

First Quarterly Report

2006



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.

RESULTS

The Board of Directors (the "Board") of Global Solution Engineering Limited (the "Company") herein presents the unaudited consolidated results of the Company and its subsidiaries (together the "Group") for the three months ended 31 March 2006, together with the comparative unaudited figures for the corresponding period in 2005 as follows:

Unaudited Condensed Consolidated Income Statement

| | <i>Notes</i> | Three months ended 31 March 2006 HK\$'000 (Unaudited) | Three months ended 31 March 2005 HK\$'000 (Unaudited) |
|----------------------------------|--------------|--|--|
| Revenue-Turnover | 2 | 109 | 304 |
| Other income | | 6 | 765 |
| Depreciation | | (16) | (82) |
| Staff costs | | (646) | (661) |
| Other operating expenses | | (567) | (676) |
| Loss from operations | | (1,114) | (350) |
| Finance cost | | | |
| — Interest on finance lease | | — | (2) |
| Loss before income tax | 4 | (1,114) | (352) |
| Income tax expenses | 5 | — | — |
| Net loss for the period | | (1,114) | (352) |
| Loss per share in HK cent | 6 | | |
| — Basic | | (0.18) | (0.06) |
| — Diluted | | N/A | N/A |

Notes to the First Quarterly Results

1. Basis of Preparation

The Group's unaudited condensed consolidated results have been prepared in accordance with the new Hong Kong Financial Reporting Standards (HKFRS) and Hong Kong Accounting Standards (HKASs) and interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The unaudited condensed consolidated results have been prepared under the historical cost basis. The accounting policies adopted in preparing the unaudited condensed consolidated results for the three months ended 31 March 2006 and 2005 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2005. The condensed consolidated results are unaudited but have been reviewed by the audit committee.

2. 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.

3. Segment Information

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 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").

4. Loss Before Income Tax

The Group's loss before income tax is arrived at after charging/(crediting):

| | Three months ended | |
|--|---------------------------|--------------|
| | 31 March | |
| | 2006 | 2005 |
| | HK\$'000 | HK\$'000 |
| Directors' remuneration | 173 | 489 |
| Other staff costs | 473 | 172 |
| Depreciation | | |
| — owned assets | 16 | 58 |
| — leased assets | — | 24 |
| Operating lease rental in respect of land and building | 155 | 152 |
| Interest income | (6) | (1) |
| Gain on disposal of a subsidiary | — | (764) |
| | ————— | ————— |

5. Income Tax Expenses

No provision for taxation has been made in the financial statements as the Group had no assessable profit for the period (three months ended 31 March 2005: Nil).

The Group have no significant potential deferred tax liabilities for which provision has not been made.

6. Loss Per Share

The calculation of basic loss per share for the three months ended 31 March 2006 is based on the unaudited net loss from ordinary activities attributable to shareholders for the three months ended 31 March 2006 of approximately HK\$ 1,114,000 (three months ended 31 March 2005: net loss of approximately HK\$ 352,000) and the weighted average of 614,400,000 shares in issue during the three months ended 31 March 2006 (three months ended 31 March 2005: 576,000,000 shares).

No diluted loss per share has been presented because there is no dilutive potential share during these periods.

7. Dividend

The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2006 (three months ended 31 March 2005: nil).

8. Reserves

| | Share capital HK\$'000 | Share premium HK\$'000 | Special reserve HK\$'000 | Accumulated losses HK\$'000 | Total HK\$'000 |
|-------------------------|------------------------------|------------------------------|--------------------------------|-----------------------------------|---------------------|
| At 1 January 2005 | 5,760 | 14,859 | 11 | (16,560) | 4,070 |
| Net loss for the period | — | — | — | (352) | (352) |
| At 31 March 2005 | <u>5,760</u> | <u>14,859</u> | <u>11</u> | <u>(16,912)</u> | <u>3,718</u> |
| At 1 January 2006 | 5,760 | 14,859 | 11 | (20,326) | 304 |
| Issue of shares | 1,152 | 749 | — | — | 1,901 |
| Net loss for the period | — | — | — | (1,114) | (1,114) |
| At 31 March 2006 | <u>6,912</u> | <u>15,608</u> | <u>11</u> | <u>(21,440)</u> | <u>1,091</u> |

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is principally engaged in the provision of information technology and engineering consultancy services.

BUSINESS REVIEW AND PROSPECT

During the period under review, the Group recorded lower revenue of approximately HK\$109,000, representing a decrease of approximately 64.1% as compared with that of the last corresponding period. The reason for such decrease is that as most of the Group projects will be completed in the second half of the year 2006, more turnover is expected in the coming quarters upon completion of these projects. In view of the lower turnover, the Group had also adopted strict cost control policies in managing its operation.

Pursuant to a special resolution passed on 10 February 2006, the Company entered into two 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. The subscription is estimated to raise approximately HK\$1,900,000. The Directors consider the subscription an opportunity for the Company to raise fund for future development purposes and for broadening the capital base of the Company. The Directors believe additional fund raised by the subscription would help in strengthening the Company's core business and the financial position of the Company.

FINANCIAL REVIEW

For the three months ended 31 March 2006, the Group's unaudited consolidated turnover and loss attributable to shareholders were HK\$109,000 (2005: HK\$304,000) and HK\$1,114,000 (2005: HK\$352,000) respectively. There was 64.1% decrease in turnover with an approximately 2.2 times increase in loss attributable to shareholders over the corresponding period last year. The increase in the loss attributable to shareholders was mainly attributable to the decrease in turnover and other income. Other income amounted to HK\$764,000 recorded in the last corresponding period was related to the gain on disposal of the interest of an indirectly wholly-owned subsidiary.

With the adoption of rigorous cost control policy, staff costs and administrative expenses decreased to approximately HK\$646,000 and HK\$567,000 from HK\$661,000 and HK\$676,000 recorded in the corresponding period last year.

SHARE CONSOLIDATION AND CHANGE IN BOARD LOT SIZE

Pursuant to an ordinary resolution passed on 27 April 2006, the shares of the Company were consolidated on the basis that every eight issued and unissued shares of HK\$0.01 each in the share capital of the Company were consolidated into one share of HK\$0.08 (the "Consolidated Share") with effect from 28 April 2006. Upon the share consolidation becoming effect, the Board proposed to change the board lot size of trading from 8,000 shares to 16,000 Consolidated Share.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the three months ended 31 March 2006.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND LONG POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURE

Save as disclosed below, as at 31 March 2006, the interests or long position 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").

| Name | Personal Interests | Family Interests | Corporate Interests | Total | % of issued share capital |
|--------------|---------------------------|-------------------------|--------------------------------|--------------|----------------------------------|
| Chu Yen Ling | — | — | 264,000,000 <i>(Note 1)</i> | 264,000,000 | 38.19% |

Note:

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

SHARE OPTION SCHEME

As at 31 March 2006, 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.

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2006, 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 (<i>Note 1</i>) | 264,000,000 | 38.19% |
| Chu Yen Ling (<i>Note 1</i>) | 264,000,000 | 38.19% |
| Kuo Li Hwa (<i>Note 2</i>) | 264,000,000 | 38.19% |
| Data Expert Limited (<i>Note 3</i>) | 103,680,000 | 15.00% |
| Liu Peng (<i>Note 3</i>) | 103,680,000 | 15.00% |
| Peak Achieve Limited (<i>Note 4</i>) | 69,120,000 | 10.00% |
| Siu Yuk Chu (<i>Note 4</i>) | 69,120,000 | 10.00% |
| Grand Ever Limited (<i>Note 5</i>) | 48,000,000 | 6.94% |
| Niu Tiehong (<i>Note 5</i>) | 48,000,000 | 6.94% |

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 Peak Achieve Limited, the entire issued share capital of which is wholly and beneficially owned by Ms. Siu Yuk Chu.
- (5) These shares are beneficially owned by Grand Ever Limited, the entire issued share capital of which is wholly and beneficially owned by Mr. Niu Tiehong.

COMPETING INTERESTS

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 or may compete with the business of the Group or any other conflict of interests with the interests of the Group.

CORPORATE GOVERNANCE AND CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

For the period ended 31 March 2006, the Company has complied with the board practices and procedures as set out in rules 5.34 to 5.45 of the GEM Listing Rules.

The Company has adopted the rules as 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 (the "Code"). All Directors have complied with the required standard as set out in the Code.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference based upon the "A" Guide for the Formation of An Audit Committee" published by the HKICPA and, in the opinion of the directors, complied with Rules 5.28 to 5.30 as set out in Chapter 5 of the GEM Listing Rules since the listing of the Company' 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, namely Dr. Lu Da, Mr. Lau Man Yiu, and Ms. Xue Xiaoyi. The Group's unaudited consolidated financial statements for the three months ended 31 March 2006 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.

As at the date of the report, the Board comprises the following Directors:

Executive Directors:

Chu Yen Ling
Lee Chan Wah

Independent non-executive Directors:

Lu Da
Lau Man Yiu
Xue Xiaoyi

By Order of the Board
Global Solution Engineering Limited
Chu Yen Ling
Chairman

Hong Kong, 11 May 2006