



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 at the request of the Company.

On 19 September 2007, the Offeror and the Company jointly announced, among other things, that on 25 July 2007, the Offeror 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.

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. The principal terms of the Offers are set out under the section headed "The Offers" of this letter. CIMB-GK is making the Offers on behalf of the Offeror.



This letter, together with Appendix I to this Composite Document and the accompanying Forms of Acceptance, sets out, among other things, the terms and other details of the Offers, information on the Offeror and his intention regarding the Group. Your attention is also drawn to the letter from the Board as well as the respective letters of advice from the independent non-executive Director, who will give his recommendation in respect of the Offers to the Independent Shareholders and the Optionholders, and Optima Capital, which has been appointed as the independent financial adviser to the independent non-executive Director to give his advice and recommendation on the Offers, as contained in this Composite Document.

## 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 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.

### 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 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 and the closing price of HK\$0.0370 per Share as quoted on the Stock Exchange on 7 September 2006. As the Share Options are deeply out-of-money, 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.

(2) *Total consideration and financial resources available for the Offers*

Based on the total number of 1,600,000,000 Shares in issue as at the Latest Practicable Date and the Share Offer Price of HK\$0.0386 per Share, the entire issued share capital of the Company is valued at approximately HK\$61.8 million. In the event that the Share Offer is accepted in full, the aggregate amount payable by the Offeror will be approximately HK\$15.4 million. Assuming all outstanding Share Options entitling the holders thereof to subscribe for 114,095,000 Shares are surrendered pursuant to the Option Offer at the option cancellation price of HK\$0.0001 per Share to be subscribed under the Share Options, the consideration of the Option Offer payable by the Offeror is HK\$11,409.50.

Assuming that all outstanding Share Options entitling holders thereof to subscribe for 114,095,000 Shares are fully exercised prior to the close of the Option Offer, there will be 1,714,095,000 Shares in issue and the entire issued share capital of the Company will be valued at approximately HK\$66.2 million based on the Share Offer Price of HK\$0.0386 per Share. In the event that the Share Offer is accepted in full, the aggregate amount payable by the Offeror will be approximately HK\$19.8 million.

The Offeror will finance the Offers by his own financial resources. CIMB-GK, as the financial adviser to the Offeror, is satisfied that sufficient financial resources are available to the Offeror to satisfy the full acceptance of the Offers.



(3) *Effect of accepting the Offers*

Acceptance of the Share Offer by any Independent Shareholder will be deemed to constitute a warranty by such Independent Shareholder that all Shares sold by such Independent Shareholder under the Share Offer are free from all liens, charges, options, claims, equities, adverse interests, third-party rights or encumbrances whatsoever and together with all rights accruing or attaching thereto, including, without limitation, the right to receive dividends and other distributions declared, made or paid, if any, on or after the date of despatch of the Composite Document.

By accepting the Option Offer, the Optionholders will agree to the cancellation of their Share Options and all rights attached thereto with effect from the date of despatch of the Composite Document.

The making of the Offers to persons with a registered address in jurisdictions outside Hong Kong may be affected by the applicable laws of the relevant jurisdictions. Independent Shareholders and Optionholders who are citizens or residents or nationals of jurisdictions outside Hong Kong should inform themselves about and observe any applicable legal requirements in their own jurisdictions.

#### **STAMP DUTY**

Seller's ad valorem stamp duty arising in connection with the acceptance of the Offers amounting to 0.1% of the amount payable in respect of the relevant acceptance will be deducted from the amount payable to the Independent Shareholders or Optionholders who accept the Offers (as the case may be). The Offeror will then pay the seller's ad valorem stamp duty to the stamp duty office on behalf of the accepting Independent Shareholders or Optionholders (as the case may be).

#### **PAYMENT**

Payment in cash in respect of acceptances of the Offers will be made as soon as possible but, in any event, within 10 days of the date of receipt of a duly completed acceptance.

#### **COMPULSORY ACQUISITION**

The Offeror does not intend to apply any right which may be made available to it to acquire compulsorily any Shares outstanding after the closing of the Offers, but reserves the right to do so.

#### **INFORMATION ON THE OFFEROR**

Mr. Kan Che Kin, Billy Albert, the Offeror, graduated from the University of East Anglia with a Bachelor of Science degree. He is an associate 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 accountancy, 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 as 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.

As at the Latest Practicable Date, save for the Sale Shares, the Offeror and the parties acting in concert with him did not have any interest in the securities, convertible securities, warrants, options and derivatives of the Company.

## **INTENTION OF THE OFFEROR REGARDING THE GROUP**

### **Business**

Following the closing of the Offers, the Offeror intends to continue all of the existing businesses of the Group. The Offeror intends to review and strengthen the financial position of the Group after the closing of the Offers. The Offeror does not intend to make any material changes to the businesses of the Group or to dispose of or redeploy any fixed assets of the Group following the closing of the Offers.

The Offeror will explore other business opportunities and consider whether any assets and/or business acquisitions will be appropriate in order to enhance the growth of the Group. In the event that any of the opportunities materialises, further announcements will be made as and when required by the Listing Rules. As at the Latest Practicable Date, the Offeror had no intention or concrete plan for any acquisition of assets and/or business by the Group.

### **Directors, management and employees**

The Board is currently made up of two Directors, comprising one executive Director and one independent non-executive Director. All of the existing Directors will remain in the Board and the Offeror also intends to nominate (i) Mr. Kan Che Kin, Billy Albert (being the Offeror himself), 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. Ip Woon Lai as independent non-executive Directors; and (iii) Mr. Kan Che Kin, Billy Albert as chairman of the Company in place of Mr. Yu at the time when the Composite Document is despatched.

**Personal particulars of the proposed new Directors are set out below:**

#### *Executive Directors*

**Mr. Kan Che Kin, Billy Albert ("Mr. Kan"), aged 55, is the Offeror. Details of Mr. Kan are set out in the section headed "Information on the Offeror" above.**



Mrs. Kan Kung Chuen Lai ("Mrs. Kan"), aged 57, is a director of BK Capital Limited, a private company engaged in merchandise trading, properties investment and securities trading, for over 10 years. Mrs. Kan is the wife of Mr. Kan.

Ms. Li Shu Han, Eleanor Stella ("Ms. Li"), aged 37, holds a Bachelor of Science Accounting degree from University of South 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 experience in accounting and corporate finance. 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"), aged 35, 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 9 years' experience in accounting and securities trading. 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, aged 37, holds a Master degree in Business Administration from University of Wales. Mr. Li Siu Yui has over 9 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 of two private companies since 2002.

Mr. Ip Woon Lai ("Mr. Ip"), aged 36, holds a Bachelor of Commerce in Accounting and Finance degree from the University of New South Wales and was admitted as a certified practising accountant of the Australian Society of Certified Practising Accountants in 1998. He began his career with Arthur Andersen & Co. in Hong Kong in 1994. Mr. Ip has corporate finance and investment banking experience and had worked for various investment banks and companies including Warburg Dillon Read, ING Bank N.V. and CEL Management Services Limited. He had also worked in Hysan Development Company Limited where he served as the deputy head of corporate finance from 2005 to 2006. In 2006, he joined Lotus Capital Management Limited, a private equity investment fund.

Details of the respective terms of their appointments, including emoluments and the basis of determining the emoluments, will be announced upon their appointments.

Save as disclosed above, the Offeror does not intend that there would be any material changes to the existing management and employees of the Group following the closing of the Offers.



## 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.

## ACCEPTANCE AND SETTLEMENT

Your attention is drawn to the details in respect of the procedures for acceptance and settlement set out in Appendix I to this Composite Document and the accompanying Forms of Acceptance.

## GENERAL

To ensure equality of treatment of all Independent Shareholders, those registered Independent Shareholders who hold the Shares as nominees for more than one beneficial owner should, as far as practicable, treat the holding of each beneficial owner separately. In order to accept the Share Offer, it is essential that the beneficial owners of the Shares, whose investments are registered in the names of their respective nominees, provide instructions to their nominees of their intentions with regard to the Share Offer.

All documents and remittances will be sent to the Independent Shareholders and/or the Optionholders through ordinary post at their own risk. These documents and remittances will be sent to them at their respective addresses stated on the relevant Form(s) of Acceptance or if no such address is stated, as they appear in the register of members, or register of Optionholders or, in the case of joint Independent Shareholders, to the Independent Shareholder whose name appears first in the said register of members. None of the Offeror, the parties acting in concert with him, CIMB-GK and the Registrar or any of their respective directors or any other person will be responsible for any loss or delay in transmission of such documents and remittances or any other liabilities that may arise as result thereof.



**ADDITIONAL INFORMATION**

Your attention is drawn to the further terms of the Offers and the additional information set out in the Appendices to this Composite Document, which form part of this Composite Document.

Yours faithfully,  
For and on behalf of  
**CIMB-GK Securities (HK) Limited**

**Alex Lau**  
*Executive Vice President*

**Heidi Cheng**  
*Senior Vice President*