

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a stockbroker or other licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Artel Solutions Group Holdings Limited, you should at once hand this circular with the accompanying form of proxy to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or the transfer was effected for transmission to the purchaser or transferee.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.



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)

**PROPOSED CONNECTED TRANSACTION IN RELATION TO
ISSUE OF CONVERTIBLE NOTES
AND
PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL**

Financial Adviser to Artel Solutions Group Holdings Limited



**Independent Financial Adviser to the Independent Board Committee
and Independent Shareholders**

Nuada Limited

Corporate Finance Advisory

A letter from the board of directors of Artel Solutions Group Holdings Limited (the “Company”) is set out on pages 5 to 21 of this circular. A letter from the independent board committee of the board of directors of the Company and a letter from Nuada Limited containing its recommendation and advice are set out on pages 22 to 23 and pages 24 to 33 of this circular, respectively.

A notice convening an extraordinary general meeting of the Company to be held at Flat 18, 1/F, Flourish Industrial Building, 33 Sheung Yee Road, Kowloon Bay, Kowloon, Hong Kong on 11 February 2008 at 11:00 a.m. is set out on pages 43 to 44 of this circular. A form of proxy for use at the extraordinary general meeting is also enclosed.

Whether or not you are able to attend the extraordinary general meeting, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the office of the Company’s Hong Kong branch share registrar, Tricor Standard Limited, at 26th Floor, Tesbury Centre, 28 Queen’s Road East, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding the extraordinary general meeting. Completion and return of the form of proxy will not preclude you from attending and voting at the extraordinary general meeting or any adjourned meeting in person should you so wish.

* for identification purposes only

CONTENTS

	<i>Page</i>
Definitions	1
Letter from the Board	5
Letter from the Independent Board Committee	22
Letter from Nuada	24
Appendix I – Financial information	34
Appendix II – General information	38
Notice of EGM	43

DEFINITIONS

“acting in concert”	has the same meaning ascribed to it in the Takeovers Code
“Announcement”	the announcement issued by the Company dated 15 January 2008 in relation to, among other things, the Resumption Proposal, the proposed issue of the Convertible Notes and the proposed increase in the authorised share capital of the Company
“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 as at 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, among 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)

DEFINITIONS

“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 Board Committee”	an independent committee of the Board, comprising Mr. Li Siu Yui, Mr. Ip Woon Lai and Mr. Lee Kong Leong, all being independent non-executive Directors, established to advise the Independent Shareholders in relation to the Subscription Agreement
“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
“Latest Practicable Date”	23 January 2008, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

DEFINITIONS

“Maturity Date”	the date falling on the fifth anniversary of the date of issue of the Convertible Notes (subject to extension)
“Mr. Kan”	Mr. Kan Che Kin, Billy Albert, an executive Director, the chairman and the controlling shareholder of the Company
“Nuada”	Nuada Limited, a corporation licensed to carry out type 6 (advising on corporate finance) regulated activity under the SFO, the independent financial adviser to the Independent Board Committee and the Independent Shareholders
“Noteholder(s)”	holder(s) of the Convertible Notes
“Offers”	the unconditional mandatory cash offers made by CIMB-GK Securities (HK) Limited on behalf of Mr. Kan to acquire 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 (i) for full settlement of the Bank Debts and the Intel Debt which have been assigned to Mr. Kan and the loans advanced by Mr. Kan to the Group during the period from August 2007 to September 2007; and (ii) 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

DEFINITIONS

“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
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“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
“Shareholder(s)”	holder(s) of the Share(s)
“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.



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)

Executive Directors:

Mr. Kan Che Kin, Billy Albert

Mrs. Kan Kung Chuen Lai

Ms. Li Shu Han, Eleanor Stella

Mr. Li Kai Yien, Arthur Albert

Mr. Yu Pen Hung

Registered office:

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

Independent non-executive Directors:

Mr. Li Siu Yui

Mr. Ip Woon Lai

Mr. Lee Kong Leong

Head office and principal

place of business:

Flat 18, 1st Floor

Flourish Industrial Building

33 Sheung Yee Road

Kowloon Bay

Kowloon

Hong Kong

25 January 2008

To the Shareholders

Dear Sir/Madam,

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

AND

PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL

INTRODUCTION

Trading in the Shares on the Stock Exchange has been suspended since 7 September 2006 at the request of the Company. In order to seek the resumption of trading in the Shares, 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 positions 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 subject to the conditions as set out in the paragraph headed "Conditions for resumption of trading in the Shares".

* for identification purposes only

LETTER FROM THE BOARD

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.

As at the Latest Practicable Date, 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 Rule 13.39(4)(a) of the Listing Rules, the Subscription is therefore conditional upon the approval of the Independent Shareholders by way of poll at the EGM.

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. Nuada has been appointed to advise the Independent Board Committee and the Independent Shareholders in relation to the terms of the Subscription Agreement.

The purpose of this circular is to provide you with, 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 in relation to the Subscription Agreement; (iii) a letter of advice from Nuada to the Independent Board Committee and the Independent Shareholders in relation to the Subscription Agreement; and (iv) the notice of the EGM to the Shareholders.

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.

LETTER FROM THE BOARD

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 positions 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 interests 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;

LETTER FROM THE BOARD

6. restoring the Company's public float to at least 25% of its total issued share capital;
7. completion of the Restructuring Proposal; and
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 section 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 31 December 2005	For the year ended 31 December 2006	For the six months ended 30 June 2007
	(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 31 December 2005	As at 31 December 2006	As at 30 June 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

LETTER FROM THE BOARD

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.

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:

1. *Publication of the annual and interim reports*

The Company had published the annual results for the year ended 31 December 2006 and despatched to the Shareholders the annual report for the year ended 31 December 2006 on 14 November 2007 and 26 November 2007 respectively.

The Company had also published the interim results for the six months ended 30 June 2007 and despatched to the Shareholders the interim report for the six months ended 30 June 2007 on 14 November 2007 and 26 November 2007 respectively.

Financial statements for the year ended 31 December 2005

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

- (i) 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;
- (ii) fundamental uncertainty relating to the going concern basis arising from the default in repayment of the Bank Debts and the Intel Debt; and

LETTER FROM THE BOARD

- (iii) disagreement about the accounting treatment for trade receivables, which balance was approximately HK\$87 million as at 31 December 2005.

The above qualifications have been addressed/resolved as follows:

- (i) When preparing the Group's financial statements for the year ended 31 December 2006, the Board has 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 trade 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.
- (ii) Mr. Kan has submitted the Restructuring Proposal to the Company. Upon completion of the Restructuring Proposal, the Group will be substantially debt-free with the Bank Debts and Intel Debt being fully settled.
- (iii) When preparing the Group's financial statements for the year ended 31 December 2006, the Board has reviewed the recoverability and aging analysis of the trade receivables and has made full provision for amounts that are considered uncollectible.

Financial statements for the year ended 31 December 2006

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

Given that the Company's auditors have not qualified the closing balance of the balance sheet items as at 31 December 2006, all the prior year qualifications mentioned above will not have any carry over effect for the financial year commencing 1 January 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.

2. *Appointment of independent non-executive Directors*

To comply with Rule 3.10 of the Listing Rules, the Company has, 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.

LETTER FROM THE BOARD

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

3. *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 has, on 16 October 2007, appointed Ms. Seto Ying as the Company's qualified accountant and company secretary. Ms. Seto Ying is an associate 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.

Ms. Seto Ying will (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 Securities and Futures Ordinance 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.

4. *Expansion of the Group's business*

To strengthen its sales force, the Group has 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.

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 the progress of the Group's business, the Board is confident in the Group's prospect.

5. *Settlement of the Group's liabilities*

To revitalize the Group's financial position, 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 subscription price of the Convertible Notes of HK\$358 million shall be 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

LETTER FROM THE BOARD

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 shall be settled in cash, which will be used as working capital of the Group.

Immediately after completion of the Subscription Agreement, the Company will almost be 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 will be classified as “equity” instead of “liabilities”. Accordingly, as illustrated in Appendix I, immediately after completion of the Subscription Agreement, the Company will have consolidated net assets of approximately HK\$31 million even if the Convertible Notes have not yet been converted.

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.

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 Latest Practicable Date. 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 Debt, which have subsequently been assigned to Mr. Kan on 31 August 2007 and 5 September 2007 respectively. Mr. Kan has also advanced loans to the Group with an aggregate amount of approximately HK\$3 million during the period from August 2007 to September 2007.

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 considered 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.

LETTER FROM THE BOARD

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 Latest Practicable Date, 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 (if required, other than Mr. Kan 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.

LETTER FROM THE BOARD

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; (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, 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

LETTER FROM THE BOARD

Conversion Rights : The Noteholder will have the right to convert the principal amount of the Convertible Notes into Conversion 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.

LETTER FROM THE BOARD

- 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 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 Latest Practicable Date and approximately 85.27% of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares.

LETTER FROM THE BOARD

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 Latest Practicable Date		Shareholding immediately after the issue of the Conversion Shares	
	No. of Shares <i>(approximate)</i>	%	No. of Shares <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:

1. 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 places 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.
2. 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 set off the full amount of (i) the Bank Debts and the Intel Debt 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, 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.

LETTER FROM THE BOARD

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

LETTER FROM THE BOARD

- (c) if the Company forms the view that the issue of Conversion Shares will trigger the disclosure requirements under Rule 13.09 of the Listing Rules, then the Company is obliged to make such disclosures 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 Latest Practicable Date.

INCREASE IN AUTHORISED SHARE CAPITAL

As at the Latest Practicable Date, 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 Latest Practicable Date.

EGM

A notice of the EGM is set out on pages 43 to 44 of this circular for which the EGM to be held at Flat 18, 1/F, Flourish Industrial Building, 33 Sheung Yee Road, Kowloon Bay, Kowloon, Hong Kong on Monday, 11 February 2008 at 11:00 a.m., for considering and, if thought fit, passing the resolutions to approve the Subscription Agreement and the proposed increase in authorised share capital of the Company.

As at the Latest Practicable Date, 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. Mr. Kan and his associates will be required to abstain from voting at the EGM by way of poll as required under Rule 13.39(4)(a) of the Listing Rules in respect of such resolution(s) for approving 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.

LETTER FROM THE BOARD

A form of proxy for use at the EGM is enclosed. Whether or not you are able to attend the EGM in person, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon to the office of the Company's branch share registrar in Hong Kong, Tricor Standard Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting should you so wish.

PROCEDURES FOR DEMANDING A POLL

Pursuant to article 66 of the articles of association of the Company, at any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded:

- (i) by the chairman of such meeting; or
- (ii) by at least three Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorised representative or by proxy for the time being entitled to vote at the meeting; or
- (iii) by a Shareholder or Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all Shareholders having the right to vote at the meeting; or
- (iv) by a Shareholder or Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

A demand by a person as proxy for a Shareholder or in the case of a Shareholder being a corporation by its duly authorised representative shall be deemed to be the same as a demand by a Shareholder.

LETTER FROM THE BOARD

RECOMMENDATIONS

Your attention is drawn to the letter of advice from Nuada set out on pages 24 to 33 of this circular which contains its advices to the Independent Board Committee and the Independent Shareholders regarding the Subscription Agreement and the transactions contemplated thereunder and the letter from the Independent Board Committee set out on pages 22 to 23 of this circular which contains its recommendation to the Independent Shareholders regarding the Subscription Agreement and the transactions contemplated thereunder. The Independent Board Committee, having taken into account the advice of Nuada regarding the terms of the Subscription Agreement, is of the opinion that the terms of the Subscription Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

The Directors (including independent non-executive Directors) considered that the terms of the Subscription Agreement and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Subscription Agreement and the transaction contemplated thereunder.

The Directors (including independent non-executive Directors) considered that the proposed increase in the authorised share capital of the Company is in the interests of the Company and the Shareholders as a whole and therefore recommend the Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the proposed increase in the authorised share capital of the Company.

ADDITIONAL INFORMATION

Your attention is also drawn to the information set out in the appendix to this circular.

Yours faithfully,
For and on behalf of the Board
Artel Solutions Group Holdings Limited
Kan Che Kin, Billy Albert
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is a full text of the letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders in relation to the Subscription Agreement.



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)

25 January 2008

To the Independent Shareholders

Dear Sir/Madam,

PROPOSED CONNECTED TRANSACTION IN RELATION TO ISSUE OF CONVERTIBLE NOTES

We have been appointed as members of the Independent Board Committee to advise you in connection with the captioned connected transaction, details of which are set out in the "Letter from the Board" in the circular dated 25 January 2008 (the "**Circular**") of which this letter forms part. Defined terms used in this letter shall have the same meanings as given to them in the Circular unless the context otherwise requires.

We, being the independent non-executive Directors constituting the Independent Board Committee, are writing to you to set out our advice in respect of the Subscription Agreement and the transactions contemplated thereunder. The Independent Board Committee was set up to advise you as to whether in its view the terms of the Subscription Agreement are fair and reasonable as far as the Independent Shareholders are concerned and whether the Subscription Agreement is in the interests of the Company and the Shareholders as a whole and to advise you on how to vote, taking into account the recommendations of the independent financial adviser of the Company appointed for such purpose.

Nuada has been appointed by the Company to make recommendations to us and you as to whether the terms of the Subscription Agreement and the transactions contemplated thereunder are fair and reasonable as far as the Independent Shareholders are concerned and whether the Subscription Agreement is in the interests of the Company and the Shareholders as a whole and to advise you on how to vote. Details of its advice, together with the principal factors taken into consideration in arriving at such advice, are set out on pages 24 to 33 of this circular.

* *for identification purposes only*

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Your attention is also drawn to the “Letter from the Board” set out on pages 5 to 21 of this Circular and the additional information set out in the appendix to this Circular.

Having considered the terms of the Subscription Agreement and the transactions contemplated thereunder and taken into account the recommendations of Nuada, we consider that the terms of the Subscription Agreement are fair and reasonable as far as the Independent Shareholders are concerned and the Subscription Agreement is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM in respect of the Subscription Agreement and the transactions contemplated thereunder to approve the same.

Yours faithfully,

Independent Board Committee of

ARTEL SOLUTIONS GROUP HOLDINGS LIMITED

Mr. Li Siu Yui

Independent

Non-Executive Director

Mr. Ip Woon Lai

Independent

Non-Executive Director

Mr. Lee Kong Leong

Independent

Non-Executive Director

LETTER FROM NUADA

The following is the text of a letter of advice from Nuada Limited to the Independent Board Committee and the Independent Shareholders for the purpose of inclusion in the Circular.

Nuada Limited
Corporate Finance Advisory

7th Floor, New York House
60 Connaught Road Central
Hong Kong

25 January 2008

*To the Independent Board Committee
and Independent Shareholders of
Artel Solutions Group Holdings Limited*

Dear Sirs,

PROPOSED CONNECTED TRANSACTION IN RELATION TO ISSUE OF CONVERTIBLE NOTES

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders with respect to the Subscription, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 25 January 2008 issued by the Company (the “**Circular**”), of which this letter forms part. Unless the context otherwise requires, capitalized terms used in this letter shall have the same meanings as ascribed to them in the Circular.

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 which can be converted into a maximum of 9,274,611,398 Conversion Shares at the initial Conversion Price of HK\$0.0386 per Conversion Share (subject to adjustment).

Mr. Kan is an executive Director, the chairman and the controlling shareholder of the Company being interested in approximately 75.99% of the issued share capital of the Company as at the Latest Practicable Date. Accordingly, Mr. Kan is a connected person of the Company and the Subscription constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. The Subscription is thus subject to the Independent Shareholders’ approval at the EGM by way of poll. Mr. Kan and his associates will be required to abstain from voting at the EGM in respect of the relevant resolution(s) to approve the Subscription.

LETTER FROM NUADA

BASIS OF OUR OPINION

The Independent Board Committee has been established to advise the Independent Shareholders as to whether the terms of the Subscription is fair and reasonable and whether the Subscription is in the interests of the Company and the Shareholders as a whole and to advise the Independent Shareholders on how to vote. We are appointed as the independent financial adviser to recommend the Independent Board Committee and the Independent Shareholders as to whether the terms of the Subscription is fair and reasonable and whether the Subscription is in the interests of the Company and the Shareholders as a whole and to advise the Independent Shareholders on how to vote.

In formulating our opinion and recommendations, we have relied on the accuracy of the information, opinions and representations contained or referred to in the Circular provided to us by the Company, the Directors and the management of the Company. We have assumed that all information, opinions and representations contained or referred to in the Circular was true and accurate at the time when they were made and continued to be true and accurate at the date hereof, and will continue to be true and accurate at the date of the EGM. We have also assumed that all statements of belief, opinion and intention made by the Directors in the Circular was reasonably made after due enquiries and considerations. We have no reason to doubt that any relevant information has been withheld, nor are we aware of any fact or circumstance which would render the information provided and representations and opinions made to us untrue, inaccurate or misleading.

We consider that we have reviewed sufficient information to enable us to reach an informed view and to justify reliance on the accuracy of the information contained in the Circular to provide a reasonable basis for our opinions and recommendations. Having made all reasonable enquires, the Directors have confirmed that, to the best of their knowledge, there are no other facts or representations the omission of which would make any statement in the Circular, including this letter, misleading. We have not, however, carried out any independent verification of the information provided by the Company, the Directors, the management of the Company, nor have we conducted an independent investigation into the business and affairs, financial condition and future prospects of the Group. We disclaim any undertaking or obligation to advise any person of any change in any fact or matter affecting the opinion expressed herein which may come or be brought to our attention after the Latest Practicable Date.

LETTER FROM NUADA

PRINCIPAL FACTORS AND REASONS CONSIDERED

The principal factors and reasons we have taken into consideration in assessing the Subscription and arriving at our opinion are set out below:

Financial 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. Set out below is a financial summary of the Group for the financial periods as indicated below:

	For the financial year ended 31 December		For the six months ended 30 June
	2005	2006	2007
	(Audited)	(Audited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	1,198,229	36,334	20,390
Gross profit	27,472	1,410	323
Loss attributable to equity holders	596,450	181,125	1,206
	As at 31 December		As at 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
Net current liabilities	152,803	326,232	326,928
Net liabilities	144,597	325,722	326,928

As illustrated above, the Group recorded consecutive losses for the two years ended 31 December 2006 and the six months ended 30 June 2007. As stated in the annual report 2006 of the Company, the financial situation of the Group continued to deteriorate in 2006 and the Group had difficulties in repaying the amounts due to banks and a major supplier, and without the necessary working capital support, the Group substantially reduced its scale of operations and recorded a turnover of approximately HK\$36 million only in 2006, representing a decrease of approximately 97% as of revenue compared with 2005. As at 31 December 2006, the Group had total assets of approximately HK\$5.4 million and total liabilities of approximately HK\$331.1 million. The net current liabilities and the net liabilities of the Group amounted to approximately HK\$326.2 million and approximately HK\$325.7 million respectively as at 31 December 2006. The Group used to finance its working capital requirement by banks and Intel (being its major supplier). During 2006, certain banks and Intel took legal actions against the Group due to the Group's default in repayment certain bank borrowings and trade payables.

LETTER FROM NUADA

For the six months ended 30 June 2007, the Group continued to suffer from liquidity problem with net current liabilities of HK\$326.9 million. As at 30 June 2007, the total assets of the Group amounted to approximately HK\$2.6 million and the total liabilities of the Group amounted to HK\$329.6 (being all current liabilities), mainly comprising the Bank Debts and the Intel Debts (which were assigned by the Bank Creditors and Intel to Mr. Kan in August and September 2007 respectively).

As stated in the Board Letter, the Group's business began to stabilize since early 2007 and 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. In addition, the Group has also devoted substantial effort in expanding its product range by sourcing supplies from new suppliers. However, given the continuous losses and net liability position of the Group, we consider that the development of the Group's business would be constrained by the lack of working capital and any alleviation of current liabilities and inflow of immediate cash would benefit the Group for its operations and business expansion.

Background of and reasons for the Subscription

As announced by the Company on 22 September 2006, the Company received a petition for winding up of the Company by the Petitioner due to the Company's failure to repay certain outstanding debts on 7 September 2006 (the "**Petition**"). Trading of the Shares on the Stock Exchange has been suspended since 7 September 2006. The Petition was subsequently dismissed as announced by the Company on 15 November 2006. Despite the dismissal of the Petition, the Group remained in a net liability position with the Bank Debts and Intel Debts.

As stated in the Board Letter, 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.

In July 2007, Mr. Kan became the controlling shareholder of the Company through the acquisition of the Sale Shares, representing 75% of the then issued share capital of the Company, from E-Career Investments Limited and Mr. Yu Pen Hung (the "**Acquisition**"). Following completion of the Acquisition, CIMB-GK Securities (HK) Limited on behalf of Mr. Kan made the Offers in accordance with Rule 26.1 and Rule 13 of the Takeovers Code. As a result of the Offers, Mr. Kan became interested in approximately 75.99% of then issued share capital of the Company. For details regarding the Acquisition and the Offers, please refer to the announcement dated 19 September 2007 issued by the Company and the Composite Document. Furthermore, Mr. Kan acquired the Bank Debts from the Bank Creditors by way of assignment for a consideration of HK\$30.3 million on 31 August 2007 and the Intel

LETTER FROM NUADA

Debt from Intel by way of assignment for a consideration of US\$840,000 (equivalent to approximately HK\$6,552,000) on 5 September 2007, as a result of which the Bank Debts and the Intel Debt were assigned and became due to Mr. Kan. Subsequent to the completion of the Sale and Purchase Agreement and up to the Latest Practicable Date, Mr. Kan had also made advance in an aggregate sum of HK\$3 million to the Group (the “**Advance**”).

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. Upon review of the Resumption Proposal, it is noted that Mr. Kan has submitted the Restructuring Proposal in relation to the Subscription to revitalize the Group’s financial position, upon which the Group will be substantially debt-free, enabling the Group to operate under a financially sound position and the Group’s business is expected to continue to improve as a result of its enhanced financial position. In addition, upon completion of the Restructuring Proposal, the Group is able to benefit from the new equity injected by Mr. Kan and therefrom the Group will be in a position to expand its present trading activities and build up a unique customer-oriented model focusing on the individual needs of each customer through the provision of dedicated e-enabling solutions that generate both technical service fees and much more attractive income from trading components. As such, the Restructuring Proposal represents a vital step for the Group to develop its business and maintain a sufficient level of operations. As stated in the Board Letter, based on the information provided by the Stock Exchange, the Company is allowed to proceed with the Resumption Proposal (as supplemented by the further submission to the Stock Exchange) subject to fulfillment of a number of conditions, including completion of the Restructuring Proposal, to the satisfaction of the Stock Exchange prior to resumption of trading in Shares.

Given the net liability position of the Group as detailed in the section headed “Financial Information of the Group”, we consider that the issue of the Convertible Notes pursuant to the Subscription Agreement would enable the Group to improve its financial position with the proceeds from the Subscription. The net proceeds of the Convertible Notes of approximately HK\$356 million will be used as to (i) HK\$318 million for the set off of the full amount of the Bank Debts, the Intel Debt and the Advance (in an aggregate sum of HK\$3 million) due to Mr. Kan, against such amount of the subscription price of the Convertible Notes, on a dollar for dollar basis; and (ii) the remaining proceeds of approximately HK\$38 million as general working capital of the Group. Accordingly, as a result of the Subscription, the financial position of the Company would be improved by the decrease in liabilities due to the elimination of the Bank Debts, the Intel Debt and the Advance as well as the increase in cash level for working capital of the Group. According to the pro forma balance sheet as at 30 June 2007 assuming completion of the Restructuring Proposal as set out in Appendix I to the Circular, the financial position would have been improved from recording capital deficiencies of approximately HK\$326.9 million to positive shareholders’ fund of approximately HK\$31.1 million with the issue of Convertible Notes, which are non-redeemable, being classified as “equity”.

LETTER FROM NUADA

Taking into account the Subscription would improve the financial position of the Group and the resumption of trading of the Shares is subject to, among other things, completion of the Subscription, we consider that the Subscription is in the interests of the Company and the Shareholders as a whole.

Terms of the Subscription

Pursuant to the Subscription Agreement, 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 which can be converted into a maximum of 9,274,611,398 Conversion Shares at the initial Conversion Price of HK\$0.0386 per Conversion Share (subject to adjustment). The Conversion Price represents (i) the Share Offer Price; (ii) a premium of approximately 4.32% over the closing price of the 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 (the “**Last Trading Day**”); (iii) a premium of HK\$0.2422 per Share over the audited consolidated net liabilities of approximately HK\$0.2036 as at 31 December 2006; and (iv) a premium of approximately HK\$0.2429 per Share over the unaudited consolidated net liabilities per Share of approximately HK\$0.2043 as at 30 June 2007.

In assessing the fairness and reasonableness of the Conversion Price, we have made reference to all the issues of convertible notes/bonds of other listed companies in Hong Kong announced during the two months period prior to the date of the Announcement (the “**Comparables**”), which are selected based on the consideration of recentness, adequate sample size and comprehensiveness. Details of the Comparables are summarized as follows:

Company name	Stock code	Date of announcement	Premium/ (Discount) represented by conversion price over/to closing price of shares on last trading day prior to the relevant announcement	Interest
Asian Capital Resources (Holdings) Limited	8025	11-Jan-08	-16.20%	Nil
Rising Development Holdings Limited	1004	10-Jan-08	-9.68%	1%
The Sun's Group Limited	988	19-Dec-07	13.00%	2% per annum
Espco Technology Holdings Limited	8299	18-Dec-07	-54.55%	Nil for first two years and 4% per annum thereafter

LETTER FROM NUADA

Company name	Stock code	Date of announcement	Premium/ (Discount) represented by conversion price over/to closing price of shares on last trading day prior to the relevant announcement	Interest
Suncorp Technologies Limited	1063	18-Dec-07	-55.75%	0.5% per annum
New City (China) Development Limited	456	11-Dec-07	-47.92%	prime rate plus 2% per annum
B.A.L. Holdings Limited	8079	7-Dec-07	0.00%	Nil
China Rise International Holdings Limited	723	7-Dec-07	-7.14%	1.5% per annum
Cosmopolitan International Holdings Limited	120	7-Dec-07	3.45%	Nil
Dynamic Energy Holdings Limited	578	6-Dec-07	19.20%	2% per annum
Imagi International Holdings Limited	585	4-Dec-07	25.39%	Nil
Kai Yuen Holdings Limited	1215	4-Dec-07	0.00%	3.5% per annum
Wang Sing International Holdings Group Limited	2389	4-Dec-07	-2.90%	Nil
New Smart Energy Group Limited	91	4-Dec-07	40.35%	Nil
Pacific Basin Shipping Limited	2343	3-Dec-07	27.00%	3.3% per annum
Neptune Group Limited	70	29-Nov-07	-13.04%	1% per annum
Chun Wo Development Holdings Limited	711	26-Nov-07	29.76%	Nil
Core Healthcare Investment Holdings Limited	8250	15-Nov-07	-67.20%	1% per annum
		Average:	-6.46%	

The premium/discount represented by conversion price over/to closing price of shares on last trading day prior to the relevant announcement of the Comparables ranged from a premium of 40.35% to a discount of 67.20% (the “**Range**”), with an average discount of 6.46% (the “**Average**”). As such, the premium of 4.23% represented by the Conversion Price over the closing price of the Shares on the Last Trading Day falls within the Range and above the average discount of the Comparables. Out of the 18 Comparables, the conversion prices of 9 Comparables were set at discounts, 7 Comparables were set at premiums and 2 Comparables were set at equivalent to the relevant closing price of shares. Out of the 18 Comparables, the convertible notes/bonds of 7 Comparables bear no interest and 11 Comparables bear interests ranging from 0.5% to prime rate plus 2% per annum. Given the premium represented by the Conversion Price over the closing price of the Shares on the Last Trading Day falls within the Range and above the average discount of the Comparables, and the convertible notes/bonds of 7 Comparables out of the total of 18 Comparables bear no interest, we consider that the Conversion Price is fair and reasonable so far as the Company and the Independent Shareholders are concerned and on normal commercial terms.

LETTER FROM NUADA

Taking into account (i) the Conversion Price represents premium over closing price of the Shares on the Last Trading Day, which falls within the Range and is above the Average, and is equivalent to the Share Offer Price; (ii) the Convertible Notes are interest-free, (iii) the continuous losses of the Group and net liabilities position for the two years ended 31 December 2006 and the six months ended 30 June 2007; (iv) the Subscription would provide immediate cash inflow to the Group for improving its financial position and incur no interest burden as compared to debt financing; and (v) the resumption of trading of the Shares is subject to, among other things, completion of the Subscription, we consider that the Subscription is in the interests of the Company and the Shareholders as a whole.

Potential dilution effect on the shareholdings of existing public Shareholders

As at the Latest Practicable Date, the Company had an issued share capital of 1,602,330,000 Shares, of which approximately 75.99% was held by Mr. Kan and approximately 24.01% was held by public Shareholders. For information only, 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 places 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. For illustration purpose only, assuming full conversion of the Convertible Notes at the initial Conversion Price, the aggregate shareholding in the Company of the existing public Shareholders would be diluted by 20.47% from 24.01% as at the Latest Practicable Date to approximately 3.54%.

Nevertheless, it should be noted Mr. Kan had 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 less than the minimum public float as required under the Listing Rules from time to time being held in public hands. In addition, in order to ensure sufficient public float of the Company upon any conversion of the Convertible Notes, upon the terms of the Convertible Notes, (i) 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 less than the minimum public float as required under the Listing Rules from time to time being held in public hands; 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 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.

Notwithstanding the possible material dilution of the shareholdings of the Company upon full conversion of the Convertible Notes, given (i) the continuous losses of the Group for the two years ended 31 December 2006 and the six months ended 30 June 2007; (ii) the net liability position of the Group as detailed above; (iii) the resumption of trading of the Shares is subject to, among other things, completion

LETTER FROM NUADA

of the Subscription; and (iv) the fact that the issue of the Convertible Notes would not cause immediate dilution effect on shareholdings, we consider that the benefits of the Subscription outweighs the potential dilution effect on shareholdings, which is inevitable for the issue of the Convertible Notes for providing immediate cash inflow for the Group to alleviate its imminent liquidity difficulties. Last but not least, we would also like to re-iterate that the resumption of trading in the Shares is subject to, among other things, completion of the Subscription.

Furthermore, as compared with raising funds through open offers or rights issues assuming for the substantial amount of funds as that could be raised from the Subscription, open offers and rights issues would cause immediate substantial dilution effect on the shareholdings of those Shareholders who do not take up the new Shares offered under open offers or rights issues, while the issue of the Convertible Notes would not cause immediate dilution effect on shareholdings. In addition, given the imminent financial difficulties of the Group as detailed above, open offers and rights issue might not be the most appropriate fund raising method as open offers or rights issues may take more time to complete and the results of open offers or rights issues are uncertain in that Shareholders may not be interested in taking up the new Shares offered under open offers or the rights issues, in particular if without significant discount to the closing price of Shares, due to the loss-making record, the deteriorating financial position and the prolonged suspension of trading in the Shares of the Company.

Independent Shareholders should, however, take note of the potential dilution effect on their existing shareholdings upon conversion of the Convertible Notes.

Financial effects

Immediately upon completion of the issue of the Convertible Notes, (i) the liabilities of the Group would decrease by the amount of the Bank Debts, the Intel Debts and the Advance, and the Group would be substantially debt-free; and (ii) the assets of the Group would increase with an increase in bank balances and cash by the balance amount of the net proceeds of the Subscription (after deducting the amount of the Bank Debts, the Intel Debts and the Advance).

LETTER FROM NUADA

RECOMMENDATION

Having considered the above principal factors and reasons, we consider that the Subscription is in the interests of the Company and the Shareholders as a whole and the terms of the Subscription Agreement are on normal commercial terms and fair and reasonable so far as the Company and the Independent Shareholders as a whole are concerned. Accordingly, we advise the Independent Shareholders and the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the relevant resolution(s) to be proposed at the EGM to approve the Subscription Agreement and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Nuada Limited
Po Chan
Executive Director

A. PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from the independent reporting accountants, PKF, in respect of the unaudited pro forma financial information of the Group as set out in this Appendix to this circular.

**ACCOUNTANTS' REPORT ON PRO FORMA FINANCIAL INFORMATION
TO THE DIRECTORS OF ARTEL SOLUTIONS GROUP HOLDINGS LIMITED**

We report on the unaudited pro forma financial information of Artel Solutions Group Holdings Limited (the “**Company**”) and its subsidiaries (hereinafter collectively referred to as the “**Group**”), which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the proposed issue of convertible notes might have affected the financial information presented, as set out on pages 36 to 37 of the circular of the Company dated 25 January 2008 (the “**Circular**”). The basis of preparation of the pro forma financial information is set out in the section headed “Pro Forma Financial Information” in Appendix I to the Circular.

Respective Responsibilities of Directors of the Company and Reporting Accountants

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and with reference to AG 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of Opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements (HKSIR) 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the pro forma financial information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the pro forma financial information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

The unaudited pro forma financial information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 30 June 2007 or any future date.

Opinion

In our opinion:

- a. the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;
- b. such basis is consistent with the accounting policies of the Group; and
- c. the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

PKF
Certified Public Accountants
Hong Kong

25 January 2008

The following is the unaudited pro forma balance sheet of the Group, assuming the completion of the Restructuring Proposal on 30 June 2007. The unaudited pro forma balance sheet is based on the unaudited balance sheet of the Group as at 30 June 2007 after making pro forma adjustments relating to the Restructuring Proposal.

	30 June 2007 (Unaudited) <i>HK\$'000</i>	Adjustments relating to the Restructuring Proposal <i>HK\$'000</i>	<i>Notes</i>	Upon completion of the Restructuring Proposal <i>HK\$'000</i>
Current assets				
Trade receivables, rebates receivables, prepayments, deposits and other receivables	1,302			1,302
Bank balances and cash	1,331	3,000	1	44,434
		40,103	2d	
	<u>2,633</u>			<u>45,736</u>
Current liabilities				
Trade payables, accrued charges and other payables	71,109	(59,024)	2b	12,085
Amount due to a director	198			198
Bank overdrafts and borrowings	258,254	(255,873)	2a	2,381
Loan from a shareholder	–	3,000	1	–
		(3,000)	2c	
	<u>329,561</u>			<u>14,664</u>
Net current (liabilities) assets	<u>(326,928)</u>			<u>31,072</u>
Net (liabilities) assets	<u>(326,928)</u>			<u>31,072</u>
Capital and reserves				
Share capital	16,000			16,000
Reserves	(342,928)	358,000	2	15,072
(Capital deficiencies)				
Shareholders' fund	<u>(326,928)</u>			<u>31,072</u>

Notes:

1. Represents the loans with an aggregate amount of approximately HK\$3 million advanced by Mr. Kan to the Group during the period from August 2007 to September 2007.
2. Represents the issue of the Convertible Notes of HK\$358 million which are non-redeemable, classified as "equity", and to be settled by way of:-
 - a. Bank Debts with an aggregate amount of approximately HK\$256 million;
 - b. Intel Debt of approximately HK\$59 million;
 - c. Loans advanced by Mr. Kan with an aggregate amount of approximately HK\$3 million; and
 - d. Cash of approximately HK\$40 million.

B. WORKING CAPITAL

The Directors are of the opinion that, having regard to the financial resources available to the Group, including internally generated funds and financial support from a shareholder, the Group will have sufficient working capital for its present requirements for the next twelve months from the date of this circular.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm that, having made all reasonable enquiries, to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

2. DISCLOSURE OF INTERESTS

(i) Directors' and chief executives' interests and short positions in the securities of the Company and its associated corporations

As at the Latest Practicable Date, the interests or short positions of the Directors and the chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any such Director or chief executive was taken or deemed to have under such provisions of the SFO); or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange, were as follows:

Name	Name of company in which interests or short positions were held	Nature of interests	Number of shares held	Approximate percentage of shareholding
Mr. Kan	The Company	Beneficial owner	1,217,558,000 Shares (L)	75.99%
Kan Kung Chuen Lai	The Company	Interest of spouse	1,217,558,000 Shares (L)	75.99%
Yu Pen Hung	Artel Industries Limited	Beneficial owner	8,000,000 non-voting deferred shares of HK\$1.00 each (L)	100%

(L) denotes the long position held in the securities.

Save as disclosed above, none of the Directors or the chief executives of the Company had, as at the Latest Practicable Date, any interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any such Director or chief executive was taken or deemed to have under the provisions of the SFO) or which were recorded in the register required to be kept by the Company under section 352 of the SFO or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

(ii) Director's interest in assets and/or arrangement

As at the Latest Practicable Date, none of the Directors and any proposed Directors had any direct or indirect interests in any assets which had been since 31 December 2006, being the date to which the latest published audited consolidated accounts of the Group were made up, acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

Save for Mr. Kan's execution of the Subscription Agreement, as at the Latest Practicable Date, there were no contract or arrangement subsisting in which a Director was materially interested and which was significant in relation to the business of the Group as a whole.

(iii) Substantial Shareholders and persons having 5% or more interests in securities of the Company

As at the Latest Practicable Date, so far as was known to the Directors, no person (other than a Director or chief executive of the Company) had any interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or who had any options in respect of such capital.

3. COMPETING INTERESTS

To the best knowledge of the Directors, none of the Directors or their respective associates (within the meaning defined in the Listing Rules) had any interests in any business which competed or might compete with the business of the Group.

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, there was no existing or proposed service contract between any of the Directors or proposed Directors and the Company or any member of the Group, excluding contracts expiring or determinable by the Group within a year without payment of any compensation (other than statutory compensation).

5. LITIGATION

As at the Latest Practicable Date, the Group was engaged in the following litigations:

- (a) Around year 2006, one former employee of the Company brought claim numbered LBTC4162/2006 against the Company and Artel e-Solutions Limited ("Artel e-Solutions"), a wholly-owned subsidiary of the Company, at the Labour Tribunal. On 8 September 2006, with the consent of Artel e-Solutions, the Labour Tribunal ordered Artel e-Solutions to pay the sum of HK\$42,000 to the employee. On 18 September 2006, with the consent of the parties, the Labour Tribunal ordered Artel e-Solutions to pay the sum of HK\$208,000 to the employee. On 29 November 2006, the Labour Tribunal approved the employee's application to withdraw his claim against the Company. Both the said sums of HK\$42,000 and HK\$208,000 have not been settled as at the Latest Practicable Date. The Group had provided for the liabilities in the consolidated financial statements during the year 2006.
- (b) On 29 September 2006, A. Plus Financial Press Limited ("A.Plus") brought an action numbered DCCJ4897/2006 in District Court against the Company claiming the outstanding payable arising from provision of services to the Company amounting to approximately HK\$299,000 together with interest thereon. On 15 November 2006, the District Court ordered the Company to pay A. Plus the sum of approximately HK\$322,000 together with interest thereon and fixed costs in the sum of HK\$1,380. On 6 December 2006, the Company received a statutory demand under Section 327(4)(a) of the Companies Ordinance (Chapter 32 of the laws of Hong Kong) issued by A. Plus demanding payment of the said sum together with interest, in the aggregate sum of approximately HK\$334,000 as at the date of payment. Up to the Latest Practicable Date, the Group had paid the sum of HK\$100,000 to A. Plus and had provided for the liabilities in the consolidated financial statements during the year 2006.

Other than the above, the Group was not engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened against the Group as at the Latest Practicable Date.

6. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial and trading position of the Group since 31 December 2006, being the date to which the latest audited financial statements of the Group were made up of.

7. EXPERTS AND CONSENTS

The following are the qualifications of the experts who have been named in this circular or have given opinion or advice which are contained in this circular:

Name	Qualification
Nuada	a deemed licensed corporation to carry out type 6 (advising on corporate finance) regulated activity as under the SFO
PKF	certified public accountants

Each of Nuada and PKF has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and/or references to its names in the form and context in which they respectively appear.

As at the Latest Practicable Date, each of Nuada and PKF did not have any shareholding, directly or indirectly, in any member of the Group or any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, each of Nuada and PKF did not have any direct or indirect interests in any assets which had been since 31 December 2006, the date of which the latest published audited consolidated financial statements of the Group were made up, acquired or disposed of by, or leased to, or proposed to be acquired or disposed of by, or leased to, any member of the Group.

8. GENERAL

- (a) The registered office of the Company is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.
- (b) The principal place of business of the Company in Hong Kong is at Flat 18, 1/F, Flourish Industrial Building, 33 Sheung Yee Road, Kowloon Bay, Kowloon, Hong Kong.
- (c) The Company's branch share registrar in Hong Kong is Tricor Standard Limited, situated at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.
- (d) The secretary and qualified accountant of the Company is Ms. Seto Ying, who is an associate member of Hong Kong institute of Certified Public Accountants.
- (e) The English text of this circular shall prevail over the Chinese text in the case of inconsistency.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be made available for inspection at the principal place of business of the Company at Flat 18, 1/F, Flourish Industrial Building, 33 Sheung Yee Road, Kowloon Bay, Kowloon, Hong Kong during normal business hours from 9:00 a.m. to 6:00 p.m. on any Business Day, from the date of this circular and up to and including 11 February 2008:

- (a) the letter from the Independent Board Committee, the text of which is set out on pages 22 to 23 of this circular;
- (b) the letter from Nuada, the text of which is set out on pages 24 to 33 of this circular;
- (c) the letter of unaudited pro forma statement of the Group set out in Appendix I to this circular;
- (d) the written consents from Nuada and PKF referred to in the section headed "Experts and consents" in this Appendix;
- (e) the Subscription Agreement;
- (f) the memorandum and articles of association of the Company;
- (g) this circular;
- (h) the Composite Document;
- (i) the annual reports of the Group for the two years ended 31 December 2006; and
- (j) the interim report of the Group for the six-month period ended 30 June 2007.

NOTICE OF EGM



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)

NOTICE IS HEREBY GIVEN THAT an extraordinary general meeting (the “EGM”) of Artel Solutions Group Holdings Limited (the “Company”) will be held at Flat 18, 1/F, Flourish Industrial Building, 33 Sheung Yee Road, Kowloon Bay, Kowloon, Hong Kong on Monday, 11 February 2008 at 11:00 a.m. for the purpose of considering and, if thought fit, passing with or without amendments, the following resolutions as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

1. “**THAT:**

- (a) the terms and conditions of the subscription agreement dated 15 January 2008 (the “**Subscription Agreement**”, a copy of which has been produced to the meeting marked “A” and signed by the chairman of the meeting for the purpose of identification) entered into between the Company as issuer and Mr. Kan Che Kin, Billy Albert as subscriber (the “**Subscriber**”) pursuant to which the Company has conditionally agreed to issue and the Subscriber has conditionally agreed to subscribe for the convertible notes (the “**Convertible Notes**”) in an aggregate principal amount of HK\$358 million at an initial conversion price of HK\$0.0386 per share (the “**Share(s)**”) of HK\$0.01 each in the capital of the Company, be and are hereby approved, confirmed and ratified;
- (b) the issue of the Convertible Notes by the Company to the Subscriber or its nominee(s) pursuant to the terms and conditions of the Subscription Agreement and the allotment and issue of new Shares by the Company upon the exercise of the conversion rights under the Convertible Notes be and are hereby approved; and
- (c) the directors of the Company be and are hereby authorised on behalf of the Company to do all such things and sign, seal, execute, perfect and deliver all such documents as they may in their discretion consider necessary, desirable or expedient, for the purposes of or in connection with the implementation and/or give effect to any matters relating to the Subscription Agreement, the Convertible Notes and all transactions contemplated thereunder.”

* for identification purposes only

NOTICE OF EGM

2. **“THAT** the authorised share capital of the Company be and is hereby increased from HK\$100,000,000 to HK\$400,000,000 by the creation of additional 30,000,000,000 new Shares, such additional Shares to rank *pari passu* in all respects with the existing Shares.”

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

Hong Kong, 25 January 2008

As at the date of this notice, the executive directors of the Company 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 of the Company are Mr. Li Siu Yui, Mr. Ip Woon Lai and Mr. Lee Kong Leong.

Registered office:

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

Head office and principal place of business in Hong Kong:

Flat 18, 1st Floor
Flourish Industrial Building
33 Sheung Yee Road
Kowloon Bay
Kowloon
Hong Kong

Notes:

1. A member entitled to attend and vote at the EGM convened by the above notice is entitled to appoint one or, if he is holder of two or more Shares, more than one proxy to attend and, subject to the provisions of the articles of association of the Company, vote in his stead. A proxy need not be a member of the Company.
2. In the case of joint registered holders of any Shares, any one of such joint holders may vote at the EGM, either in person or by proxy, in respect of such Shares as if he was solely entitled thereto, but if more than one of such joint holders are present at the EGM, whether in person or by proxy, the joint registered holder present whose name stands first on the register of members of the Company shall alone be entitled to vote in respect of such Shares.
3. In order to be valid, the form of proxy when duly completed and signed in accordance with the instructions printed thereon together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy thereof must be delivered to the branch share registrar of the Company in Hong Kong, Tricor Standard Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not less than 48 hours before the time appointed for holding the EGM or any adjourned meeting.
4. Completion and delivery of the form of proxy will not preclude members from attending and voting at the EGM or any adjournment thereof, in which case the form of proxy shall be deemed to be revoked.