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**ARTEL SOLUTIONS GROUP HOLDINGS LIMITED**

**宏通集團控股有限公司\***

*(incorporated in the Cayman Islands with limited liability)*

**(Stock code: 931)**

**COMPLETION OF THE SUBSCRIPTION AGREEMENT,  
PLACING OF EXISTING SHARES,  
AND  
RESUMPTION OF TRADING**

**Financial adviser**



**CIMB-GK Securities (HK) Limited**

**COMPLETION OF THE SUBSCRIPTION AGREEMENT**

The Company announced that 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 PLACING AGREEMENT**

On 12 February 2008, the Company was informed by Mr. Kan that he entered into the Placing Agreement with the Placing Agent pursuant to which the Placing Agent had agreed to place out to not less than six independent places 16,000,000 Shares, representing approximately 0.9985% of the issued share capital of the Company as at the date of this announcement, at HK\$0.388 per Placing Share.

Completion of the Placing took place on 13 February 2008.

\* *for identification purposes only*

Immediately prior to the Placing, Mr. Kan held 1,217,558,000 Shares, representing approximately 75.99% of the existing issued share capital of the Company. The shareholding of Mr. Kan in the Company was reduced to approximately 74.99% immediately after completion of the Placing. Accordingly, the Company restored the 25% minimum public float requirement under Rule 8.08 of the Listing Rules upon completion of the Placing.

## **RESUMPTION OF TRADING**

Trading in the Shares on the Stock Exchange has been suspended since 7 September 2006 at the request of the Company. 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 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 had 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 the Announcement.

The Board is pleased to announce that all conditions for the resumption of trading in the Shares on the Stock Exchange have been fulfilled/are to be fulfilled. Application will be made by the Company for the resumption of trading in the Shares on the Stock Exchange with effect from 9:30 a.m. on Monday, 18 February 2008.

Reference is made to the Announcement and the Circular in relation to, among other matters, the proposed issue of the Convertible Notes and the proposed increase in the authorised share capital of the Company. Unless the context otherwise requires, terms used in this announcement shall have the same meanings as defined in the Circular.

## **COMPLETION OF THE SUBSCRIPTION AGREEMENT**

The Company announced that 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 PLACING AGREEMENT**

### **Date:**

12 February 2008

### **Parties:**

1. Mr. Kan; and
2. the Placing Agent.

### **The Vendor:**

Mr. Kan Che Kin, Billy Albert, an executive Director, the chairman and the controlling shareholder of the Company

### **The Placing Agent:**

Emperor Securities Limited

To the best knowledge of the Directors after making all reasonable enquiries, the Placing Agent and its ultimate beneficial owners are independent third parties not connected with the Company, any directors, chief executive or substantial shareholders of the Company or any of its subsidiaries or any of their respective associates.

### **The placees:**

The Placing Shares were placed to not less than six placees who are individual and/or corporate investors and are third parties independent of and not connected with the Company or any of the connected persons (as defined in the Listing Rules) of the Company. No placee became a substantial Shareholder immediately following completion of the Placing.

### **Number of Placing Shares:**

16,000,000 Shares were placed by the Placing Agent, which represents approximately 0.9985% of the issued share capital of the Company as at the date of this announcement.

### **Placing Price:**

The Placing Price of HK\$0.388 per Placing Share was agreed after arm's length negotiations between Mr. Kan and the Placing Agent, and represents:

- (i) a premium of approximately 949% over the closing price 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;
- (ii) a premium of approximately 719% over the average closing price of HK\$0.0474 per Share for the last 5 trading days prior to 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\$0.5916 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\$0.5923 per Share over the unaudited consolidated net liabilities per Share of approximately HK\$0.2043 as at 30 June 2007.

## Completion

Completion of the Placing took place on 13 February 2008.

## EFFECT OF THE PLACING AND PUBLIC FLOAT OF THE COMPANY

Immediately prior to the Placing, Mr. Kan held approximately 75.99% of the existing issued share capital of the Company and approximately 24.01% of the existing issued share capital of the Company was held in public hands. The shareholding of Mr. Kan was reduced to approximately 74.99% and the issued share capital of the Company held in public hands was increased to approximately 25.01% immediately after completion of the Placing.

The shareholding structure of the Company immediately before and after completion of the Placing is set out below:

	Shareholding immediately before completion of the Placing		Shareholding immediately after completion of the Placing	
	<i>No. of Shares</i>	<i>(approximate)</i> %	<i>No. of Shares</i>	<i>(approximate)</i> %
Mr. Kan	1,217,558,000	75.99%	1,201,558,000	74.99%
Public Shareholders	384,772,000	24.01%	400,772,000	25.01%
<b>Total</b>	<b>1,602,330,000</b>	<b>100.00%</b>	<b>1,602,330,000</b>	<b>100.00%</b>

Accordingly, the Company restored the 25% minimum public float requirement under Rule 8.08 of the Listing Rules upon completion of the Placing, which is one of the conditions for the resumption of trading in the Shares on the Stock Exchange.

## RESUMPTION OF TRADING IN THE SHARES

Trading in the Shares on the Stock Exchange has been suspended since 7 September 2006 at the request of the Company. 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 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 had 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 the Announcement, which includes, publication of an announcement of the Company to disclose the actions taken by the Company to address the issues pertaining to the suspension of trading in the Shares.

### **Actions taken by the Company to address the issues pertaining to the suspension of trading in the Shares**

Since the takeover of the Company by Mr. Kan in July 2007, the Company has dedicated significant efforts to improve the financial position of the Group and to revitalize the business of the Group. In particular, the Company has taken the following actions:

#### ***I Restructuring Proposal***

Pursuant to the Restructuring Proposal, to revitalize the Group's financial position, the Company and Mr. Kan entered into the Subscription Agreement. Completion of the Subscription Agreement took place on 13 February 2008. 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 Debts, with an aggregate balance of approximately HK\$256 million, and the Intel Debt, with a balance of approximately HK\$59 million, which have been assigned to Mr. Kan; and (ii) the loans advanced by Mr. Kan to the Group with an aggregate amount of approximately HK\$3 million during the period from August 2007 to September 2007. The remaining balance of approximately HK\$40 million was settled in cash, which will be used as working capital of the Group.

As stated in the Company's interim report for the six-month ended 30 June 2007, the Group was in net liabilities position with an unaudited consolidated net liabilities of approximately HK\$0.2043 per Share. Immediately after completion of the Subscription Agreement, the Company became almost debt-free, save for the current liabilities such as trade payables, other borrowings and accrued expenses. In addition, given their irredeemable and compulsory conversion nature, the Convertible Notes were classified as "equity" instead of "liabilities". Accordingly, as illustrated in Appendix I to the Circular, immediately after completion of the Subscription Agreement, the Company had pro forma consolidated net assets of approximately HK\$31 million even if the Convertible Notes had not yet been converted.

## ***II Sufficient operation***

The Group's principal businesses are trading of computer components and information technology products and provision of integrated e-enabling solutions.

In 2005, the Group experienced a tough business environment and recorded a substantial loss of approximately HK\$596 million. The situation continued to deteriorate in 2006 and the Group had difficulty in repaying the amounts due to the Bank Creditors and Intel, the Group's major supplier. Without the necessary working capital support from the Bank Creditors and the supplier's support from Intel, the Group substantially reduced its scale of operations. For the year 2006, the Group's turnover amounted to approximately HK\$36 million only. However, due to further provision for trade receivables and write-off of inventories, the Group recorded a net loss of approximately HK\$181 million for the year 2006.

While the Group was in a net liability position with the Bank Debts and the Intel Debt remaining unsettled, the Group's operation had begun to stabilise in 2007. To strengthen its sales force, the Group recruited three sales managers who have substantial sales and technical commercial experience in computer, information technology and e-enabling services industries. In addition, the Group has 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 has gradually improved in the second half of 2007. In addition, the Group has adopted a more prudent approach in extending credit to its customers for the trading business. In particular, most of the Group's existing trading business was conducted on cash basis, requiring the customers to settle in cash upon delivery.

The Group has also tendered for various e-enabling solutions. These projects normally generate more attractive income compared to the trading business.

In view of (i) the progress of the Group's business; (ii) the Bank Debts and the Intel Debt were assigned to Mr. Kan in August 2007 and September 2007 respectively and were subsequently settled under the Restructuring Proposal; and (iii) the new equity injected by Mr. Kan pursuant to the Subscription Agreement, the Board is confident in the Group's prospect.

## ***III. Audit qualifications of the financial statements for the two years ended 31 December 2006***

### ***(i) Audit qualifications of the financial statements for the year ended 31 December 2005***

The Company's consolidated financial statements for the year ended 31 December 2005 was qualified in the following aspects:

- (a) insufficient information to assess the reasonableness of the basis of provision for the inventories, which balance was approximately HK\$36 million as at 31 December 2005;
- (b) fundamental uncertainty relating to the going concern basis arising from the default in repayment of the Bank Debts, which became repayable on demand, and the Intel Debt; and

- (c) disagreement about the accounting treatment for trade receivables, which balance was approximately HK\$87 million as at 31 December 2005, with certain customers of which the Group had substantially suspended trading with since October 2005.

*(ii) Audit qualifications of the financial statements for the year ended 31 December 2006*

The Company's consolidated financial statements for the year ended 31 December 2006 were qualified on prior year audit scope limitation and disagreement about accounting treatment (as explained above) which affected the opening balances of inventories and trade receivables as at 1 January 2006.

The auditors of the Company also stated in the consolidated financial statements of the Company for the year ended 31 December 2006 that, without qualifying their audit opinion, the net loss incurred during the year 2006 and the net liabilities position of the Group as at 31 December 2006 indicated the existence of material uncertainty which might cast significant doubt about the Group's ability to continue as a going concern.

*(iii) Actions taken to address the above audit qualifications*

For the year ended 31 December 2005

- (a) When preparing the Group's financial statements for the year ended 31 December 2006, the Board reviewed the aging analysis of the inventories and written down the value of obsolete and slow-moving inventory items that were no longer suitable for trading and estimated the net realizable value for finished goods based primarily on the latest invoice prices and prevailing market conditions for the purpose of determining the provision for the inventories.
- (b) Mr. Kan has submitted the Restructuring Proposal to the Company in October 2007. Upon completion of the Restructuring Proposal, the Group was substantially debt-free with the Bank Debts and Intel Debt being fully settled.
- (c) When preparing the Group's financial statements for the year ended 31 December 2006, the Board reviewed the recoverability and aging analysis of the trade receivables and made full provision for amounts that were considered uncollectible.

For the year ended 31 December 2006

Given that the Company's auditors had not qualified the closing balance of the balance sheet items as at 31 December 2006, all the prior year qualifications mentioned above would not have any carry over effect for the financial year ended 31 December 2007.

Based on the above, the Directors believe that the Company's auditors will issue an unqualified auditors' report for the year ended 31 December 2007.

#### ***IV. Internal control of the Company***

##### *(i) Appointment of independent non-executive Directors*

To comply with Rule 3.10 of the Listing Rules, the Company, on 10 October 2007, appointed two additional independent non-executive Directors, including Mr. Ip Woon Lai who is a certified practicing accountant of the Australian Society of Certified Public Accountants.

The independent non-executive Directors had reviewed the Company's internal control compliance manual and were satisfied that the Company had in place established procedures, systems and controls which were adequate to ensure the Company complied with the Listing Rules and other relevant legal and regulatory requirements.

##### *(ii) Appointment of qualified accountant and company secretary*

To strengthen its finance and internal control functions and to comply with Rule 3.24 of the Listing Rules, the Company, on 16 October 2007, appointed Ms. Seto Ying as the Company's qualified accountant and company secretary. Ms. Seto Ying is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants and has over nine years' experience in accounting and auditing.

The responsibilities of Ms. Seto Ying are to (a) ensure the provisions (including any modifications and updates) of the Listing Rules and relevant laws and regulations are communicated to all Directors and officers of the Company; (b) report to the Board as soon as possible whenever she suspects any breach of the Listing Rules, the SFO and relevant laws and regulations; (c) report to the Board on a quarterly basis as to the compliance by the Company with the Listing Rules and relevant laws and regulations; and (d) ensure the relevant provisions of the Company's internal control procedures are made available as required by laws.

Based on the above, the Board considers that the Company has taken the appropriate actions for resumption of trading in the Shares on the Stock Exchange.

#### **Resumption of trading**

The Board is pleased to announce that all conditions for the resumption of trading in the Shares on the Stock Exchange have been fulfilled/are to be fulfilled. Application will be made by the Company for the resumption of trading in the Shares on the Stock Exchange with effect from 9:30 a.m. on Monday, 18 February 2008.



## Definitions

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

“Announcement”	the announcement of the Company dated 15 January 2008 in relation to, among other matters, proposed issue of the Convertible Notes and the proposed increase in the authorised share capital of the Company
“Circular”	the circular of the Company dated 25 January 2008 in relation to, among other matters, the proposed issue of the Convertible Notes and the proposed increase in the authorised share capital of the Company
“Placing”	the placing of the Placing Shares by the Placing Agent pursuant to the Placing Agreement
“Placing Agent”	Emperor Securities Limited
“Placing Agreement”	the placing agreement dated 12 February 2008 entered into between the Placing Agent and Mr. Kan in respect of the Placing
“Placing Price”	HK\$0.388, being the placing price per Placing Share
“Placing Shares”	16,000,000 Shares beneficially owned by Mr. Kan and were placed pursuant to the Placing Agreement

*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, 14 February 2008