

REPORT OF THE AUDITORS

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TO THE MEMBERS OF ARTEL SOLUTIONS GROUP HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Artel Solutions Group Holdings Limited (the “Company”) and its subsidiaries (the “Group”) from pages 28 to 79 which have been prepared in accordance with accounting principles generally accepted in Hong Kong other than as set out below.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for the preparation of consolidated financial statements which give a true and fair view. In preparing consolidated financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants except that the scope of our work was limited as explained below.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the consolidated financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the consolidated financial statements, and of whether the accounting policies are appropriate to the circumstances of the Group, consistently applied and adequately disclosed.

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BASIS OF OPINION (continued)

We planned our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the consolidated financial statements are free from material misstatement. However, the evidence available for us was limited. Included in the inventories shown in the consolidated balance sheet is an amount relating to a batch of inventories of HK\$36 million as at 31 December 2005 stated net of an allowance of HK\$35 million. However, we were unable to obtain sufficient information and explanations from the directors to assess the reasonableness of their basis of provision. Accordingly, we were unable to satisfy ourselves as to whether any further allowance is required to state the aforesaid inventories at the lower of cost and net realisable value at 31 December 2005. Any adjustments found to be necessary would affect the net liabilities of the Group at 31 December 2005 and the loss of the Group for the year then ended.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

FUNDAMENTAL UNCERTAINTY RELATING TO THE GOING CONCERN BASIS

In forming our opinion, we have considered the adequacy of the disclosure made in note 2 to the consolidated financial statements which describes the current liquidity difficulties of the Group. The Group is dependent upon the continued support of its bankers and creditors. As explained in note 28, the Group has defaulted in respect of the repayment of certain bank borrowings totalling approximately HK\$205 million and such amounts have become repayable on demand. The remaining bank borrowings have also become repayable on demand due to the default in the aforesaid bank borrowings. Moreover, certain of these bankers and one of the major suppliers have taken legal action to recover overdue balances.

Restoring the liquidity and financial position of the Group is dependent upon the introduction of new equity capital and the Group is currently in discussion with a potential new investor. Provided that new equity capital can be injected into the Group, the directors of the Company are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. The consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon future funding being available. The consolidated financial statements do not include any adjustments that would result from a failure to obtain such future funding. We consider that appropriate disclosures have been made. However, in view of the extent of the uncertainty relating to the future funding of the Group, we disclaim our opinion in respect of the fundamental uncertainty relating to the going concern basis.

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QUALIFICATION ARISING FROM DISAGREEMENT ABOUT ACCOUNTING TREATMENT

Included in the trade receivables shown in the consolidated balance sheet as at 31 December 2005 is an amount of approximately HK\$87 million receivables from certain customers stated net of allowance for doubtful debts of approximately HK\$403 million. The Group has substantially suspended trading with these customers since October 2005 and no settlements from them were noted thereafter. The aforesaid balance remained unsettled as at the date of this report and the Group has no security. In our opinion, full allowance should have been made in the consolidated financial statements for these trade receivables, increasing net liabilities at 31 December 2005 and increasing loss for the year then ended by approximately HK\$87 million.

DISCLAIMER OF OPINION

Because of the significance of the possible effect of the limitation in evidence available to us and fundamental uncertainty relating to the going concern basis, we are unable to form an opinion as to whether the consolidated financial statements give a true and fair view of the state of the Group's affairs as at 31 December 2005 and of the loss and cash flows of the Group for the year then ended or as to whether the consolidated financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

In respect alone of the limitation on our work described in the basis of opinion section of this report, we have not obtained all the information and explanations that we considered necessary for the purpose of our audit.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
27 April 2006