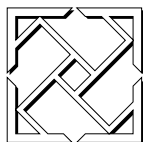


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## **ARTFIELD GROUP LIMITED**

*(Incorporated in Bermuda with limited liability)*

**(Stock code: 1229)**

### **REVISION OF APPROVED CAPS FOR CONTINUING CONNECTED TRANSACTIONS**

As the amount of the Continuing Connected Transactions under the First Supply Agreement and the Second Supply Agreement for the financial year ending 31 March 2008 may exceed the Approved Caps of HK\$10.0 million and HK\$32.5 million respectively, the Company proposes to revise the caps for the year ending 31 March 2008 to HK\$15 million for the First Supply Agreement and to HK\$47 million for the Second Supply Agreement respectively. Furthermore, based on internal estimates of the demand and the operating conditions of the Continuing Connected Transactions, the Directors note that the existing annual caps for the financial year ending 31 March 2009 under the Supply Agreements will not be sufficient for the Group's requirement, and therefore propose to revise the relevant existing annual caps under the Supply Agreements. The First Supply Agreement involves, among other things, the sale of wood products to AMCL by RS and the provision of electroplating services to AMCL by UG while the Second Supply Agreement involves, among others, the sale of clocks, timepieces, gift and premium products to AMCL by AI.

As Mr. Liang and his spouse are existing directors of AMCL (a wholly owned subsidiary of the Company), AI, RS and UG, which are all ultimately and beneficially owned by Mr. Liang and his spouse in equal shares, are connected persons of the Company.

Pursuant to Rule 14A.36 of the Listing Rules, the Company is required to re-comply with Rules 14A.35(3) and (4) of the Listing Rules in respect of the Revision of Approved Caps. As the percentage ratio in relation to the Revised Caps under the Supply Agreements exceeds 2.5%, the Company must comply with the Independent Shareholders' approval requirements described in Rule 14A.48 of the Listing Rules. In this connection, the Company will seek the Independent Shareholders' approval for the Revised Caps at the SGM to be conducted by poll.

A circular containing, among other things, details of the Revision of Approved Caps, a letter of recommendation from the independent board committee, a letter of advice by the independent financial adviser, and a notice of the SGM, will be despatched to the Shareholders as soon as practicable in accordance with the Listing Rules.

## **REVISION OF APPROVED CAPS FOR THE TWO FINANCIAL YEARS ENDING 31 MARCH 2008 AND 2009**

### **Background**

Reference is made to the 2007 Announcement and the 2007 Circular in relation to, among other things, the Continuing Connected Transactions. The Continuing Connected Transactions under the Supply Agreements were approved by the then independent shareholders of the Company at the special general meeting of the Company held on 30 March 2007 and the Approved Caps for the two financial years ending 31 March 2008 and 2009 are HK\$10.0 million and HK\$7.5 million for the First Supply Agreement; and HK\$32.5 million and HK\$26.0 million for the Second Supply Agreement respectively. Set out below is the proposed revision of caps for the two financial years ending 31 March 2008 and 2009:

|               | <b>First Supply Agreement</b> |                     |
|---------------|-------------------------------|---------------------|
|               | <b>Year ending 31 March</b>   |                     |
|               | <b>2008</b>                   | <b>2009</b>         |
|               | <i>HK\$ million</i>           | <i>HK\$ million</i> |
| Approved Caps | 10.0                          | 7.5                 |
| Revised Caps  | 15.0                          | 15.0                |

**Second Supply Agreement**  
**Year ending 31 March**  
**2008**                      **2009**  
*HK\$ million*              *HK\$ million*

|               |      |      |
|---------------|------|------|
| Approved Caps | 32.5 | 26.0 |
| Revised Caps  | 47.0 | 47.0 |

Save as disclosed in this announcement, there is no current or prior transactions amongst RS, UG, AI and the Group which would require to be aggregated under Rule 14A.25 of the Listing Rules.

**Reasons for the Revision of Approved Caps**

The Company is an investment holding company. The principal activities of its subsidiaries are marketing and trading of clocks and other office related products, lighting products and trading of metals. Pursuant to the First Supply Agreement, RS will sell to AMCL wood products and UG will provide AMCL electroplating services on a non-exclusive basis whereas pursuant to the Second Supply Agreement, AI will sell to AMCL clocks, timepieces, gift and premium products on a non-exclusive basis.

As stated in the 2007 Announcement and 2007 Circular, the Approved Caps, which are significantly lower than the actual figures for the previous years, were determined with reference to the then and the anticipated difficult operating environment in the industries.

For each of the two years ended 31 March 2006 and 2007, the Group recorded audited loss before tax of approximately HK\$70,595,000 and HK\$128,038,000 respectively, and audited loss attributable to equity holders of the Company of approximately HK\$72,149,000 and HK\$124,577,000 respectively. The Group has been operating difficult market environment in the past few years. Nevertheless, with the continuous effort of the management of the Group, during the six months period ended 30 September 2007, the Group achieved an approximately 45% decrease in the segment loss of the clocks and other office related products business while the segment turnover was just slightly decreased by approximately 2%, when compared with the results of the same period last year. Since the decrease in turnover of this business segment was not as substantial as previously expected, and the sales to AMCL under the First Supply Agreement and the Second Supply Agreement for the eight months ended 30 November 2007 have already reached approximately HK\$9.0 million and approximately HK\$28.5 million respectively, it is very likely that the amount of the Continuing Connected Transactions under

the First Supply Agreement and the Second Supply Agreement for the financial year ending 31 March 2008 may exceed the Approved Caps of HK\$10.0 million and HK\$32.5 million respectively. Based on the best estimates and information currently available to the Directors, the actual amount of the transactions has not exceeded the Approved Caps as at the date of this announcement. Furthermore, based on internal estimates of the demand and the operating conditions of the Continuing Connected Transactions, the Directors note that the existing annual caps for the financial year ending 31 March 2009 will not be sufficient for the Group's requirement, and therefore propose to revise the relevant existing annual caps under the Supply Agreements. As such, the Company proposes to revise the caps for the two years ending 31 March 2008 and 2009 to HK\$15.0 million for the First Supply Agreement and to HK\$47.0 million for the Second Supply Agreement respectively pursuant to Rule 14A.36 of the Listing Rules.

Save for the aforesaid, the other terms of the Continuing Connected Transactions under the Supply Agreements remain unchanged.

The Directors are of the view that the Continuing Connected Transactions have been conducted on normal commercial terms or on terms no less favourable than those available from independent third parties, were entered into in the ordinary and usual course of business of the Group, are fair and reasonable and in the interests of the Company and its Shareholders as a whole, and that the Revised Caps are fair and reasonable.

## **INFORMATION ON THE GROUP AND THE PRIVATE GROUP OF MR. LIANG**

The Group is principally engaged in marketing and trading of clocks and other office related products, lighting products and trading of metals. As stated above, RS, UG and AI have been providers of certain products and services to AMCL under the Supply Agreements.

Mr. Liang and his spouse are the ultimate beneficial owners of RS, UG and AI. The subsidiary of RS is principally engaged in the manufacturing of wood products whereas the subsidiary of UG is principally engaged in the provision of electroplating services.

## **LISTING RULES IMPLICATION**

As Mr. Liang and his spouse are existing directors of AMCL (a wholly owned subsidiary of the Company), AI, RS and UG, being ultimately beneficially owned by Mr. Liang and his spouse in equal shares, are connected persons of the Company. In the premises and in view of the continuing and recurring nature, the Continuing Connected Transactions constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Pursuant to Rule 14A.36 of the Listing Rules, the Company is required to re-comply with Rules 14A.35(3) and (4) of the Listing Rules in respect of the Revision of Approved Caps. As the percentage ratio in relation to the Revised Caps under the Supply Agreements exceeds 2.5%, the Company must comply with the Independent Shareholders' approval requirements described in Rule 14A.48 of the Listing Rules. In this connection, the Company will seek the Independent Shareholders' approval for the Revised Caps at the SGM to be conducted by poll. At the SGM, Mr. Liang and his associates are required to abstain from voting on the resolution(s) in relation to the Revision of Approved Caps. Based on the information available to the Directors, as at the date of this announcement, Mr. Liang and his associates are not interested in any Shares and should they become owner of any Shares prior to the holding of the SGM, they shall abstain from voting on the resolution to be proposed at the SGM in relation to the Revised Caps.

An independent board committee composed of the independent non-executive Directors will be formed and an independent financial adviser will be appointed to advise the independent board committee and the Independent Shareholders in relation to the Revision of Approved Caps and the transactions contemplated thereunder.

A circular containing, among other things, details of the Revision of Approved Caps, a letter of recommendation from the independent board committee to the Independent Shareholders, a letter of advice by the independent financial adviser to the independent board committee and the Independent Shareholders, and a notice of the SGM, will be despatched to the Shareholders as soon as practicable in accordance with the Listing Rules.

## DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions shall have the following meaning:

|                     |   |
|---------------------|---|
| “2007 Announcement” | the announcement of the Company dated 6 February 2007 in respect of, among other matters, the Supply Agreements   |
| “2007 Circular”     | the circular issued by the Company dated 14 March 2007 in respect of, among other matters, the Supply Agreements  |
| “AI”                | Artfield Industries (Shenzhen) Ltd., a wholly foreign owned enterprise established in the PRC with limited liability which is indirectly and beneficially owned by Mr. Liang and his spouse in equal shares |
| “AMCL”              | Artfield Manufacturing Company Limited, a company incorporated in Hong Kong with limited liability and an indirectly and wholly owned subsidiary of the Company   |
| “Approved Caps”     | the maximum amount of the aggregate annual value of the Supply Agreements as approved by the then independent shareholders of the Company at the special general meeting held on 30 March 2007              |
| “associates”        | has the meaning associated thereto in the Listing Rules   |
| “Board”             | the board of Directors  |
| “Company”           | Artfield Group Limited, a company incorporated in Bermuda with limited liability and the issued shares of which are listed on the main board of the Stock Exchange  |
| “connected person”  | has the same meaning ascribed to it under the Listing Rules   |

|                                     |   |
|-------------------------------------|---|
| “Continuing Connected Transactions” | the continuing connected transactions between the Group and the private group of Mr. Liang under the Supply Agreements  |
| “Directors”                         | the directors of the Company  |
| “First Supply Agreement”            | a supply agreement dated 29 January 2007 and entered into between AMCL, RS and UG in relation to the sale of wooden products and the provision of electroplating services by RS and UG respectively to AMCL |
| “Group”                             | the Company and its subsidiaries  |
| “Hong Kong”                         | the Hong Kong Special Administrative Region of the PRC  |
| “Independent Shareholders”          | Shareholders other than Mr. Liang and his associates  |
| “Listing Rules”                     | the Rules Governing the Listing of Securities on the Stock Exchange   |
| “Mr. Liang”                         | Mr. Liang Jin You, a former executive Director, Chairman and Managing Director of the Company, who resigned from the said positions on 4 July 2007. Mr. Liang and his spouse are existing directors of AMCL |
| “PRC”                               | the People’s Republic of China, which for the purpose of this announcement, shall exclude Hong Kong, Macau and Taiwan   |
| “Revision of Approved Caps”         | the revision of the annual caps for Continuing Connected Transactions under the Supply Agreements for the two financial years ending 31 March 2008 and 2009   |
| “Revised Caps”                      | the revised annual caps for the Continuing Connected Transactions for the two years ending 31 March 2008 and 2009   |
| “RS”                                | Royal Success Enterprises Limited, a company incorporated in Hong Kong with limited liability and is beneficially owned by Mr. Liang and his spouse in equal shares   |

|                           |  |
|---------------------------|--|
| “Second Supply Agreement” | a supply agreement dated 29 January 2007 and entered into between AI and AMCL in relation to the sale of clocks, timepieces, gift and premium products by AI to AMCL |
| “SGM”                     | a special general meeting of the Company to be convened and held to approve the Revision of Approved Caps  |
| “Shareholders”            | holders of the Shares  |
| “Shares”                  | shares of HK\$0.10 of the Company  |
| “Stock Exchange”          | The Stock Exchange of Hong Kong Limited  |
| “Supply Agreements”       | the First Supply Agreement and the Second Supply Agreement   |
| “UG”                      | Ultra Good Electroplating Limited, a company incorporated in Hong Kong with limited liability and is beneficially owned by Mr. Liang and his spouse in equal shares  |
| “HK\$”                    | Hong Kong dollars, the lawful currency of Hong Kong  |
| “%”                       | per cent   |

By order of the Board  
**Artfield Group Limited**  
**Leung Heung Ying, Alvin**  
*Managing Director*

Hong Kong, 11 February 2008

*As at the date of this announcement, the Board comprises Mr. Leung Heung Ying, Alvin (Managing Director), Ms. Chung Oi Ling, Stella and Mr. Lo Chi Ho, William as executive directors, and Mr. Lo Ming Chi, Charles, Mr. Orr Joseph Wai Shing and Mr. Wong Ngao San, Marcus as independent non-executive directors.*