independent Shareholders on the Restructuring Proposal with Mr. Kan, his associates and any other Shareholders who have a material interest in the transaction abstaining from voting in respect of the resolution as required under the Listing Rules;
6. restoring the Company's public float to at least 25% of its total issued share capital;
7. completion of the Restructuring Proposal;
8. the Company undertaking to make subsequent disclosure of the relevant details of the conversion of the Convertible Notes in the manner described in the sections headed "Subsequent announcement requirements in relation to the conversion of the Convertible Notes" below to enable the Shareholders and the public to appraise the position of the Company from time to time.

INFORMATION OF THE GROUP

The Group is principally engaged in the distribution of computer components and information technology products, and the provision of integrated e-enabling solutions.

Financial information

Certain financial information of the Group, as extracted from the annual report of the Company for the year ended 31 December 2006 and the interim report of the Company for the six months ended 30 June 2007, is set out below:

	For the year ended		For the six
	31 December		months ended
	2005	2006	30 June
	(Audited)	(Audited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	1,198,229	36,334	20,390
Loss before taxation	595,716	182,425	1,206
Loss attributable to equity holders	596,450	181,125	1,206
	As at		As at
	31 December		30 June
	2005	2006	2007
	(Audited)	(Audited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Total assets	226,291	5,390	2,633
Total liabilities	370,888	331,112	329,561
Capital deficiencies	144,597	325,722	326,928

Existing business of the Group

During the year 2006, the Group experienced liquidity problem and was unable to fully settle amounts due to Intel, its major supplier, and the Bank Creditors. As a result, Intel ceased supplying products to the Group, seriously hampering the Group's business. With minimal working capital, the Group only managed to record a turnover of approximately HK\$36.3 million for the year 2006. Since early 2007, the Group's business began to stabilize, generating revenue of approximately HK\$20 million for the six months ended 30 June 2007.

In the second half of 2007, the Group has expanded its sales team by recruiting additional sales managers who have extensive sales and technical commercial experience in the computer, information technology and e-enabling services industries. The Group has also devoted substantial effort in expanding its product range by sourcing supplies from new suppliers. With the expansion of the customer base and product range, the Group's trading business showed a steady improvement in recent months. As the Group's business continues to improve and with the additional working capital to be raised from the Subscription, which will enable the Group to further expand its scale of operations, the Directors are optimistic about the Group's prospect.

REASONS FOR THE SUBSCRIPTION

On 22 September 2006, the Company announced that on 7 September 2006, it had received a petition for winding up of the Company by the Petitioner due to the Company's failure to repay certain outstanding debts. On 15 November 2006, the Company announced that the said petition had been dismissed. Despite the dismissal of the petition by the Petitioner, the Group remained in a net liability position with the Bank Debts and the Intel Debt, which have subsequently been assigned to Mr. Kan, remaining unsettled as at the date of this announcement. As set out above, the Group had unaudited total liabilities and capital deficiencies of approximately HK\$330 million and HK\$327 million respectively as at 30 June 2007. The Group's unaudited total liabilities as at 30 June 2007 mainly comprised the Bank Debts and the Intel Debts, which have subsequently been assigned to Mr. Kan on 31 August 2007 and 5 September 2007 respectively. Mr. Kan has advanced a loan to the Group in an aggregate amount of approximately HK\$3 million subsequent to the completion of the Sale and Purchase Agreement.

To revitalise the Group's financial position and to raise additional working capital for the Group's business expansion, on 15 January 2008, the Company and Mr. Kan entered into the Subscription Agreement pursuant to which the Company has conditionally agreed to issue and Mr. Kan has conditionally agreed to subscribe for the Convertible Notes in an aggregate principal amount of HK\$358 million.

The Directors consider that the terms of the Subscription Agreement, which were arrived at after arm's length negotiations between the Company and Mr. Kan, are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

THE SUBSCRIPTION AGREEMENT

Date

15 January 2008

Issuer

The Company

Subscriber

Mr. Kan, an executive Director, the chairman and the controlling shareholder of the Company. As at the date of this announcement, Mr. Kan holds 1,217,558,000 Shares, representing approximately 75.99% of the issued share capital of the Company. Mr. Kan is regarded as a connected person of the Company under the Listing Rules.

Conditions of the Subscription

Completion of the Subscription Agreement is conditional upon:

- (i) the passing of the necessary resolution(s) by the shareholders of the Company (if required, other than the Subscriber and his associates) at the EGM to approve (i) the Subscription Agreement and the transactions contemplated under the Subscription Agreement; and (ii) the increase in authorised share capital of the Company;
- (ii) (if required) the Listing Committee of the Stock Exchange approving the issue of the Convertible Notes;
- (iii) the Listing Committee of the Stock Exchange granting or agreeing to grant the listing of, and permission to deal in, the Conversion Shares; and
- (iv) all other necessary waivers, consents and approvals (if required) from the relevant governmental or regulatory authorities for the Subscription Agreement and the transactions contemplated hereunder having been obtained and fulfilled.

If any of the conditions (none of which can be waived by the parties) shall not have been fulfilled on or before 31 March 2008 (or such other time and date the Company and Mr. Kan may agree in writing), the Subscription Agreement will lapse and the parties to the Subscription Agreement will be released from all obligations under the Subscription Agreement, save for liabilities for any antecedent breaches thereof.

Completion

Completion of the Subscription will take place on the third Business Day after the date on which the last of the conditions set out in the paragraph headed “Conditions of the Subscription” above has been fulfilled (or such other date as the Company and Mr. Kan may agree in writing).

Principal terms of the Convertible Notes

- Principal Amount : HK\$358 million in aggregate
- Pursuant to the Subscription Agreement, the Company and Mr. Kan agree and acknowledge that the subscription price of the Convertible Notes shall be satisfied in part of approximately HK\$318 million by setting off the full amount of (i) the Bank Debts and the Intel Debt which have been assigned to Mr. Kan; and (ii) the loan advanced by Mr. Kan to the Group subsequent to the completion of the Sale and Purchase Agreement, against such amount of the subscription price of the Convertible Notes on a dollar for dollar basis, and that the remaining balance of approximately HK\$40 million shall be settled in cash.
- Maturity Date : 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 public hands being less than the minimum public float as required under the Listing Rules from time to time, the Convertible Notes will be renewed automatically for successive term of one year commencing the day next after the expiry of the then current term of the Convertible Notes. The Convertible Notes shall continue to remain in full force and effect unless and until the outstanding principal amount of the Convertible Notes is fully converted into Conversion Shares.
- Note: The term "Maturity Date" shall also mean the last day of such extended term.*
- Coupon Rate : Zero coupon
- Conversion Rights : The Noteholder will have the right to convert the principal amount of the Convertible Notes into Shares at the initial Conversion Price at any time during the period commencing from the date of the issue of the Convertible Notes to 4:00 p.m. (Hong Kong time) on the Business Day prior to the Maturity Date (subject to extension).
- The Company has the right to refuse the exercise of any conversion rights attaching to the Convertible Notes by the Noteholder if the exercise of which would render the then Shares held in public hands being less than the minimum public float as required under the Listing Rules from time to time.
- Conversion Price : HK\$0.0386 per Conversion Share, which is subject to adjustments: alteration of the nominal amount of each Share by reason of any sub-division or consolidation, capitalisation of profits or reserves, capital distributions, rights or warrants issues, issues of other securities which are convertible into or exchangeable for or carrying rights of subscription for new Shares or modifications to rights of conversion/exchange/subscription attaching to such securities, issues of Shares wholly for cash or for the acquisition of assets as set out in the Convertible Notes.

- Redemption Rights : The Convertible Notes are non-redeemable. In the event the conversion of the outstanding principal amount of the Convertible Notes on the Maturity Date would not affect the minimum public float as required under the Listing Rules from time to time being held in public hands, such outstanding principal amount of the Convertible Notes shall be converted into Conversion Shares at the Conversion Price (subject to adjustments) on the Maturity Date.
- Voting : The Noteholder(s) will not be entitled to attend or vote at any meetings of the Company by reason only of it being a holder(s) of the Convertible Notes.
- Listing : No application will be made for the listing of the Convertible Notes on the Stock Exchange or any other stock exchange. An application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.
- Transferability : Assignment or transfer of the Convertible Notes may only be made if:
- (i) it is made to person(s) independent of and not connected with the Company or any of its subsidiaries or any of their respective associates (as defined in the Listing Rules);
 - (ii) prior written approval of the Company shall have been obtained in respect thereof; and
 - (iii) the principal amount to be transferred or assigned is at least HK\$1,000,000 and integral multiples of HK\$1,000,000.
- Ranking : The Conversion Shares will rank, upon issue, pari passu in all respects with the Shares in issue on the date(s) of allotment and issue of the Conversion Shares.

The initial Conversion Price of HK\$0.0386 is determined by the parties taking into account the Share Offer Price and the adverse financial position of the Company, in particular the net liabilities position of the Company, and represents:

- (i) the Share Offer Price;
- (ii) a premium of approximately 4.32% over the closing price of Shares of HK\$0.0370 per Share as quoted on the Stock Exchange on 7 September 2006, being the last trading day immediately prior to the suspension of trading in the Shares on the Stock Exchange;
- (iii) a premium of HK\$0.2422 per Share over the audited consolidated net liabilities per Share of approximately HK\$0.2036 as at 31 December 2006; and
- (iv) a premium of HK\$0.2429 per Share over the unaudited consolidated net liabilities per Share of approximately HK\$0.2043 as at 30 June 2007.

The Conversion Shares will be issued under the specific mandate proposed to be sought from the Independent Shareholders at the EGM.

Assuming that the conversion rights attaching to the Convertible Notes are exercised in full at the initial Conversion Price of HK\$0.0386 per Conversion Share, an aggregate of a maximum of 9,274,611,398 Conversion Shares will be issued which represents approximately 578.82% of the issued share capital of the Company as at the date of this announcement and approximately 85.27% of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares.

SHAREHOLDING STRUCTURE

The shareholding structure of the Company immediately before and after the exercise of the conversion rights attaching to the Convertible Notes in full is set out below:

	Shareholding as at the date of this announcement		Shareholding immediately after the issue of the Conversion Shares	
	<i>No. of Shares</i>	<i>% (approximate)</i>	<i>No. of Shares</i>	<i>% (approximate)</i>
Mr. Kan (<i>Note 1</i>)	1,217,558,000	75.99%	10,492,169,398	96.46%
Public shareholders (<i>Note 2</i>)	384,772,000	24.01%	384,772,000	3.54%
Total	<u>1,602,330,000</u>	<u>100.00%</u>	<u>10,876,941,398</u>	<u>100.00%</u>

Notes:

- Mr. Kan undertakes to place not less than 16,000,000 Shares, representing approximately 0.9985% of the existing issued share capital of the Company, to independent placees immediately prior to resumption of trading in the Shares on the Stock Exchange in order to comply with the minimum public float as required under the Listing Rules from time to time. Further announcement will be made by the Company accordingly.
- In order to ensure sufficient public float of the Company upon any conversion of the Convertible Notes, under the terms of the Convertible Notes, (i) the Company has the right to refuse the exercise of any conversion rights attaching the Convertible Notes by the Noteholder if the exercise of which would render the then Shares held in public hands being less than the minimum public float as required under the Listing Rules from time to time; and (ii) in the event the compulsory conversion of the outstanding principal amount of the Convertible Notes on the Maturity Date would render the then Shares held in public hands being less than the minimum public float as required under the Listing Rules from time to time, the Convertible Notes will be renewed automatically for successive term of one year commencing the day next after the expiry of the then current term of the Convertible Notes. The Convertible Notes shall continue to remain in full force and effect unless and until the outstanding principal amount of the Convertible Notes is fully converted into Conversion Shares.

Pursuant to the terms of the Subscription Agreement, Mr. Kan had also undertaken that during the term of the Convertible Notes, not to exercise any conversion rights attaching to the Convertible Notes if the exercise of which would render the then Shares held in public hands being less than the minimum public float as required under the Listing Rules from time to time.

USE OF PROCEEDS

The gross proceeds of the Convertible Notes will be HK\$358 million. The net proceeds of the Convertible Notes will be approximately HK\$356 million of which approximately HK\$318 million will be used to the set off the full amount of (i) the Bank Debts and the Intel Debt which have been assigned to Mr. Kan and (ii) the loan advanced by Mr. Kan to the Group subsequent to the completion of the Sale and Purchase Agreement, against such amount of the subscription price of the Convertible Notes on a dollar for dollar basis, and the remaining proceeds of approximately HK\$38 million will be used as general working capital of the Group.

SUBSEQUENT ANNOUNCEMENT REQUIREMENTS IN RELATION TO THE CONVERSION OF THE CONVERTIBLE NOTES

The Company will keep the Shareholders informed of the level of dilution effect and all relevant details of any conversion in the following manner:

- (a) the Company will make the Monthly Announcement for so long as any of the Convertible Notes remain outstanding. Such announcement will be made on or before the fifth Business Day of each calendar month regarding conversion information in the preceding month and will include the following details in a table form:
 - (i) whether there is any conversion of the Convertible Notes during the preceding calendar month. If yes, details of the conversion(s), including the conversion date, number of new Shares issued, the conversion price for each conversion. If there is no conversion during the preceding calendar month, a negative statement will be made;
 - (ii) the principal amount of outstanding Convertible Notes after the conversion(s), if any;
 - (iii) the public float of the Company after the conversion(s);
 - (iv) the total number of new Shares issued pursuant to other transactions during the preceding calendar month, including Shares issued pursuant to exercise of options under the Company's share option scheme(s) (if any); and
 - (v) the total issued share capital of the Company as at the commencement and the last day of the preceding calendar month;
- (b) in addition to the Monthly Announcement, if the cumulative amount of new Conversion Shares issued pursuant to the conversion of the Convertible Notes reaches 5% of the issued share capital of the Company as disclosed in the preceding Monthly Announcement or Special Announcement (as the case may be) (and thereafter in a multiple of such 5% threshold), the Company will make the Special Announcement including details as stated in (a) above for the period commencing from the date of the preceding Monthly Announcement or the Special Announcement (as the case may be) up to the date on which the total number of new Conversion Shares issued pursuant to the latest conversion amounted to 5% of the issued share capital of the Company as disclosed in the preceding Monthly Announcement or the Special Announcement (as the case may be); and

- (c) in addition to the Monthly Announcement or the Special Announcement, if the Company forms the view that the issue of new Conversion Shares will trigger the disclosure requirements under Rule 13.09 of the Listing Rules, the Company is obliged to make such disclosure regardless of the issue of any announcements in relation to the Convertible Notes as mentioned in (a) and (b) above.

FUND RAISING ACTIVITIES IN THE PAST 12 MONTHS

The Company has not conducted any fund raising activities in the 12 months prior to the date of this announcement.

INCREASE IN AUTHORISED SHARE CAPITAL

As at the date of this announcement, the authorised share capital of the Company is HK\$100,000,000 divided into 10,000,000,000 Shares. As it is one of the conditions precedent of the Subscription Agreement and to facilitate the completion of the Subscription Agreement, the Company proposes to increase its authorised share capital from HK\$100,000,000 divided into 10,000,000,000 Shares to HK\$400,000,000 divided into 40,000,000,000 Shares by the creation of additional 30,000,000,000 Shares of HK\$0.01 each.

The proposed increase in authorised share capital of the Company is conditional upon the passing of an ordinary resolution by the Shareholders at the EGM. Save for the issue of the Conversion Shares, the Company has no present intention of issuing any part of that capital as at the date of this announcement.

GENERAL

As at the date of this announcement, Mr. Kan, an executive Director and the chairman of the Company, holds 1,217,558,000 Shares, representing approximately 75.99% of the issued share capital of the Company. Accordingly, Mr. Kan is a connected person of the Company and the Subscription constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. Pursuant to the Listing Rules, the Subscription is therefore conditional upon the approval of the Independent Shareholders by way of poll at the EGM. Mr. Kan and his associates will be required to abstain from voting at the EGM in respect of such resolution(s).

An independent board committee, comprising all the independent non-executive Directors, namely Mr. Li Siu Yui, Mr. Ip Woon Lai and Mr. Lee Kong Leong, has been established by the Company to consider the terms of the Subscription Agreement. An independent financial adviser will be appointed to advise the independent board committee of the Company and the Independent Shareholders in relation to the terms of the Subscription Agreement.

A Circular containing, among other things, (i) further information on the Subscription Agreement, the proposed increase in authorised share capital of the Company and actions taken by the Company to address the issues pertaining to the suspension of trading in the Shares; (ii) the recommendation from the independent board committee of the Company in relation to the Subscription Agreement; (iii) the advice of the independent financial adviser to the independent board committee of the Company and the Independent Shareholders in relation to the Subscription Agreement; and (iv) the notice of the EGM will be despatched to the Shareholders as soon as practicable in accordance with the Listing Rules. The Company will also publish a separate announcement containing, among other things, actions taken by the Company to address the issues pertaining to the suspension of trading in the Shares as soon as practicable.

SUSPENSION OF TRADING IN THE SHARES

Trading in the Shares has been suspended since 7 September 2006. **The publication of this announcement does not necessarily indicate that the Resumption Proposal will be successfully implemented and completed as the conditions precedent to the Resumption Proposal may not be fulfilled or otherwise waived. Trading in the Shares may or may not be resumed as a result.**

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms shall have the respective meanings set out opposite to them:

“acting in concert”	has the same meaning ascribed to it in the Takeovers Code
“Bank Creditors”	a total of 13 banks which have extended banking facilities to the Group prior to the assignment of the Bank Debts to Mr. Kan on 31 August 2007
“Bank Debts”	all the right, title, interest and benefit in the amounts originally due to the Bank Creditors by the Group, which aggregate balance was approximately HK\$256 million at as 12 December 2005, and which had been assigned by the Bank Creditors to Mr. Kan on 31 August 2007
“Board”	the board of Directors
“Business Day”	a day, other than a Saturday and a day on which a tropical cyclone warning no. 8 or above or a “black rainstorm warning signal” is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m., on which licensed banks are open for general banking business in Hong Kong throughout their normal business hours
“Company”	Artel Solutions Group Holdings Limited, a company incorporated in the Cayman Islands with limited liability whose shares are listed on the Stock Exchange
“Composite Document”	the composite offer document dated 10 October 2007 issued by Mr. Kan and the Company in accordance with the Takeovers Code containing, amongst other things, details of the Offers
“controlling shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Conversion Price”	HK\$0.0386, being the price at which each Conversion Share will be issued upon a conversion of the whole or part of the Convertible Notes (subject to adjustments)
“Conversion Shares”	up to 9,274,611,398 new Shares to be allotted and issued upon exercise of the conversion rights attaching to the Convertible Notes at the initial Conversion Price

“Convertible Notes”	the zero-coupon and non-redeemable convertible notes with an aggregate principal amount of HK\$358 million to be issued by the Company to Mr. Kan pursuant to the Subscription Agreement
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened for considering and, if thought fit, approving (i) the Subscription Agreement and the transactions contemplated thereunder; and (ii) the increase in authorised share capital of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Independent Shareholder(s)”	Shareholder(s) other than Mr. Kan and his associates
“Intel”	Intel Semiconductor Limited
“Intel Debt”	the amount originally due to Intel by the Group, which balance was US\$7,567,165 as at 11 July 2006, and which had been assigned by Intel to Mr. Kan on 5 September 2007
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Maturity Date”	the date falling on the fifth anniversary of the date of issue of the Convertible Notes (subject to extension)
“Monthly Announcement”	the monthly announcement to be issued by the Company in relation to the conversion of the Convertible Notes for so long as any of the Convertible Notes remain outstanding
“Mr. Kan”	Mr. Kan Che Kin, Billy Albert, an executive Director, the chairman and the controlling shareholder of the Company
“Noteholder(s)”	holder(s) of the Convertible Notes
“Offers”	the unconditional mandatory cash offer made by CIMB-GK Securities (HK) Limited on behalf of Mr. Kan for all issued Shares (other than those already owned by Mr. Kan or parties acting in concert with him) and to cancel all outstanding share options of the Company, details of which are set out in the Composite Document
“Petitioner”	HSH Nordbank AG, Hong Kong Branch

“PRC”	the People’s Republic of China
“Restructuring Proposal”	the restructuring proposal submitted by Mr. Kan to the Company pursuant to which the Company will issue the Convertible Notes to Mr. Kan for full settlement of the Bank Debts and the Intel Debt which have been assigned to Mr. Kan and the loan advanced by Mr. Kan to the Group subsequent to completion of the Sale and Purchase Agreement and to raise funds for general working capital of the Group
“Resumption Proposal”	the proposal in relation to the resumption of trading in the Shares submitted to the Stock Exchange on 31 October 2007 (as supplemented by the further submissions to the Stock Exchange)
“Sale and Purchase Agreement”	the conditional agreement dated 25 July 2007 entered into among Mr. Kan, E-Career Investments Limited and Mr. Yu Pen Hung, an executive Director, in relation to the sale and purchase of the Sale Shares
“Sale Shares”	1,200,000,000 Shares, representing 75% of the issued share capital of the Company as at the date of the Sale and Purchase Agreement
“Share(s)”	share(s) of HK\$0.01 each in the issued share capital of the Company
“Share Offer Price”	the amount of HK\$0.0386 payable by Mr. Kan to the Shareholders for each Share accepted under the Offers
“Shareholders”	holders of Shares
“Special Announcement”	the announcement to be issued by the Company if the cumulative amount of new Conversion Shares issued pursuant to the conversion of the Convertible Notes reaches 5% of the issued share capital of the Company as disclosed in the preceding Monthly Announcement or any subsequent announcement made by the Company in respect of the Convertible Notes
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription”	the subscription of the Convertible Notes by Mr. Kan subject to the terms and conditions of the Subscription Agreement
“Subscription Agreement”	the conditional agreement dated 15 January 2008 entered into between the Company and Mr. Kan in respect of the Subscription
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“%”	per cent.

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

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

Hong Kong, 15 January 2008