



GLOBAL SOLUTION ENGINEERING LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8192

Annual 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.



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Group Financial Summary

	Year ended 31 March		Period from 1 April 2004 to 31 December	Year ended 31 December	
	2003 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2005 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
RESULTS					
Turnover	1,851	1,388	1,709	2,153	2,823
Loss before income tax	(3,956)	(8,642)	(5,026)	(3,766)	(1,371)
Income tax (expense)/credit	(11)	65	—	—	—
Loss for the year	(3,967)	(8,577)	(5,026)	(3,766)	(1,371)
ASSETS AND LIABILITIES					
	At 31 March		At 31 December	At 31 December	
	2003 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2005 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Total assets	11,579	5,126	7,135	2,227	2,389
Total liabilities	(1,006)	(2,098)	(3,065)	(1,923)	(1,555)
Net assets	10,573	3,028	4,070	304	834

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



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 ADVISERS TO THE COMPANY

As to Hong Kong law

D.S. Cheung & Co.

As to Cayman Islands law

Conyers, Dill & Pedrman

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

2802 One Exchange Square

8 Connaught Place

Central

Hong Kong

REGISTERED OFFICE

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

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

GEM STOCK CODE

8192



Chairman's Statement

Dear shareholders,

On behalf of the board of Directors (the "Board") of Global Solution Engineering Limited (the "Company"), I herein present the results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2006.

MANAGEMENT DISCUSSION AND ANALYSIS

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

Financial Review

During the year under review, the Group's consolidated turnover and loss attributable to equity holders of the Company were approximately HK\$2.8 million (2005: HK\$2.2 million) and approximately HK\$1.4 million (2005: approximately HK\$3.8 million) respectively. There was approximately 31% increase in turnover with an approximately 64% decrease in loss attributable to equity holders of the Company as compared with that for the year ended 31 December 2006.

The decrease in the loss attributable to equity holders of the Company was primarily attributable to the increase in turnover and decrease in staff costs and other operating expenses. The increase in turnover was mainly attributed to the increase in consultancy fee income in engineering aspect. With the adoption of rigorous cost control policy, staff costs and other operating expenses decreased 48% and 35% respectively to approximately HK\$1.9 million and HK\$2.2 million from HK\$3.7 million and HK\$3.4 million recorded last year.

Business Review and Prospects

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\$1.9 million. 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.

During the year under review, the Group continued to focus on its business in the area of the provision of engineering consultancy services in the PRC market. Most of the resources of the Company were utilised for the development of such business. Several contracts were tendered successfully by the Group during the year in relation to project management and provision of specialist drawing on steel construction project. The Directors believe that with the continual growth of the PRC economy, the market of engineering consultancy services in the PRC will continue to grow and will provide a promising prospect for the Group.



Chairman's Statement

Share Consolidation And Change In Board Lot Size

Pursuant to an ordinary resolution passed on 27 April 2006, the shares of the Company was consolidated on the basis that every eight issued and unissued shares of HK\$0.01 each in the share capital of the Company was consolidated into one share of HK\$0.08 (the "Consolidated Share") with effect from 28 April 2006. Accordingly, the issued share capital of the Company were consolidated from 691,200,000 shares of HK\$0.01 each into 86,400,000 shares of HK\$0.08 each. The authorized share capital of the Company remained at HK\$20 million comprised 250,000,000 Consolidated Share of HK\$0.08 each. 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.

Liquidity, Financial Resources and Capital Structure

As at 31 December 2006, the Group had assets of approximately HK\$2.4 million (2005: approximately HK\$2.2 million), including net cash and bank balances of approximately HK\$1.8 million (2005: approximately HK\$0.6 million).

During the year under review, the Group financed its operations with internally generated cash flows and proceeds from the subscription of new shares pursuant to the subscription agreements dated 10 February 2006.

There was no charge on the Group assets as at 31 December 2006 (2005: nil).

The gearing ratio, defined as the ratio between total bank borrowings and shareholders' equity, was 0% for both year ended 31 December 2006 and 2005 as the Group did not have any bank borrowings nor any banking facilities.

Most of the transactions of the Group were denominated in Hong Kong Dollars, United States Dollars and Renminbi, no hedging or other arrangements to reduce the currency risk have been implemented.

Contingent liabilities

As at 31 December 2006, the Group had no contingent liabilities.

Material acquisitions and disposal of subsidiaries and affiliated companies

The Company did not have material acquisitions and disposal of subsidiaries and affiliated companies during the year.

Significant Investments

There was no significant investment held by the Group as at 31 December 2006.



Chairman's Statement

Employee Information

As at 31 December 2006, the Group had 8 (31 December 2005: 11) full time employees. Remuneration is determined with reference to market terms and the performance, qualification and experience of individual employee. Other benefits include contributions to statutory mandatory provident fund scheme and medical insurance.

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, 28 March 2007



Directors and Senior Management Profile

EXECUTIVE DIRECTORS

Mr. Chu Yen Ling, aged 72, 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 38, 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 15 years of experience in the fields of auditing, accounting and financial management.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Lu Da, aged 57, 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 52, 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 26 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 60, 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.



Directors and Senior Management Profile

SENIOR MANAGEMENT

Mr. Ngan Man Ho, Murphy, aged 30, is the Chief Architect with a Master Degree and Bachelor Degree of the University of Hong Kong. He is currently a Registered Architect of Hong Kong and a member of Hong Kong Institute of Architect with 5 years of extensive experience in architectural design and project management. He has previously participated in various projects in Hong Kong and Mainland China. His range of design works includes commercial office tower, hotel, civic and cultural buildings, comprehensive residential development, entertainment complex and industrial development.



Directors' Report

For the year ended 31 December 2006

The directors present their annual report and the audited financial statements of the Group for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its 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 2006 and the state of affairs of the Group and the Company at that date are set out in the financial statements on pages 21 to 48.

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 on page 24 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 2006 (2005: Nil).

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 2006

DIRECTORS

The directors of the Company during the year were as follows:

Executive directors:

Mr. Chu Yen Ling (*Chairman*)

Mr. Lee Chan Wah

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. Chu Yeu Ling and Ms. Xue Xiaoyi shall retire from office 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' Report

For the year ended 31 December 2006

DIRECTORS' INTERESTS IN EQUITY SECURITIES

As at 31 December 2006, 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	—	—	33,000,000*	33,000,000	38.19%

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

Save as disclosed above, as at 31 December 2006, 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.

Directors' Report

For the year ended 31 December 2006

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES (Continued)

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 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 (Note 1)	33,000,000	38.19%
Chu Yen Ling (Note 1)	33,000,000	38.19%
Kuo Li Hwa (Note 2)	33,000,000	38.19%
Data Expert Limited (Note 3)	12,960,000	15.00%
Liu Peng (Note 3)	12,960,000	15.00%
Peak Achieve Limited (Note 4)	8,640,000	10.00%
Siu Yuk Chu (Note 4)	8,640,000	10.00%
Grand Ever Limited (Note 5)	6,000,000	6.94%
Niu Tiehang (Note 5)	6,000,000	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, executive director of the Company.
2. Ms. Kuo Li Hwa is the spouse of Mr. Chu Yen Ling, accordingly, she is deemed to be interested in the 33,000,000 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 Tiehang.



Directors' Report

For the year ended 31 December 2006

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 2006, sales to the Group's two largest customers accounted for 100% of the total sales for the year and sales to the largest customer included therein amounted to 85%.

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 two largest customers of the Group for the year ended 31 December 2006.

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.

CORPORATE GOVERNANCE

Throughout the year ended 31 December 2006, 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 15 to 18 of the annual report.

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 may have with the Group.



Directors' Report

For the year ended 31 December 2006

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 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 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.

POST BALANCE SHEET EVENT

On 28 March 2007, a shareholder of the Company injected US\$325,000 (equivalent to HK\$2,535,000) to a subsidiary of the Company for its general working capital. This shareholder's loan is unsecured, interest free and is not repayable within twelve months from the date of advance.

AUDITORS

The Company's auditors, 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, 28 March 2007



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 2006.

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 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 2006 were as follows:

Executive directors

Mr. Chu Yen Ling (*Chairman*)
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 Group and its business by directing and supervising the Group's affairs.



Corporate Governance Report

BOARD OF DIRECTORS *(Continued)*

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.

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. Lee Chan Wah	4/4
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 Office 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.



Corporate Governance Report

BOARD COMMITTEES *(Continued)*

(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.

The Audit Committee held four meetings in 2006, which were attended by all members. The Group's 2005 Annual Report, 2006 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 2006 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. 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. No meeting has been held during the year ended 31 December 2006.



Corporate Governance Report

AUDITORS' REMUNERATION

An amount of approximately HK\$0.25 million (2005: HK\$0.25 million) was charged to the Group's income statement for the year ended 31 December 2006. There was no significant non-audit service assignment undertaken by the external auditors during the year.

INTERNAL CONTROL

The Board has overall responsibility for the Group's system of internal control and for reviewing its effectiveness. The Board will conduct regular review regarding internal control systems of the Group. During the year under review, the Board has reviewed the operational and financial reports, budgets and business plans provided by management. Besides, the Audit Committee and the Board also performed quarter review on the Group's performance and internal control system in order to ensure effective measures are in place to protect material assets and identify business risks of the Group.



Independent Auditors' Report

Certified Public Accountants
Member of Grant Thornton International

Grant Thornton 
均富會計師行

To the members of Global Solution Engineering Limited 環球工程有限公司
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Global Solution Engineering Limited (the "Company") set out on pages 21 to 48, which comprise the consolidated and company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit 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.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.



Independent Auditors' Report

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Grant Thornton

Certified Public Accountants
13th Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

28 March 2007

Consolidated Income Statement

For the year ended 31 December 2006

	Notes	2006 HK\$'000	2005 HK\$'000
Revenue	6	2,823	2,153
Other income		20	52
Depreciation		(66)	(118)
Staff costs	13	(1,929)	(3,700)
Other operating expenses		(2,219)	(3,420)
Loss from operations		(1,371)	(5,033)
Finance costs	8	—	(3)
Gain on disposal of subsidiaries	28	—	1,270
Loss before income tax	9	(1,371)	(3,766)
Income tax expense	10	—	—
Net loss for the year	11	(1,371)	(3,766)
Loss attributable to the equity holders of the Company		(1,371)	(3,766)
Loss per share	12		
— Basic (2005: restated)		HK(1.63) cents	HK(5.23) cents
— Diluted		N/A	N/A

Consolidated Balance Sheet

As at 31 December 2006

	Notes	2006 HK\$'000	2005 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	15	217	272
Current assets			
Trade and other receivables	17	352	1,401
Cash and cash equivalents	18	1,820	554
		2,172	1,955
Current liabilities			
Accruals and other payables	19	543	911
Net current assets		1,629	1,044
Total assets less current liabilities		1,846	1,316
Non-current liabilities			
Amount due to a shareholder company	20	1,012	1,012
Net assets		834	304
EQUITY			
Equity attributable to the equity holders of the Company			
Share capital	22	6,912	5,760
Reserves		(6,078)	(5,456)
Total equity		834	304

Chu Yen Ling
Chairman

Lee Chan Wah
Director

Balance Sheet

As at 31 December 2006

	Notes	2006 HK\$'000	2005 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Interests in subsidiaries	16	—	—
Current assets			
Other receivables		120	21
Cash and bank balances	18	1,119	126
		1,239	147
Current liabilities			
Accruals and other payables		329	137
Net current assets/Net assets		910	10
EQUITY			
Share capital	22	6,912	5,760
Reserves	24	(6,002)	(5,750)
Total equity		910	10

Chu Yen Ling
Chairman

Lee Chan Wah
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2006

	Equity attributable to equity holders of the Company				
	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 year	—	—	—	(3,766)	(3,766)
At 31 December 2005 and 1 January 2006	5,760	14,859	11	(20,326)	304
Shares issued at premium	1,152	749	—	—	1,901
Net loss for the year	—	—	—	(1,371)	(1,371)
At 31 December 2006	6,912	15,608*	11*	(21,697)*	834

* The aggregated amount of these balances of HK\$6,078,000 (2005: HK\$5,456,000) 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 2006

	Notes	2006 HK\$'000	2005 HK\$'000
Cash flows from operating activities			
Loss before income tax		(1,371)	(3,766)
Adjustments for:			
Interest income		(20)	(17)
Interest expenses		—	3
Depreciation		66	118
Gain on disposal of subsidiaries		—	(1,270)
Write off of other payables		—	(42)
Operating loss before working capital changes		(1,325)	(4,974)
Decrease/(Increase) in trade and other receivables		1,049	(1,185)
(Decrease)/Increase in accruals and other payables		(368)	563
<i>Net cash used in operating activities</i>		(644)	(5,596)
Cash flows from investing activities			
Interest received		20	17
Purchase of property, plant and equipment		(11)	(181)
Net cash inflow from disposal of subsidiaries	28	—	40
<i>Net cash generated from/(used in) investing activities</i>		9	(124)
Cash flows from financing activities			
Interest paid		—	(3)
Proceeds from issuance of share capital		1,901	—
Repayment of obligation under finance lease		—	(32)
Increase in amount due to a shareholder company		—	500
<i>Net cash generated from financing activities</i>		1,901	465
Net increase/(decrease) in cash and cash equivalents		1,266	(5,255)
Cash and cash equivalents at beginning of the year		554	5,809
Cash and cash equivalents at end of the year		1,820	554



Notes to the Financial Statements

For the year ended 31 December 2006

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 to the financial statements.

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 Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KYI-1111, Cayman Islands 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 21 to 48 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants. The financial statements comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("GEM Listing Rules").

The financial statements for the year ended 31 December 2006 were approved by the board of directors on 28 March 2007.

Notes to the Financial Statements

For the year ended 31 December 2006

3. ADOPTION OF NEW OR AMENDED HKFRSs

- (a) During the year, the Group has applied, for the first time, a number of new and amended HKFRSs, which are effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. These include the following:

HKAS 1, HKAS 27 & HKFRS 3 (Amendments)	Presentation of Financial Statements, Consolidated and Separate Financial Statements & Business Combinations — Amendments as a consequence of the Hong Kong Companies (Amendment) Ordinance 2005
HKAS 19 (Amendment)	Employee Benefits — Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 (Amendment)	The Effects of Changes in Foreign Exchange Rates — Net Investment in a Foreign Operation
HKAS 39 (Amendment)	Financial Instruments: Recognition and Measurement — Cash Flow Hedge Accounting of Forecast Intra-group Transactions
HKAS 39 (Amendment)	Financial Instruments: Recognition and Measurement — The Fair Value Option
HKAS 39 & HKFRS 4 (Amendment)	Financial Instruments: Recognition and Measurement and Insurance Contracts — Financial Guarantee Contracts
HKFRS 1 & HKFRS 6 (Amendment)	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HK(IFRIC) — Int 4	Determining whether an Arrangement contains a Lease
HK(IFRIC) — Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC) — Int 6	Liabilities Arising from Participating in a Specific Market — Waste Electrical and Electronic Equipment

The adoption of the above new and amended HKFRSs did not result in significant changes to the Group's accounting policies. The specific transitional provisions contained in some of these standards were considered. The adoption of these standards did not result in any significant changes to the amounts or disclosures in these financial statements.



Notes to the Financial Statements

For the year ended 31 December 2006

3. ADOPTION OF NEW OR AMENDED HKFRSs (Continued)

- (b) The Group has not early adopted the following new and amended HKFRSs that have been issued but are not yet effective. The directors of the Company anticipate that the adoption of these HKFRSs will not result in substantial changes to the Group's accounting policies.

HKAS 1 (Amendment)	Presentation of Financial Statements — Capital Disclosures ¹
HKFRS 7	Financial Instruments: Disclosures ¹
HK(IFRIC) — Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies ²
HK(IFRIC) — Int 8	Scope of HKFRS 2 ³
HK(IFRIC) — Int 9	Reassessment of Embedded Derivatives ⁴
HK(IFRIC) — Int 10	Interim Financial Reporting and Impairment ⁵
HK(IFRIC) — Int 11	HKFRS 2 — Group and Treasury Share Transactions ⁶
HK(IFRIC) — Int 12	Service Concession Arrangement ⁷

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

2 Effective for annual periods beginning on or after 1 March 2006

3 Effective for annual periods beginning on or after 1 May 2006

4 Effective for annual periods beginning on or after 1 June 2006

5 Effective for annual periods beginning on or after 1 November 2006

6 Effective for annual periods beginning on or after 1 March 2007

7 Effective for annual periods beginning on or after 1 January 2008

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The significant 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. The measurement bases are fully described in the accounting policies below.

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 or judgements, 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.



Notes to the Financial Statements

For the year ended 31 December 2006

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Subsidiaries

Subsidiaries are entities over which the Group has the power to control the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are excluded from the consolidation 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, investments in 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.

(d) Foreign currencies

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

In the individual 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.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined and are reported as part of the fair value gain or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

In the consolidated financial statements, all individual 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 the Hong Kong dollars at the exchange rates at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been dealt with in the exchange reserve in equity.



Notes to the Financial Statements

For the year ended 31 December 2006

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Revenue recognition

Sales of services are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Interest income is recognised on a time-proportion basis using the effective interest method.

(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	20% or over the lease terms, whichever is shorter
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.

(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 costs, such as 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.



Notes to the Financial Statements

For the year ended 31 December 2006

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Impairment testing of assets

Property, plant and equipment and interests in subsidiaries 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 inflows (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 asset's 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.

(h) Leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

Operating lease charges as the lessee

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to the income statement on a straight line basis over the lease terms except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.



Notes to the Financial Statements

For the year ended 31 December 2006

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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.

(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.



Notes to the Financial Statements

For the year ended 31 December 2006

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Share capital

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.

(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.

(n) Pension obligations and short term employee benefits

Pensions to employees are provided through a defined contribution plan.



Notes to the Financial Statements

For the year ended 31 December 2006

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Pension obligations and short term employee benefits *(Continued)*

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

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 vested.

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.



Notes to the Financial Statements

For the year ended 31 December 2006

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Financial liabilities

The Group's financial liabilities include other payables and amount due to a shareholder company.

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

Liabilities for other payables and amount due to a shareholder company are initially carried at fair value 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 used under the circumstances. There are no critical accounting estimates and judgements used in the preparation of the financial statements.

6. REVENUE

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 engineering consultancy services.

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Service income	2,823	2,153

7. BUSINESS AND GEOGRAPHICAL SEGMENTS

The Group's operation is regarded as a single business segment which is the provision of 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").

Notes to the Financial Statements

For the year ended 31 December 2006

8. FINANCE COSTS

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Finance charges on finance lease	—	3

9. LOSS BEFORE INCOME TAX

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Loss before income tax is arrived at after charging/(crediting):		
Auditors' remuneration	250	250
Bank interest income	(20)	(17)
Depreciation		
— owned assets	66	92
— leased assets	—	26
Exchange loss	7	7
Operating lease rentals in respect of land and buildings	362	362
Write off of other payables	—	(42)

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 (2005: Nil).

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

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Loss before income tax	(1,371)	(3,766)
Tax at applicable rate of 17.5% (2005: 17.5%)	(240)	(659)
Tax effect of non-deductible expenses	259	517
Tax effect of non-taxable income	(12)	(467)
Tax effect of temporary differences not recognised	10	(24)
Tax effect of unused tax losses not recognised	—	633
Tax effect of utilisation of tax losses	(17)	—
Total income tax expense	—	—

Notes to the Financial Statements

For the year ended 31 December 2006

11. NET LOSS FOR THE YEAR

Of the consolidated net loss for the year of HK\$1,371,000 (2005: HK\$3,766,000), a loss of HK\$1,001,000 (2005: HK\$3,837,000) 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\$1,371,000 (2005: HK\$3,766,000) and on the weighted average number of 84,032,877 ordinary shares (2005: 72,000,000 ordinary shares, as adjusted) in issue during the year after adjusting for the effects of the issuance of new shares and the share consolidation, details of which are set out in note 22 to the financial statements. The comparative figure of basic loss per share for the year ended 31 December 2005 had been re-calculated to reflect the share consolidation occurred during the year.

No diluted loss per share has been presented because there is no dilutive potential share for each of the two years ended 31 December 2006 and 2005.

13. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Wages and salaries	1,964	3,546
Retirement benefits scheme contributions*	(73)	122
Staff benefits	38	32
	1,929	3,700

* During the year, the amount included a refund of approximately HK\$108,000 in respect of the total voluntary contributions previously made by the Group for a director who resigned in December 2005.

Notes to the Financial Statements

For the year ended 31 December 2006

14. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Bonus HK\$'000	Employer's retirement scheme contributions HK\$'000	Total HK\$'000
2006					
<i>Executive directors:</i>					
Mr. Chu Yen Ling	—	200	—	—	200
Mr. Lee Chan Wah	—	474	45	19	538
	—	674	45	19	738
<i>Independent non-executive directors:</i>					
Dr. Lu Da	24	—	—	—	24
Mr. Lau Man Yiu	60	—	—	—	60
Ms. Xue Xiaoyi	60	—	—	—	60
	144	—	—	—	144
	144	674	45	19	882
2005					
<i>Executive directors:</i>					
Mr. Chu Yen Ling (appointed on 1 December 2005)	—	200	—	—	200
Mr. Lee Chan Wah	—	39	45	1	85
Mr. Matthew Timothy D'Albertson (resigned on 1 December 2005)	—	1,756	—	60	1,816
	—	1,995	45	61	2,101
<i>Independent non-executive directors:</i>					
Dr. Lu Da	24	—	—	—	24
Mr. Lau Man Yiu	60	—	—	—	60
Ms. Xue Xiaoyi	60	—	—	—	60
	144	—	—	—	144
	144	1,995	45	61	2,245



Notes to the Financial Statements

For the year ended 31 December 2006

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

(b) Five highest paid individuals

The five highest paid individuals during the year included two (2005: two) directors, whose emoluments are set out above. The details of the emoluments of the remaining three (2005: three) highest paid individuals are as follows:

	2006 HK\$'000	2005 HK\$'000
Basic salaries and allowances	664	958
Retirement benefits scheme contributions	34	35
	698	993

None of the above three (2005: three) highest paid individuals received individual emoluments in excess of HK\$1 million.

During each of the two years ended 31 December 2006 and 2005, no emoluments were paid by the Group to the directors of the Company or 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 or agreed to waive any emoluments during each of the two years ended 31 December 2006 and 2005.

Notes to the Financial Statements

For the year ended 31 December 2006

15. PROPERTY, PLANT AND EQUIPMENT

The Group

	Computer equipment <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2005					
Cost	563	367	46	529	1,505
Accumulated depreciation	(287)	(118)	(13)	(136)	(554)
Net book amount	276	249	33	393	951
Year ended 31 December 2005					
Opening net book amount	276	249	33	393	951
Additions	—	181	—	—	181
Depreciation	(28)	(54)	(10)	(26)	(118)
Disposal of subsidiaries	(248)	(104)	(23)	(367)	(742)
Closing net book amount	—	272	—	—	272
At 31 December 2005					
Cost	—	322	—	—	322
Accumulated depreciation	—	(50)	—	—	(50)
Net book amount	—	272	—	—	272
Year ended 31 December 2006					
Opening net book amount	—	272	—	—	272
Additions	—	11	—	—	11
Depreciation	—	(66)	—	—	(66)
Closing net book amount	—	217	—	—	217
At 31 December 2006					
Cost	—	333	—	—	333
Accumulated depreciation	—	(116)	—	—	(116)
Net book amount	—	217	—	—	217

Notes to the Financial Statements

For the year ended 31 December 2006

16. INTERESTS IN SUBSIDIARIES

	The Company	
	2006 HK\$'000	2005 HK\$'000
Unlisted shares, at cost	10	10
Less: Impairment	(10)	(10)
	—	—
Amounts due from subsidiaries	4,982	5,179
Less: Provision for amounts due from subsidiaries	(4,982)	(5,179)
	—	—

The amounts due from subsidiaries are unsecured, interest-free and not repayable within twelve months from 31 December 2006.

Details of the Company's subsidiaries at 31 December 2006 are as follows:

Name	Place of incorporation and operation and kind of legal entity	Issued and paid-up share capital	Percentage held by the Company directly	Principal activities
Global Solution Engineering (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%	Dormant

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 2006

17. TRADE AND OTHER RECEIVABLES

	The Group	
	2006	2005
	HK\$'000	HK\$'000
Trade receivables	—	1,158
Other receivables	352	243
	352	1,401

At as 31 December 2006, the ageing analysis of trade receivables based on sale invoice date and net of provisions, is as follows:

	The Group	
	2006	2005
	HK\$'000	HK\$'000
Age		
0 — 30 days	—	1,158

The Group allows a credit period from 30 to 90 days (2005: 30 to 90 days).

18. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash at bank and in hand	1,820	554	1,119	126

The effective interest rates of the bank balances of the Group ranged from 2.5% to 2.75% (2005: 0.05% to 2.75%).

19. ACCRUALS AND OTHER PAYABLES

There are no trade payables at 31 December 2006 (2005: Nil).

20. AMOUNT DUE TO A SHAREHOLDER COMPANY

The amount due is unsecured, interest-free and is not repayable within twelve months from the balance sheet date. Accordingly, the amount is classified as a non-current liability.

Notes to the Financial Statements

For the year ended 31 December 2006

21. DEFERRED TAXATION

As at 31 December 2006, the Group and the Company had unutilised tax losses of HK\$8,846,000 (2005: HK\$8,221,000) and HK\$3,784,000 (2005: HK\$3,065,000) 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 2006, the Group and the Company did not have any significant deferred tax liabilities.

22. SHARE CAPITAL

	2006		2005	
	Number of shares '000	HK\$'000	Number of shares '000	HK\$'000
<i>Authorised:</i>				
Ordinary shares of HK\$0.01 each at beginning of year	2,000,000	20,000	2,000,000	20,000
Share consolidation (Note (ii))	(1,750,000)	—	—	—
Ordinary shares of HK\$0.08 (2005: HK\$0.01) each at end of year	250,000	20,000	2,000,000	20,000
<i>Issued and fully paid:</i>				
Ordinary shares of HK\$0.01 each at beginning of year	576,000	5,760	576,000	5,760
Issue during the year (Note (i))	115,200	1,152	—	—
Share consolidation (Note (ii))	(604,800)	—	—	—
Ordinary shares of HK\$0.08 (2005: HK\$0.01) each at end of year	86,400	6,912	576,000	5,760

Notes:

(i) Share subscription

The Company entered into two subscription agreements (the "Subscription Agreements") with Peak Achieve Limited and Data Expert Limited on 10 February 2006. 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. The issued share capital of the Company was thus increased from HK\$5,760,000 to HK\$6,912,000. The excess of the subscription proceeds over the nominal value of share capital issued is credited as share premium. The Company intended to apply the proceeds raised as general working capital for the Group.



Notes to the Financial Statements

For the year ended 31 December 2006

22. SHARE CAPITAL (Continued)

Notes: (Continued)

(ii) Share consolidation

Pursuant to an ordinary resolution passed on 27 April 2006, a share consolidation on the basis that every eight shares of HK\$0.01 each in the issued and unissued share capital of the Company being consolidated into one consolidated share of HK\$0.08 each was carried out ("Share Consolidation") with effect from 28 April 2006. The authorised share capital of the Company remained at HK\$20,000,000, but was divided into 250,000,000 shares of HK\$0.08 each.

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 (equivalent to 7,200,000 shares after the Company's Share consolidation in April 2006), representing 10% of the issued share capital of the Company at 29 April 2005.

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.

Notes to the Financial Statements

For the year ended 31 December 2006

23. SHARE OPTION SCHEME (Continued)

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 had been granted or remained outstanding for each of the two years ended 31 December 2006 and 2005.

24. RESERVES

The Company

	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2005	14,859	742	(17,514)	(1,913)
Net loss for the year	—	—	(3,837)	(3,837)
At 31 December 2005 and 1 January 2006	14,859	742	(21,351)	(5,750)
Shares issued at premium	749	—	—	749
Net loss for the year	—	—	(1,001)	(1,001)
At 31 December 2006	15,608	742	(22,352)	(6,002)

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.

25. OPERATING LEASE COMMITMENTS

As at 31 December 2006, the total future minimum lease payments of the Group under non-cancellable operating lease in respect of land and buildings are payable as follows:

	The Group	
	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Within one year	362	361
In the second to fifth year inclusive	—	362
	362	723

The Group leases an office premise 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.



Notes to the Financial Statements

For the year ended 31 December 2006

26. 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.

27. RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Save as disclosed in Notes 16 and 20 to the financial statements, details of other related party transactions during the year ended 31 December 2006 are disclosed as follows:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
<i>Compensation of key management personnel:</i>		
Total remuneration of directors and other members of key management during the year	1,147	2,946

Notes to the Financial Statements

For the year ended 31 December 2006

28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Disposal of subsidiaries

	2005 HK\$'000
<hr/>	
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/>
	(7,767)
<hr/>	
Consideration satisfied by:	
Cash	50
Waiver of amounts due to subsidiaries	2,960
Waiver of amounts due from subsidiaries	(10,777)
	<hr/>
	(7,767)
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The analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries are as follows:

	2005 HK\$'000
<hr/>	
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	40
<hr/>	

The subsidiaries disposed of during 2005 did not have any significant contribution to the Group's cash flows or operating results for 2005.



Notes to the Financial Statements

For the year ended 31 December 2006

29. FINANCIAL 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.

(i) Interest rate risk

The Group has no significant exposure to interest rate risks. The Group did not use derivative financial instruments to hedge its interest rate risk and the Group currently has no financial assets and liabilities with floating interest rates, except the Group's bank balances, details of which are disclosed in Note 18 to the financial statements.

(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.

There are no financial assets which carry a significant exposure to credit risk.

(iv) Fair values

The directors of the Company consider 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 directors of the Company consider the fair value of non-current liability is not materially different from its carrying value and accordingly has not been separately disclosed in the notes to the financial statements.

30. POST BALANCE SHEET EVENT

On 28 March 2007, a shareholder of the Company injected US\$325,000 (equivalent to HK\$2,535,000) to a subsidiary of the Company for its general working capital. This shareholder's loan is unsecured, interest free, and is not repayable within twelve months from the date of advance.