



2005

Annual Report

GLOBAL SOLUTION ENGINEERING LIMITED  
(incorporated in the Cayman Islands with limited liability)  
(Stock Code: 8192)

## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

**GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.**

**The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcement in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.**

*The Stock Exchange takes no responsibility for the contents of this report, make 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 report.*

*This report, for which the directors (“Directors”) of Global Solution Engineering Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

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## GROUP FINANCIAL SUMMARY

	Year ended 31 March			Period from 1 April 2004 to 31 December 2004	Year ended 31 December 2005
	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000	2004 HK\$'000	HK\$'000
<b>RESULTS</b>					
Turnover	<u>3,781</u>	<u>1,851</u>	<u>1,388</u>	<u>1,709</u>	<u>2,153</u>
Profit/(Loss) before income tax	910	(3,956)	(8,642)	(5,026)	(3,766)
Income tax (expense)/credit	<u>(193)</u>	<u>(11)</u>	<u>65</u>	<u>-</u>	<u>-</u>
Net profit/(loss) for the year/period	<u>717</u>	<u>(3,967)</u>	<u>(8,577)</u>	<u>(5,026)</u>	<u>(3,766)</u>
		At 31 March		At 31 December	At 31 December
	2002	2003	2004	2004	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>ASSETS AND LIABILITIES</b>					
Total assets	1,666	11,579	5,126	7,135	2,227
Total liabilities	<u>(644)</u>	<u>(1,006)</u>	<u>(2,098)</u>	<u>(3,065)</u>	<u>(1,923)</u>
Net assets	<u>1,022</u>	<u>10,573</u>	<u>3,028</u>	<u>4,070</u>	<u>304</u>

The results and summary of assets and liabilities for each of the two years ended 31 March 2003, which were extracted from the Company's prospectus dated 22 November 2002 and the 2003 annual report, have been prepared on a combined basis as if the current group structure had been in existence throughout these years.

## CORPORATE INFORMATION

### EXECUTIVE DIRECTORS

Mr. Chu Yen Ling (*Chairman*)  
Mr. Lee Chan Wah  
(*Acting Chief Executive Officer*)

### INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Lu Da  
Mr. Lau Man Yiu  
Ms. Xue Xiaoyi

### COMPANY SECRETARY

Mr. Lee Chan Wah *CPA, FCCA*

### QUALIFIED ACCOUNTANT

Mr. Lee Chan Wah *CPA, FCCA*

### COMPLIANCE OFFICER

Mr. Lee Chan Wah

### AUDIT COMMITTEE

Dr. Lu Da  
Mr. Lau Man Yiu  
Ms. Xue Xiaoyi

### AUTHORISED REPRESENTATIVES

Mr. Chu Yen Ling  
Mr. Lee Chan Wah

### AUDITORS

Grant Thornton  
*Certified Public Accountants*

### LEGAL ADVISER TO THE COMPANY

*As to Hong Kong law*  
D.S. Cheung & Co.

*As to Cayman Islands law*  
Conyers, Dill & Pearman

### HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

2802 One Exchange Square  
8 Connaught Place  
Central  
Hong Kong

### REGISTERED OFFICE

Century Yard  
Cricket Square  
Hutchins Drive  
P.O. Box 2681GT  
George Town  
Grand Cayman  
British West Indies

### PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Cayman) Limited  
Butterfield House  
68 Fort Street  
P.O. Box 705  
George Town  
Grand Cayman  
British West Indies

### HONG KONG BRANCH SHARE REGISTRARS AND TRANSFER OFFICE

Tengis Limited  
26/F., Tesbury Centre  
28 Queen's Road East  
Wanchai  
Hong Kong

### PRINCIPAL BANKER

CITIC Ka Wah Bank Limited

### COMPANY HOMEPAGE

[www.gsehk.com.hk](http://www.gsehk.com.hk)

### GEM STOCK CODE

8192

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## CHAIRMAN'S STATEMENT

Dear shareholders,

On behalf of the board of Directors (the "Board") of Global Solution Engineering Limited (the "Company"), I herein presents the results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2005.

### MANAGEMENT DISCUSSION AND ANALYSIS

During the year, the Group is principally engaged in the provision of information technology and engineering consultancy services.

#### Financial Review

During the year under review, the Group's consolidated turnover and loss for the year were approximately HK\$2.2 million (period ended 31 December 2004: approximately HK\$ 1.7 million) and approximately HK\$3.8 million (period ended 31 December 2004: approximately HK\$5.0 million) respectively. There was approximately 26% increase in turnover with an approximately 25% decrease in loss attributable for the year as compared with that for the period ended 31 December 2004.

The decrease in the loss for the year was primarily attributable to (1) increase in turnover; (2) gain on disposal of subsidiaries. The increase in turnover was mainly attributed to the increase in consultancy fee income in engineering aspect. Gain on disposal of subsidiaries was mainly derived from the disposal of 100% and 85% interests in AGL MediaTech (H.K.) Limited and AGL MediaTech Limited respectively.

#### Business Review and Prospects

During the year under review, the Group streamlined its business by disposing some of its business with poor performance. In view of the great opportunity and potential of engineering consultancy services in the People's Republic of China ("PRC") market, the management decided to focus on its business in such area. The change of the Company name with effect from 5 September 2005 marked the beginning of the change of the Group's business strategy. More resources of the Group, including the recruitment of professional staff such as engineer and architect, were utilised in order to develop such business. The first contract was tendered successfully by the Group in October 2005 under which the Group provided engineering consultancy services in relation to the planning and development of a logistic park to a client located at Dalian, the PRC. The Directors believes that with the continual growth of the PRC economy, the market of engineering consultancy services in the PRC will continue to grow. This will provide a promising prospect for the Group.

On 10 February 2006, the Company entered into two subscription agreements (the "Subscription Agreements") with two subscribers namely Peak Achieve Limited and Data Expert Limited ("the Subscribers"). Pursuant to the Subscription Agreements, the Subscribers agreed to subscribe a total of 115,200,000 new shares of the Company at a price of HK\$0.0165 each. The subscription raised approximately HK\$1.9 million. The Directors consider the subscription an opportunity for the Company to raise funds for future development purpose and for broadening the capital base of the Company. The Directors believe additional fund raised by the subscription would help in strengthening the financial position of the Company.

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## CHAIRMAN'S STATEMENT

### Liquidity, Financial Resources and Capital Structure

As at 31 December 2005, the Group had assets of approximately HK\$ 2.2 million (31 December 2004: approximately HK\$7.1 million), including net cash and bank balances of approximately HK\$0.6 million (31 December 2004: approximately 5.8 million).

During the year under review, the Group financed its operations with internally generated cash flows, shareholder's loan and proceeds from the subscription of new shares on 27 October 2004.

There was no charge on the Group assets as at 31 December 2005 (31 December 2004: nil).

As at 31 December 2005, the Group did not have any bank borrowings nor any banking facilities. The gearing ratio, defined as the ratio between total bank borrowings and shareholders' equity, was 0% (31 December 2004: 8%).

Most of the transactions of the Group were denominated in Hong Kong Dollars, United States Dollars and Renminbi. As the exchange rate of the United States and Renminbi to Hong Kong Dollars are fairly stable, the Directors are of the view that the exposure to foreign currency exchange risk is limited. Hence, no hedging or other arrangements to reduce the currency risk have been implemented.

### Final Dividend

The Board does not recommend the payment of a final dividend for the year ended 31 December 2005 (31 December 2004: nil).

### Contingent liabilities

As at 31 December 2005, the Group had no contingent liabilities.

### Material acquisitions and disposal of subsidiaries and affiliated companies

On 8 June 2005, the Company disposed of 100% interest in a subsidiary, Yorkmax Investments Limited. Such disposal constituted a discloseable and connected transaction for the Company under Rules 19.06(2) and 20.13(1) of the GEM Listing Rules. Save as disclosed above, the Company did not have material acquisitions and disposal of subsidiaries and affiliated companies during the year.

### Future Plans for Material Investments and Capital Assets

There was no solid future plan for material investments and acquisition of material capital assets as at 31 December 2005.

## **CHAIRMAN'S STATEMENT**

### **Employee Information**

As at 31 December 2005, the Group had 11 (31 December 2004: 18) full time employees. Remuneration is determined by reference to market terms and the performance, qualification and experience of individual employee. Year-end bonus on individual performance will be paid to employees as recognition of and reward for their contributions. Other benefits include contributions to statutory mandatory provident fund scheme to its employees in Hong Kong and basic insurance for the elderly, basic medical insurance, work injury insurance and unemployment insurance to its employees in the PRC.

### **Acknowledgement**

On behalf of the Board, I would like to express my gratitude to our customers and shareholders for their support and all our staff members for their hard work and dedicated service.

**Chu Yen Ling**  
*Chairman*

Hong Kong, 23 March 2006



## DIRECTORS AND SENIOR MANAGEMENT PROFILE

### EXECUTIVE DIRECTORS

**Mr. Chu Yen Ling**, aged 71, is the Chairman of the Group and is currently the managing director of Mitsa (HK) Limited and director of Mitsa Group. Mitsa (HK) Limited was established by Mr. Chu in 1978 and engaged in paper marketing. Mitsa (HK) Limited is currently the sole agent for the Asia-Pacific region for a number of paper factories in Europe. Mr. Chu also has experience in freight forwarding and chemical engineering. Mr. Chu graduated from the Chinese University of Hong Kong majoring in business management.

**Mr. Lee Chan Wah**, aged 37, is the Acting Chief Executive Officer, Chief Financial Officer and Company secretary of the Group. He is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Mr. Lee has over 14 years of experience in the fields of auditing, accounting and financial management.

### INDEPENDENT NON-EXECUTIVE DIRECTORS

**Dr. Lu Da**, aged 56, graduated from the Tsinghua University with a doctorate degree in engineering. He is a deputy director of the Tsinghua University Optical Memory National Engineering Research Centre and a part-time professor in the Tsinghua University. Dr. Lu is also a director and chief engineer in an optical disc engineering company. Dr. Lu has more than 30 years of extensive experience in the field of sciences and technology and previously worked for a number of electronic and engineering companies in China.

**Mr. Lau Man Yiu**, aged 51, is currently a practicing certified public accountant. He qualified as a chartered accountant in London, England and started his own practicing chartered accountancy firm from April 1988 to March 1993. Mr. Lau returned to Hong Kong to work as a finance manager of a local OEM manufacturer for electronic and electrical home appliance. During the period from April 2001 to March 2004, he was the chief financial officer of an internationally based investment enterprise. Mr. Lau has over 25 years of experience in management, accounting and finance. He is also a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of International Accountants.

**Ms. Xue Xiaoyi**, aged 59, graduated from Harbin Engineering Institute in the PRC. She has 14 years of experience in the field of electronic and engineering and previously worked as engineers for various departments of the PRC Government. During the period from December 1992 to September 2003, she was the senior manager of China Business Department of a company listed on the Stock Exchange.

### SENIOR MANAGEMENT

**Mr. Hong Chi Yuen Stephen**, aged 47, is the General Manager of the Group. Mr. Hong studied and graduated in Hong Kong with a Bachelor In Applied Computing, Master in Business Administration and Master of Arts in Arbitration and Dispute Resolution. He is currently a member of the Chartered Management Institute, the Chartered Institute of Arbitrators and the Association of Project Management. Before he joined the Group, he worked for several well-known companies including The Hong Kong and China Gas Company Limited, Hongkong Telecom CSL Limited, Hutchison Global Crossing Limited and so on. He has over 20 years of working experience in project management of different categories of engineering projects including gas transmission and distribution, civil engineering, mechanical engineering, electrical engineering, building services engineering and telecommunications.

**Mr. Lam Kin Keong**, aged 33, is the chief architect with a Master of Architecture Degree from The University of Hong Kong, and a Bachelor of Environmental Design Degree from The University of Manitoba, Canada. He is currently a registered Architect in Macau S.A.R. China. Mr. Lam has 10 years of extensive experience in architectural design and management. He has previously worked in Malaysia, Macau, Hong Kong and Mainland China and in some world renown architectural firm like Palmer and Turner Ltd., Denton Corker Marshall and Carlos Couto Atelier de Arquitectura. His range of design works includes hospitality, entertainment complex, sports facilities, residential development, commercial office tower, and industrial development.

## **DIRECTORS' REPORT**

*For the year ended 31 December 2005*

The directors present their annual report and the audited financial statements of the Group for the year ended 31 December 2005.

### **PRINCIPAL ACTIVITIES**

The principal activity of the Company is investment holding. The principal activities of its principal subsidiaries are set out in note 16 to the financial statements.

### **RESULTS AND APPROPRIATIONS**

The results of the Group for the year ended 31 December 2005 and the state of affairs of the Group and the Company at that date are set out in the financial statements on pages 17 to 47. There were no significant changes in the nature of the Group's principal activities during the year.

The directors do not recommend the payment of a dividend.

### **SHARE CAPITAL**

Details of the movements in the share capital of the Company are set out in note 22 to the financial statements.

### **RESERVES**

Details of the movements in reserves of the Company and the Group during the year are set out in note 24 to the financial statements and the consolidated statement of changes in equity respectively.

Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum and Articles of Association and provided that immediately following the payment of distribution or dividend, the Company is able to pay its debts as they fall due in the ordinary course of business. In accordance with the Company's Articles of Association, dividends shall be distributed out of the retained profits or other reserves, including the share premium account, of the Company.

The Company had no distributable reserve at 31 December 2005.

### **PROPERTY, PLANT AND EQUIPMENT**

Details of the movements in property, plant and equipment of the Group during the year are set out in note 15 to the financial statements.

## DIRECTORS' REPORT

For the year ended 31 December 2005

### DIRECTORS

The directors of the Company during the year and up to the date of this report were as follows:

#### Executive directors:

Mr. Chu Yen Ling (*Chairman*)

Mr. Lee Chan Wah (appointed on 1 December 2005)

Mr. Matthew Timothy D'Albertson (resigned on 1 December 2005)

#### Independent non-executive directors:

Mr. Lu Da

Mr. Lau Man Yiu

Mr. Xue Xiaoyi

In accordance with Articles 108 of the Company's Articles of Association, Mr. Lee Chan Wah and Dr. Lu Da shall retire and, being eligible, offer themselves for re-election.

Each of the executive directors has entered into a service agreement with the Company or a subsidiary of the Company, which will continue thereafter until terminated by either party giving to the other not less than one to two months prior written notice.

Each of the independent non-executive directors has entered into a service agreement with the Company, terminable by either party by giving not less than one to three months written notice to the other party. There is no fixed or proposed length of service with the Company.

Save as disclosed above, none of the directors proposed for re-election at the forthcoming annual general meeting has any service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

### DIRECTORS' INTERESTS IN EQUITY SECURITIES

As at 31 December 2005, the interests and long positions of the directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Hong Kong Securities and Futures Ordinance ("SFO")) which were notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or long positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code"), were as follows:

Name	Personal interests	Family interests	Corporate interests	Total	% of issued share capital
Chu Yen Ling	–	–	264,000,000*	264,000,000	45.83%

\* These shares are registered in the name of Elite Side Profits Limited, which is wholly and beneficially owned by Mr. Chu Yen Ling.

## DIRECTORS' REPORT

For the year ended 31 December 2005

### DIRECTORS' INTERESTS IN EQUITY SECURITIES (Continued)

Save as disclosed above, as at 31 December 2005, none of the directors of the Company had any interests in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or long positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

### SHARE OPTION SCHEME

A share option scheme was adopted and approved by the sole member of the Company on 26 October 2002 (the "Share Option Scheme"). No share options have been granted under the Share Option Scheme since its adoption.

Particulars of the Company's Share Option Scheme are set out in note 23 to the financial statements.

### DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Details of share option scheme are set out in the subsection entitled "Share Option Scheme" above and in note 23 to the financial statements.

Other than the share option scheme as mentioned above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

At no time during the year had the directors and chief executives (including their spouses and children under 18 years of age) any interest in, or been granted, or exercised any rights to subscribe for shares (or warrants or debentures, if applicable) of the Company and its associated corporations (within the meaning of the SFO).

### INTERESTS AND THE LONG POSITIONS OF SUBSTANTIAL SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

As at 31 December 2005, the following persons or corporations who had interests or long positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name of shareholder	Number of shares	% of issued share capital
Elite Side Profits Limited (Note 1)	264,000,000	45.83%
Chu Yen Ling (Note 1)	264,000,000	45.83%
Kuo Li Hwa (Note 2)	264,000,000	45.83%
Data Expert Limited (Note 3)	48,000,000	8.33%
Liu Peng (Note 3)	48,000,000	8.33%
Grand Ever Limited (Note 4)	48,000,000	8.33%
Niu Tiehang (Note 4)	48,000,000	8.33%

## DIRECTORS' REPORT

For the year ended 31 December 2005

### INTERESTS AND THE LONG POSITIONS OF SUBSTANTIAL SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

(Continued)

Notes:

1. These shares are beneficially owned by Elite Side Profits Limited, the entire issued share capital of which is wholly and beneficially owned by Mr. Chu Yen Ling.
2. Ms. Kuo Li Hwa is the spouse of Mr. Chu Yen Ling, accordingly, she is deemed to be interested in the 264,000,000 shares held by Elite Side Profits Limited under the SFO.
3. These shares are beneficially owned by Data Expert Limited, the entire issued share capital of which is wholly and beneficially owned by Ms. Liu Peng.
4. These shares are beneficially owned by Grand Ever Limited, the entire issued share capital of which is wholly and beneficially owned by Mr. Niu Tiehang.

### DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

There were no contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

### MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2005, sales to the Group's three largest customers accounted for 100% of the total sales for the year and sales to the largest customer included therein amounted to 72%.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the three largest customers of the Group for the year ended 31 December 2005.

The Group is principally engaged in the provision of services and the major suppliers for the rendering of services are staff. In the opinion of the directors, it is therefore of no value to disclose details of the Group's suppliers.

### PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

The Company has not redeemed any of its listed securities during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities during the year.

### PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

### CORPORATE GOVERNANCE

Throughout the year ended 31 December 2005, the Company has complied with the code on corporate governance practices (the "Code") as set out in Appendix 15 of the GEM Listing Rules. Corporate Governance Report is set out on pages 13 to 15 of the annual report.

## DIRECTORS' REPORT

*For the year ended 31 December 2005*

### DIRECTORS' INTEREST IN COMPETING BUSINESS

Each of the directors and the management shareholders of the Company and their respective associates (as defined in the GEM Listing Rules) has confirmed that none of them had any business or interest in companies that competes or may compete with the business of the Group or any other conflict of interests which any such person has or have with the Group.

### AUDIT COMMITTEE

The Company established an audit committee with written terms of reference based upon the "A" Guide for the Formation of An Audit Committee" published by the Hong Kong Institute of Certified Public Accountants and, in the opinion of the directors, complied with Rules 5.28 to 5.30 as set out in Chapter 5 to the GEM Listing Rules since the listing of the Company's shares on the GEM on 29 November 2002. The primary duties of the audit committee are to review the Company's annual report and accounts, half-year reports and quarterly reports and to provide advice and comments thereon to the directors. The audit committee is also responsible for reviewing and supervising the Company's financial reporting and internal control procedures. The audit committee consists of the three independent non-executive directors of the Company, namely Dr. Lu Da, Mr. Lau Man Yiu, and Ms. Xue Xiayoi. The Group's audited consolidated financial statements for the year ended 31 December 2005 have been reviewed by the audit committee, who was of the opinion that the preparation of such financial statements complied with applicable accounting standards, the Stock Exchange and legal requirements and that adequate disclosures had been made.

### RELATED PARTY AND CONNECTED PARTY TRANSACTIONS

On 8 June 2005, the Company entered into a disposal agreement (the "Disposal Agreement") with Mr. Chan Tik Yuen ("Mr. Chan") in respect of the sale of the entire share capital of its wholly owned subsidiary, Yorkmax Investments Limited ("Yorkmax") which comprises of 1,500 shares of US\$1.00 each and the assignment of a loan advance in the amount of HK\$8,931,000 comprising a loan of HK\$769,000 advanced by the Company to Yorkmax and a loan of HK\$8,162,000 advanced by the Company to Magnum Century Limited ("Magnum"), a wholly owned subsidiary of Yorkmax to Mr. Chan at a consideration of HK\$11,700 for the shares and at a consideration of HK\$38,300 for the shareholders' loan. Mr. Chan, being a director of both Yorkmax and Magnum is regarded as a connected person of the Company and the disposal was regarded as a connected party transaction.

### POST BALANCE SHEET EVENTS

- (i) Pursuant to a special resolution passed on 10 February 2006, the Company entered into two subscription agreements (the "Subscription Agreements") with Data Expert Limited and Peak Achieve Limited (the "Counter-Parties"). Pursuant to the Subscription Agreements, the Company issued a total of 115,200,000 ordinary shares with par value of HK\$0.01 each at a price of HK\$0.0165 each to the Counter-Parties. The excess of the subscription proceeds over the nominal value of share capital issued is credited as share premium. The issued share capital of the Company was thus increased from HK\$5,760,000 to HK\$6,912,000. The Company intended to apply the proceeds as general working capital for the Group.
- (ii) On 17 March 2006, a shareholder of the Company has injected HK\$2,000,000 to the Company for its general working capital. This shareholder's loan is interest free, unsecured and has no fixed terms of repayment.

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## **DIRECTORS' REPORT**

*For the year ended 31 December 2005*

### **CHANGE OF COMPANY'S NAME**

Pursuant to a special resolution passed on 5 September 2005, the name of the Company was changed from AGL MediaTech Holdings Limited 藝立媒體科技控股有限公司 to Global Solution Engineering Limited 環球工程有限公司.

### **AUDITORS**

The financial statements of the Company for the year ended 31 December 2005 and the period ended 31 December 2004 were audited by Grant Thornton while those for the year ended 31 March 2003 were audited by Deloitte Touche Tohmatsu.

Grant Thornton retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-appointment.

For and on behalf of the Board

**Chu Yen Ling**

*Chairman*

Hong Kong, 23 March 2006

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## CORPORATE GOVERNANCE REPORT

The Group is committed to maintaining high standards of corporate governance in order to provide transparency and protection of shareholders' interest. The Group has complied with the code provisions on Corporate Governance Practices as set out in the GEM Listing Rules ("CG Code"). This report describes its corporate governance practices, explains the applications of the principles of the CG Code.

### DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the rules set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the code for dealing in securities of the Company by the Directors. Having made specific enquiry of all directors, the Company was not aware of any non-compliance with the required standard as set out in the code of conduct regarding securities transactions by the directors throughout the year ended 31 December 2005.

### BOARD OF DIRECTORS

The Board comprises five directors, of whom two are executive directors and three are independent non-executive directors. Independent non-executive directors are responsible for ensuring a high standard of financial and other mandatory reporting of the Board as well as to provide a balance in the Board in order to protect shareholders' interest and overall interest of the Group. Each independent non-executive director has entered into a service contract with no fixed term and is subject to termination by either party giving not less than one to three month's prior written notice to the other. The Board considers that all of the independent non-executive directors are independent as per the definition stated in the GEM Listing Rules.

The Board members for the year ended 31 December 2005 were:

#### Chairman

Mr. Chu Yen Ling

#### Executive directors

Mr. Chu Yen Ling

Mr. Lee Chan Wah

#### Independent non-executive directors

Dr. Lu Da

Mr. Lau Man Yiu

Ms. Xue Xiaoyi

The Board is responsible to approval and monitoring of the Group's overall strategies and policies; approval of business plans; evaluating the performance of the Group and oversight of management. It is also responsible for promoting the success of the Company and its business by directing and supervising the Company's affairs.

The Board focuses on overall strategies and policies with particular attention paid to the growth and financial performance of the Group.

The Board delegates day-to-day operations of the Group to executive directors and senior management, while reserving certain key matters for its approval. Decisions of the Board are communicated to the management through executive directors who have attended at Board meetings.



## CORPORATE GOVERNANCE REPORT

### BOARD OF DIRECTORS *(Continued)*

The Board held a board meeting for each quarter. Details of the attendance of the Board are as follows:

Directors	Attendance
Mr. Chu Yen Ling	4/4
Mr. Matthew Timothy D'Albertson (resigned on 1 December 2005)	4/4
Mr. Lee Chan Wah (appointed on 1 December 2005)	N/A
Dr. Lu Da	4/4
Mr. Lau Man Yiu	4/4
Ms. Xue Xiaoyi	4/4

### CHAIRMAN AND THE CHIEF EXECUTIVE OFFICER

The post of Chairman and Chief Executive Officer are separate and are not held by the same individual to ensure their independence, accountability and responsibility. The Chairman, Mr. Chu Yen Ling, is responsible for overseeing the function of the Board and formulating overall strategies and policies of the Company. The Acting Chief Executive Officer, Mr. Lee Chan Wah, supported by the senior management, is responsible for managing the Group's responsibilities, the business, implementing major strategies, making day-to-day decisions and coordinating overall business operations.

### BOARD COMMITTEES

To assist the Board in discharge of its duties, the Board is supported by three board committees which consist of directors and members of senior management. Each committee has its defined scope of duties and terms of reference and the committee members are empowered to make decisions on matters within the terms of reference of each committee.

#### (1) Audit Committee

The Company has established an audit committee with written terms of reference in compliance with Rules 5.28 to 5.30 as set out in Chapter 5 of the GEM Listing Rules. The primary duties of the audit committee are to review the Company's annual report and accounts, half-year reports and quarterly reports and to provide advice and comments thereon to the directors. The audit committee is also responsible for reviewing and supervising the Company's financial reporting and internal control procedures. The audit committee consists of the three independent non-executive directors, namely Dr. Lu Da, Mr. Lau Man Yiu, and Ms. Xue Xiaoyi.

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## CORPORATE GOVERNANCE REPORT

### BOARD COMMITTEES *(Continued)*

#### (1) **Audit Committee** *(Continued)*

The audit committee held four meetings in 2005, which were attended by all members. The Group's 2004 Annual Report, 2005 quarterly and interim reports had been reviewed by the audit committee, which was of the opinion that such reports were prepared in accordance with applicable accounting standards, the Stock Exchange and legal requirements. For 2004 annual report, the audit committee met with the external auditors to discuss auditing, internal control, statutory compliance and financial reporting matters before recommending it to the Board for approval. An audit committee meeting was also held on 23 March 2006 for the review of the Group's consolidated financial statements for the year ended 31 December 2005. The audit committee was of the opinion that the preparation of such financial statements complied with applicable accounting standards, the GEM Listing Rules and disclosure requirements of the Hong Kong Companies Ordinance and that adequate disclosures had been made. In addition, the audit committee also monitored the Company's progress in implementing the code provisions on corporate governance practices as required under the GEM Listing Rules.

#### (2) **Nomination Committee**

The nomination committee comprises three members, a majority of whom are independent non-executive directors, and is chaired by Mr. Lee Chan Wah, an executive director of the Company. It is responsible for nomination potential candidates for directorship, reviewing the nomination of directors and making recommendation to the Board on such appointments. There was no nomination of directors after the formation of the Nomination Committee.

#### (3) **Remuneration Committee**

The remuneration committee comprises three members, a majority of whom are independent non-executive directors, and is chaired by Mr. Lee Chan Wah, an executive director of the Company. The main responsibilities of the Remuneration Committee is to review and determine the policy for the remuneration of directors and senior management.

### AUDITORS' REMUNERATION

An amount of approximately HK\$0.25 million (2004: HK\$0.28 million) was charged to the Group's income statement for the year ended 31 December 2005. There was no significant non-audit service assignment undertaken by the external auditors during the year.

## AUDITORS' REPORT

Certified Public Accountants  
Member of Grant Thornton International

Grant Thornton   
均富會計師行

**To the shareholders of Global Solution Engineering Limited**  
*(incorporated in the Cayman Islands with limited liability)*

We have audited the financial statements on pages 17 to 47 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

### RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing 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. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed 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 financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

### OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2005 and of the Group's loss and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Grant Thornton**  
Certified Public Accountants  
Hong Kong

23 March 2006

## CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2005

	Notes	Year ended 31 December 2005 HK\$'000	Period from 1 April 2004 to 31 December 2004 HK\$'000
<b>Revenue-Turnover</b>	6	2,153	1,709
Other income		52	117
Depreciation	9	(118)	(302)
Staff costs	13	(3,700)	(3,590)
Other operating expenses		(3,420)	(2,956)
<b>Loss from operations</b>		(5,033)	(5,022)
Finance costs	8	(3)	(4)
Gain on disposal of subsidiaries	25	1,270	-
<b>Loss before income tax</b>	9	(3,766)	(5,026)
Income tax expense	10	-	-
<b>Net loss for the year/period</b>	11	<u>(3,766)</u>	<u>(5,026)</u>
<b>Attributable to the equity holders of the Company</b>		<u>(3,766)</u>	<u>(5,026)</u>
<b>Loss per share</b>	12		
- Basic		<u>HK(0.65) cent</u>	<u>HK(1.00) cent</u>
- Diluted		<u>N/A</u>	<u>N/A</u>

## CONSOLIDATED BALANCE SHEET

As at 31 December 2005

	Notes	2005 HK\$'000	2004 HK\$'000
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment	15	272	951
<b>Current assets</b>			
Trade and other receivables	17	1,401	374
Tax recoverable		-	1
Cash and bank balances		554	5,809
		<b>1,955</b>	<b>6,184</b>
<b>Current liabilities</b>			
Accruals and other payables	18	911	2,225
Amount due to a shareholder company	19	-	512
Obligation under finance lease	20	-	127
		<b>911</b>	<b>2,864</b>
<b>Net current assets</b>		<b>1,044</b>	<b>3,320</b>
<b>Total assets less current liabilities</b>		<b>1,316</b>	<b>4,271</b>
<b>Non-current liabilities</b>			
Amount due to a shareholder company	19	1,012	-
Obligation under finance lease	20	-	201
		<b>1,012</b>	<b>201</b>
<b>Net assets</b>		<b>304</b>	<b>4,070</b>
<b>EQUITY</b>			
<b>Equity attributable to the equity holders of the Company</b>			
Share capital	22	5,760	5,760
Reserves		(5,456)	(1,690)
<b>Total equity</b>		<b>304</b>	<b>4,070</b>

Chu Yen Ling  
Chairman

Lee Chan Wah  
Director

## BALANCE SHEET

As at 31 December 2005

	Notes	2005 HK\$'000	2004 HK\$'000
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Interests in subsidiaries	16	–	850
<b>Current assets</b>			
Other receivables		21	4
Cash and bank balances		126	3,197
		<u>147</u>	<u>3,201</u>
<b>Current liabilities</b>			
Accruals and other payables		137	204
		<u>10</u>	<u>2,997</u>
<b>Net current assets</b>		<u>10</u>	<u>2,997</u>
<b>Total assets less current liabilities</b>		<u><u>10</u></u>	<u><u>3,847</u></u>
<b>EQUITY</b>			
<b>Equity attributable to the equity holders of the Company</b>			
Share capital	22	5,760	5,760
Reserves	24	(5,750)	(1,913)
		<u>10</u>	<u>3,847</u>
<b>Total equity</b>		<u><u>10</u></u>	<u><u>3,847</u></u>

**Chu Yen Ling**  
Chairman

**Lee Chan Wah**  
Director

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2005

	Equity attributable to equity holders of the Company				Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Special reserve HK\$'000	Accumulated losses HK\$'000	
At 1 April 2004	4,800	9,751	11	(11,534)	3,028
Issue of shares	960	5,184	–	–	6,144
Expenses incurred in connection with the issue of shares	–	(76)	–	–	(76)
Net loss for the period	–	–	–	(5,026)	(5,026)
At 31 December 2004 and 1 January 2005	5,760	14,859	11	(16,560)	4,070
Net loss for the year	–	–	–	(3,766)	(3,766)
<b>At 31 December 2005</b>	<b>5,760</b>	<b>14,859*</b>	<b>11*</b>	<b>(20,326)*</b>	<b>304</b>

\* The aggregated amount of these balances of HK\$5,456,000 (2004: HK\$1,690,000) in deficit is included as reserves in the consolidated balance sheet.

The special reserve of the Group represents the difference between the nominal amount of the shares issued by the Company and the amount of the share capital of a subsidiary acquired pursuant to a group reorganisation in 2002.

## CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2005

	Year ended 31 December 2005 HK\$'000	Period from 1 April 2004 to 31 December 2004 HK\$'000
	<i>Note</i>	
<b>Cash flows from operating activities</b>		
Loss before income tax	(3,766)	(5,026)
Adjustments for:		
Interest income	(17)	–
Interest expenses	3	4
Depreciation	118	302
Loss on disposal of property, plant and equipment	–	207
Gain on disposal of subsidiaries	(1,270)	–
Write off of other payables	(42)	–
	<hr/>	<hr/>
Operating loss before working capital changes	(4,974)	(4,513)
(Increase)/decrease in trade and other receivables	(1,185)	1,124
Decrease in accruals and other payables	563	127
	<hr/>	<hr/>
<i>Net cash used in operating activities</i>	(5,596)	(3,262)
<b>Cash flows from investing activities</b>		
Interest received	17	–
Purchase of property, plant and equipment	(181)	(213)
Net cash inflow from disposal of subsidiaries	40	–
	<hr/>	<hr/>
<i>Net cash used in investing activities</i>	(124)	(213)
<b>Cash flows from financing activities</b>		
Interest paid	(3)	(4)
Inception of finance lease	–	380
Repayment of obligation under finance lease	(32)	(52)
Proceeds from issue of shares	–	6,144
Expenses incurred in connection with the issue of shares	–	(76)
Increase in amount due to a shareholder company	500	512
	<hr/>	<hr/>
<i>Net cash generated from financing activities</i>	465	6,904
	<hr/>	<hr/>
<b>Net (decrease)/increase in cash and cash equivalents</b>	(5,255)	3,429
	<hr/>	<hr/>
<b>Cash and cash equivalents at beginning of the year/period</b>	5,809	2,380
	<hr/>	<hr/>
<b>Cash and cash equivalents at end of the year/period</b>	<u>554</u>	<u>5,809</u>



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

### 1. NATURE OF OPERATIONS

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are set out in note 16.

Pursuant to a special resolution passed on 5 September 2005, the name of the Company was changed from AGL MediaTech Holdings Limited 藝立媒體科技控股有限公司 to Global Solution Engineering Limited 環球工程有限公司.

### 2. GENERAL INFORMATION

The Company is a limited liability company incorporated and domiciled in the Cayman Islands. The address of the Company's registered office is Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681 GT, George Town, Grand Cayman, British West Indies and, its principal place of business is in Hong Kong. The Company's shares are listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The financial statements on pages 17 to 47 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") as issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the GEM of the Stock Exchange ("Listing Rules").

The financial statements for the year ended 31 December 2005 were approved by the board of directors on 23 March 2006.

### 3. ADOPTION OF NEW OR REVISED HKFRS

From 1 January 2005, the Group has adopted the new or revised standards and interpretations of HKFRS, which are relevant to its operations and effective for accounting periods beginning on or after 1 January 2005. These include the following new and revised standards:

HKAS 1	Presentation of Financial Statements
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments : Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 39	Financial Instruments : Recognition and Measurement
HKFRS 2	Share-based Payment

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

### 3. ADOPTION OF NEW OR REVISED HKFRS (Continued)

The adoption of HKAS1 led to an update of the presentation of financial statements.

The adoption of HKAS 7, 8, 10, 14, 16, 17, 18, 21, 24, 27, 32, 33, 36, 39 and HKFRS 2 did not result in significant alterations to the Group's accounting policies. The specific transitional provisions contained in some of these standards were considered. The adoption of these standards and interpretations did not result in any significant changes to the amounts or disclosures in these financial statements.

The Group has not early adopted the following standards or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards or interpretations will not result in any material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital Disclosures <sup>1</sup>
HKAS 19 (Amendment)	Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures <sup>2</sup>
HKAS 21 (Amendment)	The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation <sup>2</sup>
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions <sup>2</sup>
HKAS 39 (Amendment)	The Fair Value Option <sup>2</sup>
HKAS 39 & HKFRS 4 (Amendment)	Financial Guarantee Contracts <sup>2</sup>
HKFRS 6	Exploration for and Evaluation of Mineral Resources <sup>2</sup>
HKFRS 7	Financial Instruments : Disclosures <sup>1</sup>
HK(IFRIC) – Int 4	Determining Whether an Arrangement Contains a Lease <sup>2</sup>
HK(IFRIC) – Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds <sup>2</sup>
HK(IFRIC) – Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment <sup>3</sup>
HK(IFRIC) – Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies <sup>4</sup>

1 Effective for annual periods beginning on or after 1 January 2007.

2 Effective for annual periods beginning on or after 1 January 2006.

3 Effective for annual periods beginning on or after 1 December 2005.

4 Effective for annual periods beginning on or after 1 March 2006.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

### 4. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

#### (a) Basis of preparation

The principal accounting policies that have been used in the preparation of these financial statements are summarised below.

The financial statements have been prepared on the historical cost basis.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

#### (b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

The gain or loss on disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with the carrying amount of the related goodwill and any related accumulated foreign currency translation reserve.

#### (c) Subsidiaries

Subsidiaries are entities over which the Company has the power to control the financial and operating policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

In the Company's balance sheet, subsidiaries are carried at cost less impairment loss. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the balance sheet date.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

### 4. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

#### (d) Foreign currencies

The financial statements are presented in Hong Kong Dollars (HK\$), which is the functional currency of the Company.

In the separate financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognised in the income statement under "other income" or "other operating expenses", respectively.

In the consolidated financial statements, all separate financial statements of subsidiaries originally presented in a currency different from the Group's presentation currency, have been converted into Hong Kong dollars. Assets and liabilities have been translated into Hong Kong dollars at the closing rates at the balance sheet date. Income and expenses have been converted into Hong Kong dollars at the average rates over the reporting period. Any differences arising from this procedure have been dealt with in the exchange reserve in equity.

#### (e) Revenue recognition

Service income is recognised as revenue in accordance with the stage of completion which is determined by reference to the work done at the balance sheet date.

Interest income is recognised on a time proportion basis, by reference to the principal outstanding and the interest rate applicable.

#### (f) Property, plant and equipment

##### (i) Depreciation

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives, using the straight-line method, at the following rates per annum:

Leasehold improvements	Over the lease terms
Computer equipment	20%
Furniture, fixtures and equipment	20%
Motor vehicles	20%

The assets' useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

### 4. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES *(Continued)*

#### (f) **Property, plant and equipment** *(Continued)*

##### (ii) **Measurement bases**

Property, plant and equipment are stated at acquisition cost less accumulated depreciation and accumulated impairment losses. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

The gain or loss arising from the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

#### (g) **Impairment testing of assets**

The Group's property, plant and equipment are subject to impairment testing.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

Individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the assets' or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell and value in use, based on an internal discounted cash flow evaluation. An impairment loss is reversed if there has been a change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

### 4. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES *(Continued)*

#### (h) Leases

##### (i) *Finance leases*

The economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards related to the ownership of the leased asset. The related asset is recognised at the time of inception of the lease at the present value of the lease payments plus incidental payment, if any, to be borne by the lessee. A corresponding amount is recognised as a finance lease liability, irrespective of whether some of these lease payments are payable up-front at the date of inception of the lease.

Depreciation methods and useful lives corresponding to those applied to comparable acquired assets are used for subsequent accounting for assets held under finance lease agreement. The corresponding finance lease liability is reduced by lease payments less finance charges, which are expensed to finance costs.

##### (ii) *Operating leases*

Rentals payable under operating leases are charged to the income statement on a straight line basis over the periods of the respective leases.

#### (i) Trade and other receivables and amounts due from subsidiaries

Trade and other receivables and amounts due from subsidiaries are initially recognised at fair values and subsequently measured at amortised cost using the effective interest method less impairment. An impairment of receivable is established when there is objective evidence that the Group or the Company will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the impairment is the difference between the asset's carrying amount and the present value of expected cash flows, discounted at the effective rate of interest.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

### 4. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

#### (j) Income tax

Income tax comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is the expected tax to be payable or recoverable on difference between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit/loss.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Deferred tax assets and liabilities are not discounted. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

#### (k) Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand.

#### (l) Equity

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

The transaction costs of an equity transaction are accounted for as a deduction from equity (net of any related income tax benefits) to the extent they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided. The costs of an equity transaction that is abandoned are recognised as an expense.

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## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

### 4. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES *(Continued)*

#### (m) Related parties

Parties are considered to be related to the Group if :

- (i) directly, or indirectly through one or more intermediaries, the party :
  - controls, is controlled by, or is under common control with, the Group;
  - has an interest in the Group that gives it significant influence over the Group; or
  - has joint control over the Group;
- (ii) the party is a jointly-controlled entity;
- (iii) the party is an associate;
- (iv) the party is a member of the key management personnel of the Group or its parent;
- (v) the party is a close member of the family of any individual referred to in (i) or (iv);
- (vi) the party is an entity that is controlled, jointly-controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or
- (vii) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

### 4. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

#### (n) Pension obligations and short term employee benefits

Pensions to employees are provided through a defined contribution plan.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into an independent entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The contributions recognised in respect of defined contribution plans are expensed as they fall due. Liabilities and assets may be recognised if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short term nature.

Short-term employee benefits are recognised for the number of paid leave days (usually holiday entitlement) remaining at the balance sheet date. They are included in current pension and other employee obligation at the undiscounted amount that the Group expects to pay as a result of the unused entitlement.

#### (o) Share-based employee compensation

Under the transitional provision in HKFRS 2, all share-based payment arrangements granted after 7 November 2002 and had not vested at 1 January 2005 are recognised in the financial statements. The Group operates equity-settled share-based compensation plans for remuneration of its employees.

All employee services received in exchange for the grant of any share-based compensation are measured at their fair values. These are indirectly determined by reference to the share options awarded. Their value is appraised at the grant date and excludes the impact of any non-market vesting conditions.

All share-based compensation is ultimately recognised as an expense in the income statement with a corresponding increase in equity (share option reserve), net of deferred tax where applicable. If vesting periods or other vesting conditions apply, the expense is recognised over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised, if there is any indication that the number of share options expected to vest differs from previous estimates. No adjustment to expense recognised in prior periods is made if fewer share options ultimately are exercised than originally estimated.

Upon exercise of share options, the proceeds received net of any directly attributable transaction costs up to the nominal value of the share issued are reallocated to share capital with any excess being recorded as share premium.

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## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

### 4. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES *(Continued)*

#### **(p) Financial liabilities**

The Group's financial liabilities include other payables, amount due to a shareholder company and obligation under finance lease.

Financial liabilities are recognised when the Group becomes a party to the contractual agreements of the instrument. All interest related charges are recognised as an expense in 'finance costs' in the income statement.

Finance lease liabilities are measured at initial value less the capital element of lease repayments.

Liabilities for other payables and amount due to a shareholder company are initially carried at fair value, whether or not billed to the Group and subsequently measured at amortised cost using the effective interest method.

### 5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

#### ***Impairment of trade receivables***

The Group's management determine the impairment of trade receivables. This estimate is based on the credit history of its customers and the current market condition. Management reassesses the provision at the balance sheet date.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

### 6. REVENUE – TURNOVER

Revenue, which is also the Group's turnover, represents the aggregate of the amounts received and receivable from third parties in connection with the provision of information technology and engineering consultancy services.

	<b>Year ended</b> <b>31 December 2005</b> <b>HK\$'000</b>	Period from 1 April 2004 to 31 December 2004 HK\$'000
<b>Revenue-Turnover</b>		
Service income	<u>2,153</u>	<u>1,709</u>

### 7. BUSINESS AND GEOGRAPHICAL SEGMENTS

The Group's operation is regarded as a single business segment which is the provision of information technology and engineering consultancy services.

Analysis of the Group's turnover and results as well as analysis of the carrying amount of segment assets and capital additions by geographical market has not been presented as they are substantially generated from or situated in the People's Republic of China ("PRC").

### 8. FINANCE COSTS

	<b>Year ended</b> <b>31 December 2005</b> <b>HK\$'000</b>	Period from 1 April 2004 to 31 December 2004 HK\$'000
Finance charges on finance lease	<u>3</u>	<u>4</u>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

### 9. LOSS BEFORE INCOME TAX

	<b>Year ended 31 December 2005 HK\$'000</b>	Period from 1 April 2004 to 31 December 2004 HK\$'000
Loss before income tax is arrived at after charging/(crediting):		
Auditors' remuneration	250	280
Depreciation:		
– owned assets	92	223
– leased assets	26	79
	<u>118</u>	<u>302</u>
Bank interest income	(17)	–
Exchange loss/(gain)	7	(8)
Loss on disposal of property, plant and equipment	–	207
Operating lease rentals in respect of:		
– computer equipment	–	22
– land and buildings	362	474
Write back of provision for bad and doubtful debts	–	(42)
Write off of deposit	–	400
Write off of other payables	(42)	–
	<u><u>118</u></u>	<u><u>302</u></u>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

### 10. INCOME TAX EXPENSE

No provision for taxation has been made in the financial statements as the Group had no assessable profit for the year.

Reconciliation between tax expense and loss before income tax at applicable tax rates is as follows:

	<b>Year ended</b>		Period from	
	<b>31 December 2005</b>	%	1 April 2004	
	<b>HK\$'000</b>		to	%
			31 December 2004	
			HK\$'000	
Loss before income tax	<u>3,766</u>		<u>5,026</u>	
Tax at the applicable income tax rate	659	17.5	880	17.5
Tax effect of non-deductible expenses	(517)	(13.8)	(469)	(9.3)
Tax effect of non-taxable revenue	467	12.5	10	0.2
Tax effect of temporary differences not recognised	24	0.6	(2)	-
Tax effect of unused tax losses not recognised	(633)	(16.8)	(420)	(8.4)
Tax effect of utilisation of tax losses	-	-	1	-
<b>Total income tax expense</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

### 11. NET LOSS FOR THE YEAR/PERIOD

Of the consolidated net loss for the year of HK\$3,766,000 (period ended 31 December 2004: HK\$5,026,000), a loss of HK\$3,837,000 (period ended 31 December 2004 : HK\$5,017,000) has been dealt with in the financial statements of the Company.

### 12. LOSS PER SHARE

The calculation of the basic loss per share is based on the net loss for the year of HK\$3,766,000 (period ended 31 December 2004: HK\$5,026,000) and on the weighted average of 576,000,000 shares in issue during the year (period ended 31 December 2004: 503,040,000 shares in issue).

No diluted loss per share has been presented because there is no dilutive potential share for the year ended 31 December 2005 and the period ended 31 December 2004.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

### 13. STAFF COSTS (including directors' emoluments)

	Year ended 31 December 2005 HK\$'000	Period from 1 April 2004 to 31 December 2004 HK\$'000
Basic salaries and allowances	3,546	3,481
Retirement scheme contributions	122	102
Staff benefits	32	7
	<u>3,700</u>	<u>3,590</u>

### 14. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS

The emoluments of each director, on a named basis, for the year ended 31 December 2005 and for the period ended 31 December 2004 are set out below:

	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Bonus HK\$'000	Employer's retirement scheme contributions HK\$'000	Total HK\$'000
<b>2005</b>					
<i>Executive directors</i>					
Mr. Chu Yen Ling	-	200	-	-	200
Mr. Lee Chan Wah	-	39	45	1	85
Mr. Matthew Timothy D' Albertson	-	1,756	-	60	1,816
	<u>-</u>	<u>1,995</u>	<u>45</u>	<u>61</u>	<u>2,101</u>
<i>Independent non-executive directors</i>					
Dr. Lu Da	24	-	-	-	24
Mr. Lau Man Yiu	60	-	-	-	60
Ms. Xue Xiaoyi	60	-	-	-	60
	<u>144</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>144</u>
	<u>144</u>	<u>1,995</u>	<u>45</u>	<u>61</u>	<u>2,245</u>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

### 14. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)

	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Bonus HK\$'000	Employer's retirement scheme contributions HK\$'000	Total HK\$'000
2004					
<i>Executive directors</i>					
Mr. Chu Yen Ling	-	150	-	-	150
Mr. Matthew Timothy D' Albertson	-	1,252	110	49	1,411
Mr. Cheung Man Yau, Timothy	-	113	-	6	119
	-	1,515	110	55	1,680
<i>Independent non-executive directors</i>					
Dr. Lu Da	13	-	-	-	13
Mr. Lau Man Yiu	17	-	-	-	17
Ms. Xue Xiaoyi	17	-	-	-	17
Mr. Chan Ping Kuen, Francis	28	-	-	-	28
Mr. Ma She Shing, Albert	25	-	-	-	25
	100	-	-	-	100
	100	1,515	110	55	1,780

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

### 14. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)

#### Five highest paid individuals

The five highest paid individuals during the year included two (period ended 31 December 2004: three) directors, whose emoluments are set out above. The details of the emoluments of the remaining three (period ended 31 December 2004: two) highest paid individuals are as follows:

	<b>Year ended 31 December 2005 HK\$'000</b>	Period from 1 April 2004 to 31 December 2004 HK\$'000
Basic salaries and allowances	<b>958</b>	258
Retirement scheme contributions	<b>35</b>	11
	<b>993</b>	269

None of the above three (period ended 31 December 2004: two) highest paid individuals received individual emoluments in excess of HK\$1 million.

During the year/period, no emoluments were paid by the Group to the directors and the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the year/period.



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

### 15. PROPERTY, PLANT AND EQUIPMENT

#### The Group

	Computer equipment HK\$'000	Furniture, fixtures and equipment HK\$'000	Leasehold improvements HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
At 1 April 2004					
Cost	563	225	534	529	1,851
Accumulated depreciation	(203)	(77)	(267)	(57)	(604)
Net book amount	<u>360</u>	<u>148</u>	<u>267</u>	<u>472</u>	<u>1,247</u>
Period ended 31 December 2004					
Opening net book amount at 1 April 2004					
	360	148	267	472	1,247
Additions	-	142	71	-	213
Disposals	-	-	(207)	-	(207)
Depreciation	(84)	(41)	(98)	(79)	(302)
Closing net book amount	<u>276</u>	<u>249</u>	<u>33</u>	<u>393</u>	<u>951</u>
At 31 December 2004					
Cost	563	367	46	529	1,505
Accumulated depreciation	(287)	(118)	(13)	(136)	(554)
Net book amount	<u>276</u>	<u>249</u>	<u>33</u>	<u>393</u>	<u>951</u>
Year ended 31 December 2005					
Opening net book amount					
	<b>276</b>	<b>249</b>	<b>33</b>	<b>393</b>	<b>951</b>
Additions	-	181	-	-	181
Depreciation	(28)	(54)	(10)	(26)	(118)
Disposal of subsidiaries	(248)	(104)	(23)	(367)	(742)
Closing net book amount	<u>-</u>	<u>272</u>	<u>-</u>	<u>-</u>	<u>272</u>
At 31 December 2005					
Cost	-	322	-	-	322
Accumulated depreciation	-	(50)	-	-	(50)
<b>Net book amount</b>	<u>-</u>	<u>272</u>	<u>-</u>	<u>-</u>	<u>272</u>

Included in the net book value of the Group's property, plant and equipment of HK\$272,000 (2004: HK\$951,000), none of the motor vehicles (2004: HK\$393,000) was held under finance lease as at the year end.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

### 16. INTERESTS IN SUBSIDIARIES

	<b>The Company</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Unlisted shares, at cost	<b>10</b>	753
Less : Impairment	<b>(10)</b>	(753)
	-	-
Amounts due from subsidiaries	<b>5,179</b>	12,663
Less: Provision for amounts due from subsidiaries	<b>(5,179)</b>	(10,460)
	-	2,203
Amount due to a subsidiary	-	(1,353)
	-	850

The amounts due are unsecured, interest-free and not repayable within twelve months from 31 December 2005.

Details of the Company's subsidiaries at 31 December 2005 are as follows:

<b>Name</b>	<b>Place of incorporation and operation and kind of legal entity</b>	<b>Issued and paid-up share capital</b>	<b>Percentage held by the Company directly</b>	<b>Principal activities</b>
Global Solution Engineering (HK) Limited (Formerly known as AGL IsoTech (HK) Limited)	Hong Kong, limited liability company	10,000 ordinary shares of HK\$1 each	100%	Provision of information technology and engineering consultancy services
AGL Design Limited	Hong Kong, limited liability company	1 ordinary share of HK\$1	100%	Provision of information technology design services

None of the subsidiaries had any debt securities outstanding at the end of the year, or at any time during the year.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

### 17. TRADE AND OTHER RECEIVABLES

	<b>The Group</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Trade receivables	<b>1,158</b>	–
Other receivables	<b>243</b>	374
	<b>1,401</b>	374

Payment terms with customers are mainly on credit together with deposits. Invoices are normally payable from 30 to 90 days of issuance. The following is an aged analysis of trade receivables at the balance sheet date:

	<b>The Group</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Age		
0 – 30 days	<b>1,158</b>	–

### 18. ACCRUALS AND OTHER PAYABLES

	<b>The Group</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Accruals	<b>911</b>	400
Other payables	–	1,825
	<b>911</b>	2,225

### 19. AMOUNT DUE TO A SHAREHOLDER COMPANY

For the year ended 31 December 2005, the amount due is unsecured, interest-free and has no fixed terms of repayment. In the opinion of directors, no repayment would be demanded within 12 months from the balance sheet date. Accordingly, the amount is classified as non-current liability.

For the period ended 31 December 2004, the amount due was unsecured, interest-free and repayable on demand. Accordingly, the amount was classified as current liability.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

### 20. OBLIGATION UNDER FINANCE LEASE

At 31 December 2004, the total future minimum lease payments under finance lease and their present value were as follows :

	<b>The Group</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Due within one year	-	137
Due in the second to fifth years inclusive	-	216
	-	353
Future finance charges on finance leases	-	(25)
Present value of finance lease liabilities	<u>-</u>	<u>328</u>
The present value of finance lease liabilities is payable as follows :		
Due within one year	-	127
Due in the second to fifth years inclusive	-	201
	-	328
Less: Portion due within one year included under current liabilities	-	(127)
Non-current portion included under non-current liabilities	<u>-</u>	<u>201</u>

### 21. DEFERRED TAXATION

As at 31 December 2005, the Group and the Company have unutilised tax losses of HK\$8,221,000 ( 2004: HK\$6,153,000) and HK\$3,065,000 ( 2004: HK\$2,515,000) respectively available for offsetting against future profits. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams. These tax losses can be carried forward indefinitely.

As at 31 December 2005, the Group and the Company did not have any significant deferred tax liabilities.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

### 22. SHARE CAPITAL

	2005		2004	
	Number of shares	HK\$'000	Number of shares	HK\$'000
<i>Authorised:</i>				
Ordinary shares of HK\$0.01 each	<u>2,000,000,000</u>	<u>20,000</u>	<u>2,000,000,000</u>	<u>20,000</u>
<i>Issued and fully paid:</i>				
Ordinary shares of HK\$0.01 each				
At 1 January	576,000,000	5,760	480,000,000	4,800
Issue during the year/period	<u>–</u>	<u>–</u>	<u>96,000,000</u>	<u>960</u>
At 31 December	<u>576,000,000</u>	<u>5,760</u>	<u>576,000,000</u>	<u>5,760</u>

### 23. SHARE OPTION SCHEME

The current share option scheme in force was adopted and approved by the sole member of the Company on 26 October 2002 (the "Share Option Scheme").

The Share Option Scheme was adopted for a period of 10 years commencing from 26 October 2002 pursuant to a written resolution of the sole member passed on 26 October 2002 for the primary purpose of providing incentives or rewards to directors and eligible employees. Under the Share Option Scheme, the Company may grant options to eligible employees and directors of the Company and its subsidiaries, to subscribe for shares in the Company. In addition, under the Share Option Scheme, the Company may, from time to time, grant share options to any contractor, supplier, customer, agent or advisor, of the Group at the discretion of the Board of Directors.

The number of shares which may be issued under the Share Option Scheme is subject to the following limits:

- (i) the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme of the Company must not in aggregate exceed 30% of the total number of issued shares of the Company from time to time.
- (ii) as refreshed by the shareholders in the general meeting on 29 April 2005, the total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme is not permitted to exceed 57,600,000 shares, representing 10% of the issued share capital of the Company at 29 April 2005.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

### 23. SHARE OPTION SCHEME (Continued)

A nominal consideration of HK\$10 is payable upon acceptance of the grant of the options. The exercise price is determined by the directors of the Company and will be the highest of (a) the closing price of the ordinary shares of the Company on the date of offer; (b) the average of the closing prices of the ordinary shares of the Company for the five business days immediately preceding the date of offer; and (c) the nominal value of the ordinary shares of the Company.

Any options granted under the Share Option Scheme must be exercised during such option period as may be determined and notified by the directors of the Company, which shall not exceed 10 years from the date of grant of the options.

No options have been granted or remained outstanding for the year/period ended 31 December 2005 and 2004.

### 24. RESERVES

#### The Company

	Share premium HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 April 2004	9,751	742	(12,497)	(2,004)
Issue of shares	5,184	–	–	5,184
Expenses incurred in connection with the issue of shares	(76)	–	–	(76)
Net loss for the period	–	–	(5,017)	(5,017)
At 31 December 2004 and 1 January 2005	14,859	742	(17,514)	(1,913)
Net loss for the year	–	–	(3,837)	(3,837)
<b>At 31 December 2005</b>	<b>14,859</b>	<b>742</b>	<b>(21,351)</b>	<b>(5,750)</b>

The contributed surplus of the Company represents the difference between the aggregate net assets of the subsidiaries acquired by the Company under the group reorganisation in 2002 and the nominal amount of the Company's shares issued for the acquisition.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

### 25. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

#### Disposal of subsidiaries

	2005 HK\$'000
Net liabilities disposed of:	
Property, plant and equipment	742
Trade and other receivables	158
Amounts due from intra-group companies	2,960
Cash and bank balances	10
Tax recoverable	1
Other payables	(1,835)
Amounts due to intra-group companies	(10,777)
Obligation under finance lease	(296)
	<hr/>
Net liabilities	(9,037)
Gain on disposal of subsidiaries	1,270
	<hr/>
	<b>(7,767)</b>
	<hr/> <hr/>
Consideration satisfied by:	
Cash	50
Waiver of amounts due to subsidiaries	2,960
Waiver of amounts due from subsidiaries	(10,777)
	<hr/>
	<b>(7,767)</b>
	<hr/> <hr/>

The analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries are as follows:

	2005 HK\$'000
Cash and cash equivalents disposed of:	
Cash and bank balances	(10)
Cash consideration received	50
	<hr/>
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	<b>40</b>
	<hr/> <hr/>

The subsidiaries disposed of during the year did not have any significant contribution to the Group's cash flows or operating results for the current year.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

### 26. OPERATING LEASE COMMITMENTS

While the Company had no outstanding operating lease commitments at the balance sheet date, its subsidiaries were committed to make the following future minimum lease payments under non-cancellable operating leases which are payables as follows:

	<b>The Group</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Computer equipment		
Within one year	-	43
In the second to fifth year inclusive	-	14
	<hr/>	<hr/>
	-	57
	<hr/>	<hr/>
Land and buildings		
Within one year	<b>723</b>	572
In the second to fifth year inclusive	-	723
	<hr/>	<hr/>
	<b>723</b>	1,295
	<hr/>	<hr/>
	<b>723</b>	1,352
	<hr/> <hr/>	<hr/> <hr/>

The Group leases office premises under an operating lease. The lease runs for an initial period of four years without any option to renew the lease terms at the expiry date and does not include any contingent rentals.

### 27. RETIREMENT BENEFITS SCHEME

The Group operates a defined contribution Mandatory Provident Fund Scheme (the "Scheme") for all its qualifying employees in Hong Kong. The assets of the Scheme are held separately from those of the Group in funds under the control of trustee. The Group's contribution is calculated at 5% of the employee's monthly relevant income as defined in the Mandatory Provident Fund Schemes Ordinance of up to a maximum of HK\$20,000, which contribution is matched by employees. The contributions made by the Group which exceed 5% of the employee's monthly relevant income are paid as voluntary contribution.



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

### 28. RELATED PARTY AND CONNECTED PARTY TRANSACTIONS

- (i) On 8 June 2005, the Company entered into a disposal agreement (the "Disposal Agreement") with Mr. Chan Tik Yuen ("Mr. Chan") in respect of the sale of the entire share capital of its wholly owned subsidiary, Yorkmax Investments Limited ("Yorkmax"), which comprises of 1,500 shares of US\$1.00 each and the assignment of a loan advance in the amount of HK\$8,931,000 comprising a loan of HK\$769,000 advanced by the Company to Yorkmax and a loan of HK\$8,162,000 advanced by the Company to Magnum Century Limited ("Magnum"), a wholly owned subsidiary of Yorkmax, to Mr. Chan at a consideration of HK\$11,700 for the shares and a consideration of HK\$38,300 for the shareholders' loans. Mr. Chan, being a director of both Yorkmax and Magnum, is regarded as a connected person of the Company and the disposal was regarded as a connected party transaction.
- (ii) Details of the Group's amount due to a shareholder company as at the balance sheet date are disclosed in note 19 to the financial statements.
- (iii) The compensation of key management personnel for the year ended 31 December 2005 and the period ended 31 December 2004 are listed as follows:

	Year ended 31 December 2005 HK\$'000	Period from 1 April 2004 to 31 December 2004 HK\$'000
Total remuneration of directors and other members of key management during the year/period	<u>2,946</u>	<u>1,946</u>

### 29. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group does not have written risk management policies and guidelines. However, the board of directors meets periodically to analyse and formulate measures to manage the Group's exposure to market risk, including principally changes in interest rates and currency exchange rates. Generally, the Group employs a conservative strategy regarding its risk management. As the Group's exposure to market risk is kept at a minimum level, the Group has not used any derivatives or other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes.

As at 31 December 2005, the Group's financial assets and liabilities mainly consisted of trade and other receivables, other payables, amount due to a shareholder company and obligation under finance lease.

#### (i) Interest rate risk

The Group has no significant exposure to interest rate risks as the Group did not use derivative financial instruments to hedge its interest rate risk.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

### 29. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

#### (ii) Foreign currency risk

The Group has no significant foreign currency risk due to limited foreign currency transactions.

#### (iii) Credit risks

The Group's bank balances are all deposited with banks in Hong Kong.

The carrying amounts of trade receivables and other receivables in the balance sheet represent the Group's maximum exposure to credit risk in relation to the Group's financial assets. No other financial assets carry a significant exposure to credit risk.

#### (iv) Fair values

The fair value of the Group's current financial assets and liabilities are not materially different from their carrying amounts because of the immediate or short term maturity of these financial instruments. The fair value of non-current liabilities was not disclosed because the carrying value is not materially different from the fair value.

### 30. POST BALANCE SHEET EVENTS

- (i) Pursuant to a special resolution passed on 10 February 2006, the Company entered into two subscription agreements (the "Subscription Agreements") with Data Expert Limited and Peak Achieve Limited (the "Counter-Parties"). Pursuant to the Subscription Agreements, the Company issued a total of 115,200,000 ordinary shares with par value of HK\$0.01 each at a price of HK\$0.0165 each to the Counter-Parties. The excess of the subscription proceeds over the nominal value of share capital issued is credited as share premium. The issued share capital of the Company was thus increased from HK\$5,760,000 to HK\$6,912,000. The Company intended to apply the proceeds as general working capital for the Group.
- (ii) On 17 March 2006, a shareholder of the Company has injected HK\$2,000,000 to the Company for its general working capital. This shareholder's loan is interest free, unsecured and has no fixed terms of repayment.

### 31. COMPARATIVE FIGURES

The financial statements in the current year cover a period of twelve months from 1 January 2005 to 31 December 2005 and may not be comparable with the figures presented in the consolidated income statement, consolidated statement of changes in equity, consolidated cash flow statement and the notes thereon for the prior period which covered the nine-month period from 1 April 2004 to 31 December 2004.