



ARTEL SOLUTIONS GROUP HOLDINGS LIMITED

Flat 18, 1/Fl., Flourish Industrial Building,

33 Sheung Yee Road, Kowloon Bay, Kowloon, Hong Kong

Tel : (852) 2756 2992

Fax : (852) 2755 4163

10 October 2007

To the Independent Shareholders and the Optionholders

Dear Sir or Madam,

**UNCONDITIONAL MANDATORY CASH OFFERS BY
CIMB-GK SECURITIES (HK) LIMITED
ON BEHALF OF
KAN CHE KIN, BILLY ALBERT
TO ACQUIRE ALL ISSUED SHARES IN
ARTEL SOLUTIONS GROUP HOLDINGS LIMITED
(OTHER THAN THOSE SHARES ALREADY OWNED BY
KAN CHE KIN, BILLY ALBERT
AND PARTIES ACTING IN CONCERT WITH HIM)
AND TO CANCEL ALL OUTSTANDING SHARE OPTIONS**

INTRODUCTION

Trading in the Shares on the Stock Exchange has been suspended since 7 September 2006 pending the release of an announcement regarding price sensitive information and will remain suspended until further notice.

On 19 September 2007, the Offeror and the Company jointly announced, among other things, that on 25 July 2007, the Company was notified by the Offeror that he had entered into the Sale and Purchase Agreement with the Vendor and Mr. Yu on the same date to acquire the Sale Shares, representing 75% of the issued share capital of the Company as at the Latest Practicable Date, for a consideration of HK\$16,000,000.

Completion of the Sale and Purchase Agreement took place on 25 July 2007 and the Offeror became interest in 1,200,000,000 Shares, representing 75% of the issued share capital of the Company immediately upon Completion. The Sale Shares which were previously pledged to the Bank Creditors for the Bank Debts were released to the Offeror upon completion of the assignment of the Bank Debts to the Offeror for a consideration of HK\$30,300,000 on 31 August 2007. Accordingly, the Offeror and parties acting in concert with him are required to make an unconditional mandatory cash offer for all issued Shares other than those already owned or agreed to be acquired by the Offeror or parties acting in concert with him in accordance with Rule 26.1 of the Takeovers Code. Under Rule 13 of the Takeovers Code, the Offeror is also required to make a comparable offer to cancel all outstanding Share Options.



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CIMB-GK is making the Offers on behalf of the Offeror. Details of the Offers are set out in the letter from CIMB-GK on pages 5 to 12 of this Composite Document, Appendix I to this Composite Document and the accompanying Form(s) of Acceptance.

The Board is currently made up of two Directors, comprising one executive Director and one independent non-executive Director. The independent non-executive Director will advise the Independent Shareholders and the Optionholders in respect of the Offers. Optima Capital has been appointed as the independent financial adviser to advise the independent non-executive Director on the terms of the Offers.

The purposes of this document is to provide you with, among other things, information relating to the Group, the Offeror and the Offers, and to set out the letter from the independent non-executive Director containing his recommendations to the Independent Shareholders and the Optionholders and the letter from Optima Capital containing its advice to the independent non-executive Director in respect of the Offers.

THE OFFERS

As at the Latest Practicable Date, there were (i) a total of 1,600,000,000 Shares in issue (of which 1,200,000,000 Shares were owned by the Offeror and the parties acting in concert with him); and (ii) Share Options entitling the holders thereof to subscribe for up to an aggregate of 114,095,000 new Shares, of which Share Options entitling the holders thereof to subscribe for 69,095,000 Shares may be exercised at an exercise price of HK\$0.3810 per Share and Share Options entitling the holders thereof to subscribe for 45,000,000 Shares may be exercised at an exercise price of HK\$0.2166 per Share.

As at the Latest Practicable Date, save for the outstanding Share Options, the Company has no convertible securities, options, derivatives or warrants outstanding and has not entered into any agreement with the Offeror or parties acting in concert with him for the issue of any convertible securities, options, warrants or derivatives of the Company.



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Principal terms of the Offers

CIMB-GK, on behalf of the Offeror, is making the Share Offer to acquire all issued Shares (other than those already owned by the Offeror or parties acting in concert with him) and the Option Offer to cancel all outstanding Share Options on the following basis:

The Share Offer:

For each Share HK\$0.0386 in cash

The Option Offer:

For cancellation of outstanding Share Option

(with a right to subscribe for one Share) HK\$0.0001 in cash

(1) *Comparison of value*

The Share Offer Price of HK\$0.0386 per Share represents:

- (a) the amount of sum of the consideration payable by the Offeror under the Sale and Purchase Agreement (being HK\$16,000,000) and the assignment of the Bank Debts (being HK\$30,300,000) divided by the total number of Sale Shares (being 1,200,000,000 Shares);
- (b) 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;
- (c) a premium of HK\$0.1290 per Share over the audited consolidated net liabilities per Share of approximately HK\$0.0904 as at 31 December 2005 (based on the Group's audited consolidated net liabilities of approximately HK\$144.6 million as at 31 December 2005 and 1,600,000,000 Shares in issue); and
- (d) a premium of HK\$0.1387 per Share over the unaudited consolidated net liabilities per Share of approximately HK\$0.1001 as at 30 June 2006 (based on the Group's unaudited consolidated net liabilities of approximately HK\$160.1 million as at 30 June 2006 and 1,600,000,000 Shares in issue).

The price for the Option Offer is determined with reference to the exercise prices of the outstanding Share Options which ranged from HK\$0.2166 to HK\$0.3810 per Share, which is substantially higher than the Share Offer Price of HK\$0.0386 per Share. Accordingly, the price for the Option Offer is equivalent to a nominal value of HK\$0.0001 per Share to be subscribed under the Share Options.



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FURTHER DETAILS IN RESPECT OF THE OFFERS

Further details of the Offers including, among other things, the terms of the Offers and the procedures for acceptance and settlement of the Offers, are contained in the letter from CIMB-GK of this Composite Document, in Appendix I to this Composite Document and in the Form(s) of Acceptance.

STATUS UPDATE OF THE COMPANY

Trading in the Shares on the Stock Exchange has been suspended since 7 September 2006 pending the release of an announcement regarding price sensitive information and will remain suspended until further notice. 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 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. The Stock Exchange further stated that it would, after considering any proposal to be made by the Company, determine whether to proceed to the third stage of the delisting procedures at the end of such six month period. The Resumption Proposal should, among other things, demonstrate that (i) the Company has a sufficient level of operations or has assets of sufficient value to warrant the continued listing of the Shares as required under Rule 13.24 of the Listing Rules; (ii) compliance by the Company with the Listing Rules and all applicable laws and regulations; (iii) the Company has published all the outstanding financial results of the Group as required under the Listing Rules; (iv) the Company has addressed the concerns raised by its auditors through the qualification of the Company's auditors' report on the Group's financial statements for the year ended 31 December 2005 and any subsequent financial year(s) and period(s); and (v) the Company has adequate financial reporting system and internal control procedures to enable it to meet its obligations under the Listing Rules.

On 25 July 2007, the Company was notified by the Offeror that he had entered into the Sale and Purchase Agreement with the Vendor and Mr. Yu to acquire the Sale Shares, representing 75% of the issued share capital of the Company as at the Latest Practicable Date, for a consideration of HK\$16,000,000.



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Completion took place on 25 July 2007 and the Offeror became interested in 1,200,000,000 Shares, representing 75% of the issued share capital of the Company immediately upon Completion. The Sale Shares which were previously pledged to the Bank Creditors for the Bank Debts were released to the Offeror upon completion of the assignment of the Bank Debts to the Offeror for a consideration of HK\$30,300,000 on 31 August 2007. Accordingly, the Offeror and parties acting in concert with him are required to make an unconditional mandatory cash offer for all issued Shares (other than those already owned or agreed to be acquired by the Offeror or parties acting in concert with him) in accordance with Rule 26.1 of the Takeovers Code. Under Rule 13 of the Takeovers Code, the Offeror is also required to make a comparable offer to cancel all outstanding Share Options.

CIMB-GK is making the Offers on behalf of the Offeror.

The Company will convene an extraordinary general meeting on 15 October 2007 for the purpose of considering and, if thought fit, approving the appointment of PKF as the Company's auditors. It is currently expected that the Company will publish its audited consolidated results for the year ended 31 December 2006 and unaudited consolidated results for the six months ended 30 June 2007 by early November 2007.

The Company is also in the process of finalising the Resumption Proposal, which is expected to be submitted to the Stock Exchange by early November 2007. It is expected that the Resumption Proposal will include details on a restructuring proposal to strengthen the Company's financial position. Further details of the restructuring proposal is set out in the paragraph headed "Restructuring proposal" below.

INFORMATION ON THE OFFEROR

Your attention is drawn to the section headed "Information on the Offeror" in the letter from CIMB-GK as set out on pages 8 to 10 of this Composite Document.

INTENTION OF THE OFFEROR REGARDING THE GROUP

Business

The Offeror intends that the Group will continue with all of its existing businesses. The Offeror does not intend to make any material changes to the businesses of the Group or to redeploy any fixed assets of the Group following the closing of the Offers.



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Directors and management

The Board is currently made up of two Directors, comprising one executive Director and one independent non-executive Director. As stated in the letter from CIMB-GK set out in this Composite Document, the Directors note that the Offeror intends to nominate (i) Mr. Kan Che Kin, Billy Albert (being the Offeror), Mrs. Kan Kung Chuen Lai, Ms. Li Shu Han, Eleanor Stella and Mr. Li Kai Yien, Arthur Albert as executive Directors; (ii) Mr. Li Siu Yui and Mr. Albert Ip as independent non-executive Directors; and (iii) Mr. Kan Che Kin, Billy Albert as the chairman of the Company in place of Mr. Yu at the time when the Composite Document is despatched. Further information on this aspect is set out in the letter from CIMB-GK of this Composite Document. Save as disclosed therein, the Offeror has no intention to discontinue the employment of the employees of the Group.

The Board has confirmed that, save as disclosed in the sub-paragraph headed "Directors and management" under paragraph headed "Intention of the Offeror regarding the Group" in the letter from CIMB-GK as set out in this Composite Document, there are no other matters that need to be brought to the attention of the Shareholders in relation to the appointment of the new Directors as mentioned above.

Restructuring proposal

To revitalise the Group's financial position, the Offeror intends to submit a restructuring proposal (the "Restructuring Proposal") to the Company, which is subject to approval by the Independent Shareholders and resumption of trading in the Shares. Based on the Offeror's current intention, the Restructuring Proposal will involve (i) full settlement of the amount of the debts owed to him by the Group by the issue of new Shares and/or securities convertible into Shares to the Offeror; and (ii) issue of new Shares and/or securities convertible into Shares to the Offeror to raise working capital for the Group. The Company will make further announcement on the detail terms of the Restructuring Proposal once they have been agreed between the Company and the Offeror.

Resumption Proposal

The Company is in the process of preparing the Resumption Proposal and it is expected that the Resumption Proposal will be submitted to the Stock Exchange by early November 2007.



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MAINTENANCE OF THE LISTING STATUS OF THE COMPANY

The Offeror intends to maintain the listing of the Shares on the Stock Exchange after the closing of the Offers. The Offeror and the new Directors to be appointed to the Board will undertake that following the closing of the Offers, appropriate steps will be taken as soon as possible to ensure that not less than 25% of the issued Shares will be held by public hands.

The Stock Exchange has stated that if, at the closing of the Offers, less than the minimum prescribed percentage applicable to the Company, being 25%, of the issued Shares are held by the public or if the Stock Exchange believes that:

- a false market exists or may exist in the trading of the Shares; or
- there are insufficient Shares in public hands to maintain an orderly market,

it will consider exercising its discretion to suspend trading in the Shares.

So long as the Shares remain listed on the Stock Exchange, the Stock Exchange will also closely monitor all acquisitions or disposals of assets by the Company. Any acquisitions or disposals of assets by the Company will be subject to the provisions of the Listing Rules.

RECOMMENDATIONS

Your attention is drawn to the letter from the independent non-executive Director to the Independent Shareholders and the Optionholders and the letter from Optima Capital as set out on pages 20 to 21 and pages 22 to 36 of this Composite Document respectively, which set out their respective recommendations in relation to the Offers and the principal factors considered by them in arriving at their recommendations.

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ADDITIONAL INFORMATION

In considering what action to take in connection with the Offers, Independent Shareholders and the Optionholders should consider their own tax positions and, if they are in any doubt, they should consult their professional advisers. You are recommended to read this Composite Document together with the Form(s) of Acceptance for details of the Offers. Your attention is also drawn to the additional information contained in the Appendices to this Composite Document.

By order of the Board of
Artel Solutions Group Holdings Limited


Yu Fen Hung
Chairman