

**ARTEL SOLUTIONS GROUP HOLDINGS LTD:
IS THIS THE BEGINNING OF THE END ?**

[Artel Solutions Group Holdings Ltd \(\)](#) (Code: 931, Main Board, The Stock Exchange of Hongkong Ltd) is facing a Winding-Up Petition.

The Petitioning Creditor in Winding-Up Petition Number 474, lodged in the High Court of the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC), is HSH Nordbank AG, Hongkong Branch, formerly known as Hamburgische Landesbank-Girozentrale, Hongkong Branch.

The Annual Report of Artel for the Financial Year, ended December 31, 2005, indicated, clearly, that the company was in financial trouble, with the company's auditors, qualifying the accounts for the 2005 Financial Year, ended December 31.

At Pages 26 and 27 of the 2005 Annual Report, Deloitte Touche Tohmatsu said, inter alia:

'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.

'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.'

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