



GLOBAL SOLUTION ENGINEERING LIMITED

環球工程有限公司

(continued in Bermuda with limited liability)

Stock Code : 8192

**2007**

Annual Report

## **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.

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*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 2004 HK\$'000	Period from 1 April 2004 to 31 December 2004 HK\$'000	2005 HK\$'000	Year ended 31 December 2006 HK\$'000	2007 HK\$'000
<b>RESULTS</b>					
Turnover	1,388	1,709	2,153	2,823	<b>1,417</b>
Loss before income tax	(8,642)	(5,026)	(3,766)	(1,371)	<b>(2,846)</b>
Income tax credit	65	-	-	-	-
Loss for the year	(8,577)	(5,026)	(3,766)	(1,371)	<b>(2,846)</b>
	<b>At 31 March 2004 HK\$'000</b>	<b>At 31 December 2004 HK\$'000</b>	2005 HK\$'000	<b>At 31 December 2006 HK\$'000</b>	<b>2007 HK\$'000</b>
<b>ASSETS AND LIABILITIES</b>					
Total assets	5,126	7,135	2,227	2,389	<b>5,172</b>
Total liabilities	(2,098)	(3,065)	(1,923)	(1,555)	<b>(3,501)</b>
Net assets	3,028	4,070	304	834	<b>1,671</b>

## Corporate Information

### EXECUTIVE DIRECTORS

Mr. Chu Yen Ling (*resigned on 19 September 2007*)  
Mr. Lee Chan Wah (*resigned on 19 September 2007*)  
Mr. Pong Wai San, Wilson  
(*Chairman and Chief Executive Officer*)  
(*appointed on 19 September 2007*)  
Mr. Lau Wai Shu (*appointed on 19 September 2007*)

### INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Lu Da (*resigned on 19 September 2007*)  
Mr. Lau Man Yiu (*resigned on 19 September 2007*)  
Ms. Xue Xiaoyi (*resigned on 19 September 2007*)  
Mr. Ko Chun Hay, Kelvin  
(*appointed on 19 September 2007 and*  
*resigned on 1 March 2008*)  
Mr. Lai Hin Wing, Henry  
(*appointed on 19 September 2007*)  
Mr. Lung Hung Cheuk  
(*appointed on 19 September 2007*)  
Mr. Yip Tai Him (*appointed on 1 March 2008*)

### COMPANY SECRETARY

Mr. Lee Chan Wah CPA, FCCA  
(*resigned on 19 September 2007*)  
Mr. Chan Pui Lam CPA  
(*appointed on 19 September 2007*)

### QUALIFIED ACCOUNTANT

Mr. Lee Chan Wah CPA, FCCA  
(*resigned on 19 September 2007*)  
Mr. Chan Pui Lam CPA  
(*appointed on 19 September 2007*)

### COMPLIANCE OFFICER

Mr. Lee Chan Wah (*resigned on 19 September 2007*)  
Mr. Lau Wai Shu (*appointed on 19 September 2007*)

### NOMINATION COMMITTEE

Mr. Lee Chan Wah (*resigned on 19 September 2007*)  
Dr. Lu Da (*resigned on 19 September 2007*)  
Mr. Lau Man Yiu (*resigned on 19 September 2007*)  
Ms. Xue Xiaoyi (*resigned on 19 September 2007*)  
Mr. Lau Wai Shu (*appointed on 1 March 2008*)  
Mr. Lai Hin Wing, Henry (*appointed on 1 March 2008*)  
Mr. Lung Hung Cheuk (*appointed on 1 March 2008*)  
Mr. Yip Tai Him (*appointed on 1 March 2008*)

### REMUNERATION COMMITTEE

Dr. Lu Da (*resigned on 19 September 2007*)  
Mr. Lau Man Yiu (*resigned on 19 September 2007*)  
Ms. Xue Xiaoyi (*resigned on 19 September 2007*)  
Mr. Pong Wai San, Wilson  
(*appointed on 19 September 2007*)  
Mr. Lau Wai Shu (*appointed on 19 September 2007*)  
Mr. Ko Chun Hay, Kelvin  
(*appointed on 19 September 2007 and*  
*resigned on 1 March 2008*)  
Mr. Lai Hin Wing, Henry  
(*appointed on 19 September 2007*)  
Mr. Lung Hung Cheuk (*appointed on 19 September 2007*)  
Mr. Yip Tai Him (*appointed on 1 March 2008*)

### AUDIT COMMITTEE

Dr. Lu Da (*resigned on 19 September 2007*)  
Mr. Lau Man Yiu (*resigned on 19 September 2007*)  
Ms. Xue Xiaoyi (*resigned on 19 September 2007*)  
Mr. Ko Chun Hay, Kelvin  
(*appointed on 19 September 2007 and*  
*resigned on 1 March 2008*)  
Mr. Lai Hin Wing, Henry  
(*appointed on 19 September 2007*)  
Mr. Lung Hung Cheuk  
(*appointed on 19 September 2007*)  
Mr. Yip Tai Him (*appointed on 1 March 2008*)

### AUTHORISED REPRESENTATIVES

Mr. Chu Yen Ling (*resigned on 19 September 2007*)  
Mr. Lee Chan Wah (*resigned on 19 September 2007*)  
Mr. Pong Wai San, Wilson  
(*appointed on 19 September 2007*)  
Mr. Lau Wai Shu (*appointed on 19 September 2007*)

### AUDITORS

Grant Thornton  
Certified Public Accountants

### LEGAL ADVISERS TO THE COMPANY

As to Hong Kong law  
Michael Li & Co.

As to Cayman Islands and Bermuda law  
Conyers Dill & Pearman

## Corporate Information

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

Room 1301, 13/F.  
Park Commercial Centre  
180 Tung Lo Wan Road  
Causeway Bay  
Hong Kong

### **REGISTERED OFFICE**

Clarendon House  
2 Church Street  
Hamilton HM11  
Bermuda

### **PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE**

Butterfield Fund Services (Bermuda) Limited  
Rosebank Centre  
11 Bermudiana Road  
Pembroke HM06  
Bermuda

### **HONG KONG BRANCH SHARE REGISTRARS AND TRANSFER OFFICE**

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

### **PRINCIPAL BANKER**

Hang Seng Bank Limited

### **COMPANY HOMEPAGE**

[www.gsehk.com.hk](http://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 (collectively referred to as the "Group") for the year ended 31 December 2007.

### FINANCIAL OVERVIEW

During the year under review, the Group's turnover and loss attributable to equity holders of the Company were approximately HK\$1.4 million (2006: HK\$2.8 million) and approximately HK\$2.8 million (2006: approximately HK\$1.4 million), respectively, which represent a decrease of approximately 49.8% in turnover and an increase of an approximately 107.6% in loss attributable to equity holders of the Company as compared with the previous corresponding year.

The increase in the loss attributable to equity holders of the Company was primarily attributable to the decrease in consultancy fee income in engineering and the increase in other operating expenses aspect for the year under review. With the adoption of rigorous cost control policy, the staff costs was decreased by 38.4% to approximately HK\$1.2 million as compared with the previous corresponding year. The cost control policy adopted reduced the loss attributable to equity holders for the year under review.

### PROSPECTS AND APPRECIATION

The business environment in Hong Kong and the People's Republic of China (the "PRC") for information technology and engineering consultancy services experienced a tough year due to the keen competition as well as the cost increase in both Hong Kong and the PRC. As a result, the turnover for the year was decreased by approximately 49.8%.

During the year under review, the Group continued to focus on its business in the area of the provision of engineering consultancy services in Hong Kong and 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 engineering project management and consultancy services. As compared with the previous corresponding year, the Group's performance in this year was lower than expectation due to the higher competition and the cost increase in the market. The directors of the Company (the "Directors") believe that with the continual growth of the economy in Hong Kong and the PRC, the market of engineering consultancy services in Hong Kong and the PRC will continue to grow and will provide a promising prospect for the Group.

Since I was appointed as the executive Director, chief executive officer and chairman of the Company on 19 September 2007, the Board has performed business review to streamline the business operation and improve the financial position of the Group and has looking for new investment opportunities in new business sections. We believe that it would not only enhance the overall profitability but also improve the business scope of the Group.

To seek more business opportunities and to maximize the return of the Group in the long run, the Group has entered into a legally binding letter of intent ("Letter of Intent") with an independent third party on 6 March 2008 to acquire the entire issued share capital of Sanxia International Energy Investments Limited (三峽國際能源投資有限公司, "Sanxia International"). Sanxia International currently holds 30% equity interest in Shanxi Tongyu Coalbed Methane Transportation Limited (山西通豫煤層氣輸配有限公司), which is principally engaged in the construction and operation of a pipeline for the transportation of coalbed methane in the PRC.

Finally, on behalf of the Board, I would like to take this opportunity to express my gratitude to all members of the Board, staff and those who have supported us for their dedication and contribution to the Group. We will continue to put our best efforts to produce good economic results and better return to our shareholders.

**Pong Wai San, Wilson**  
Chairman

Hong Kong, 17 March 2008

# Management Discussion and Analysis

## GENERAL

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

## BUSINESS OVERVIEW

During the year ended 31 December 2007, the Group recorded a decrease in turnover of approximately 49.8%, which was mainly attributable to the keen competition and the challenging business environment in the market of both Hong Kong and the PRC. As a result, the total contract sum for engineering consultancy services was decreased for the year under review. Despite of the challenging business environment, several contracts in relation to the engineering project management and consultancy services were successfully tendered by the Group during the year.

In view of the increase in operating costs and the decrease in turnover, the Group has tighten up the operating costs and staff costs in order to narrow down the operating loss for the year under review.

## FINANCIAL REVIEW

### Results

During the year under review, the Group recorded a turnover of approximately HK\$1.4 million (2006: approximately HK\$2.8 million), representing a decrease of approximately 49.8% in turnover as compared with the previous corresponding year. The decrease in turnover was attributable to the decrease in turnover of engineering consultancy fee income.

Loss attributable to equity holders for the year ended 31 December 2007 amounted to approximately HK\$2.8 million (2006: approximately HK\$1.4 million), representing an increase of approximately 107.6% as compared with the previous corresponding year. The increase in loss attributable to equity holders was mainly attributable to the decrease in turnover and the increase in other operating expenses for the year under review. With the adoption of a rigorous cost control policy, the loss attributable to equity holders was reduced as a result of the decrease in the staff costs of the Group by 38.4% as compared with the previous corresponding year.

### Liquidity, financial resources and capital structure

As at 31 December 2007, the Group had assets of approximately HK\$5.2 million (2006: approximately HK\$2.4 million), including net cash and bank balances of approximately HK\$4.9 million (2006: approximately HK\$1.8 million). There was no charge on the Group assets as at 31 December 2007 (2006: nil).

During the year under review, the Group financed its operations by internally generated cash flows and proceeds from the subscription of 127,000,000 new shares of HK\$1.27 million and the zero coupon convertible bonds (the "Convertible Bonds") of HK\$4 million pursuant to two subscription agreements dated 25 June 2007.

The gearing ratio, defined as the ratio between total borrowings and shareholders' equity, was 0% for the years ended 31 December 2007 and 2006 as the Group did not have any bank borrowings nor any banking facilities.

On 31 August 2007, the Company has changed its domicile from the Cayman Islands to Bermuda by way of de-registration in the Cayman Islands and continuation as exempted company under the laws of Bermuda. On the same day, the nominal value of each of the issued shares of the Company was reduced from HK\$0.08 to HK\$0.01 each by canceling the capital paid-up by HK\$0.07 on each issued share.

On 4 September 2007, the Company allotted and issued 127,000,000 shares to Almond Global Limited, a company incorporated in the British Virgin Islands and beneficially and wholly-owned by Mr. Pong Wai San, Wilson, who is the executive Director, chief executive officer and chairman of the Company, pursuant to a share subscription agreement dated 25 June 2007.



# Management Discussion and Analysis

**FINANCIAL REVIEW** *(Continued)*

**Liquidity, financial resources and capital structure** *(Continued)*

On 21 December 2007, each of the existing issued and unissued shares of HK\$0.01 each in the share capital of the Company was subdivided into 20 subdivided shares of HK\$0.0005 each. The share subdivision has increased the total number of shares of the Company in issue from 213,400,000 shares to 4,268,000,000 subdivided shares. After the share subdivision, the authorised share capital of the Company is HK\$20,000,000 divided into 40,000,000,000 subdivided shares.

On 25 January 2008, the Company has received a conversion notice for the partial conversion of the Convertible Bonds issued and as a result of which the Company has issued a total of 1,200,000,000 shares to Mr. Pong Wai San, Wilson, the executive Director, chief executive officer and chairman of the Company, at the conversion price of HK\$0.0005 per conversion share on 4 February 2008. After the conversion, the number of shares in issue of the Company is 5,468,000,000 shares.

**Significant investments**

As at 31 December 2007, there was no significant investment held by the Group.

**Material acquisitions or disposals of subsidiaries and affiliated companies**

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

**Contingent liabilities**

As at 31 December 2007, the Group had no material contingent liabilities.

**Lease and contracted commitments**

The Group leases certain of its office premises under non-cancellable operating lease arrangements with a lease term of two years.

As at 31 December 2007, the Group had total future minimum lease payments in respect of non-cancellable operating leases for land and buildings falling due as follows:

	2007 HK\$'000	2006 HK\$'000
Within one year	207	362
In the second to fifth year, inclusive	197	–
	<b>404</b>	362

**Foreign exchange exposure**

The Group's income and expenditure during the year ended 31 December 2007 were denominated in United States dollars ("US dollars") and Hong Kong dollars ("HK dollars"), and most of the assets and liabilities as at 31 December 2007 were denominated in HK dollars. Accordingly, the Board is of the view that, to a certain extent, the Group is exposed to a foreign currency exchange risk. For the US dollars foreign exchange exposure, the Board believes the exposure is small as the exchange rate of US dollars to HK dollars is comparatively stable. During the year, no hedging transaction or arrangement was made.

# Management Discussion and Analysis

## **FINANCIAL REVIEW** (Continued)

### **Treasury policies**

The Group adopts a conservative approach towards its treasury policies. The Group strives to reduce its exposure to credit risk by performing ongoing credit evaluations of the financial conditions of its customers. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and commitments can meet its funding requirements.

### **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 as well as analysis of the carrying amount of segment assets and capital expenditures by geographical market have not been presented as the Group's turnover and results are substantially generated from the PRC, and the Group's assets and capital expenditures are situated in Hong Kong.

### **Future plans for material investments and expected source of funding**

The Group is looking for ways to further improve its existing business, and is also searching for business opportunities elsewhere to improve the financial performance and the shareholders' returns.

Since the introduction of Mr. Pong Wai San, Wilson as the controlling shareholder of the Company and the appointment of the new Board on 19 September 2007, the Board has performed a business review to streamline the business operation and improve the financial position of the Group, and has looking for new investment opportunities in new business sections. The Group also intends to further develop its existing business and considers the net proceeds raised from the issue of the new shares and the Convertible Bonds as an opportunity for the Group to broaden its capital base and raise new fund for future development of the existing and new business, particularly, in the area of engineering consultancy business for construction of logistic centers and related business.

On 6 March 2008, the Group entered into the Letter of Intent with an independent third party to acquire the entire issued share capital of Sanxia International. Sanxia International currently holds 30% equity interest in Shanxi Tongyu Coalbed Methane Transportation Limited (山西通豫煤層氣輸配有限公司), which is principally engaged in the construction and operation of a pipeline for the transportation of coalbed methane in the PRC.

### **Employees and remuneration policies**

As at 31 December 2007, the Group had 7 (2006: 8) employees, including Directors. Total staff costs (including directors' emoluments) were approximately HK\$1,188,000 for the year ended 31 December 2007 (2006: approximately HK\$1,929,000). Remuneration is determined with reference to market terms and the performance, qualification and experience of individual employee. Year-end bonus based on individual performance will be paid to employees as recognition of and reward for their contributions. Other benefits include contributions to statutory mandatory provident fund scheme to its employees in Hong Kong.

## Directors and Senior Management Profile

### EXECUTIVE DIRECTORS

**Mr. Pong Wai San, Wilson**, aged 38, is also the chief executive officer and chairman of the Company. Mr. Pong is responsible for the overall strategic planning, marketing and managing function of the Group. He holds a bachelor degree in Applied Science from the University of British Columbia. He held various positions in a number of charity organisations in Hong Kong and had held various senior management positions with various local and international securities houses and a multinational company. Mr. Pong was an executive director of Midland IC&I Limited, a company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), and resigned in June 2007. He is now an executive director of Richfield Group Holdings Limited, a company listed on the Stock Exchange. In addition, he is also the directors of New Goal Plus Limited, AGL Design Limited, Ally Champ Limited, Global Solution Engineering (HK) Limited, Silicon Services Limited and Children Arts & Cultural Development Association Limited, which all these companies are the subsidiaries of the Company. Mr. Pong was appointed as an executive Director, chief executive officer and chairman of the Company on 19 September 2007.

**Mr. Lau Wai Shu**, aged 47, is responsible for the managing function of the Group. Mr. Lau holds a bachelor degree in Applied Science (civil engineering) from the University of Ottawa, Ontario, Canada. He worked with various companies and has over 16 years of experience in management and marketing. Mr. Lau was an executive director of Midland IC&I Limited, a company listed on the Stock Exchange, and resigned in June 2007. He is now the directors of New Goal Plus Limited, AGL Design Limited, Ally Champ Limited, Global Solution Engineering (HK) Limited, Silicon Services Limited and Children Arts & Cultural Development Association Limited, which all these companies are the subsidiaries of the Company. He was appointed as an executive Director on 19 September 2007.

### INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Lai Hin Wing, Henry**, aged 51, is a partner of Messrs. P. C. Woo & Co., a firm of solicitors and notaries in Hong Kong, and has been practising in the legal field for more than twenty-five years. Graduated from the University of Hong Kong with a bachelor of law degree, Mr. Lai was admitted as a solicitor in Hong Kong, England and Wales and the State of Victoria, Australia. Mr. Lai is a notary public and a China appointed attesting officer in Hong Kong. He serves on the board of a number of companies listed on the Stock Exchange, including Allied Properties (H.K.) Limited as a non-executive director and Richfield Group Holdings Limited as an independent non-executive director. He also serves on the board of Canton Property Investment Limited, a company admitted to the AIM of the London Stock Exchange, as a non-executive director. He was also an independent non-executive director of Midland IC&I Limited and China Sciences Conservational Power Limited, both companies are listed on the Stock Exchange, during the period from 1 May 2003 to 3 March 2006 and 26 October 2005 to 9 March 2006 respectively. He joins the Company as an independent non-executive Director since 19 September 2007.

**Mr. Lung Hung Cheuk**, aged 61, is a retired chief superintendent of the Hong Kong Police Force (the "Hong Kong Police") of Hong Kong. He joined the Hong Kong Police in 1966 as a Probationary Inspector at the age of 19. He was promoted to the rank of chief inspector in 1980, superintendent in 1986, senior superintendent in 1993 and chief superintendent in 1997. He had served in various police posts, namely Special Branch, Police Tactical Unit, Police Public Relations Bureau and in a number of police divisions at management level. Prior to his retirement in April 2002, he was the commander of Sham Shui Po Police District. Mr. Lung was also the secretary and then the chairman of the Superintendents' Association ("SPA") of the Hong Kong Police from 1993 to 2001. The membership of the SPA comprises the top management of the Hong Kong Police from superintendents up to and including the commissioner of Hong Kong Police. He was awarded the Police Meritorious Service Medal by the Chief Executive of Hong Kong in 2000. Mr. Lung currently acts as an independent non-executive director of Richfield Group Holdings Limited, a company listed on the Stock Exchange. He joins the Company as an independent non-executive Director since 19 September 2007.

## Directors and Senior Management Profile

### **INDEPENDENT NON-EXECUTIVE DIRECTORS** *(Continued)*

**Mr. Yip Tai Him**, aged 37, is a practicing accountant in Hong Kong. Mr. Yip has over 15 years of experience in auditing, accounting and corporate finance. He is the members of the Institute of Chartered Accountants in England and Wales, Association of Chartered Certified Accountants and Hong Kong Institute of Certified Public Accountants. Mr. Yip is currently the executive director of Brilliant Arts Multi-Media Holding Limited and the independent non-executive directors of Wing Lee Holdings Limited, China Cyber Port (International) Company Limited and S&D International Development Group Limited, which all these companies are listed on the Stock Exchange. Mr. Yip was appointed as the independent non-executive Director on 1 March 2008.

### **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 the PRC. 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 2007*

The Directors present their annual report and the audited financial statements of the Group for the year ended 31 December 2007.

## **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.

## **SEGMENT INFORMATION**

The analysis of the business and geographical segments of the operations of the Group are set out in note 7 to the financial statements.

## **RESULTS AND APPROPRIATIONS**

The results of the Group for the year ended 31 December 2007 and the state of affairs of the Group and the Company at that date, are set out in the financial statements on pages 23 to 52.

## **DIVIDENDS**

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2007.

## **CLOSURE OF REGISTER OF MEMBERS**

The registers of the Company will be closed from Tuesday, 29 April 2008 to Monday, 5 May 2008, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the attending of the forthcoming annual general meeting of the Company, all transfer of shares, accompanied by the relevant share certificates and transfer forms, must be lodged with the Company's branch share registrars in Hong Kong, Tricor Tengis Limited, 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on Monday, 28 April 2008.

## **SHARE CAPITAL**

Details of the movements in the share capital of the Company are set out in note 21 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 23 to the financial statements and the consolidated statement of changes in equity on page 26 respectively.

The Company had no reserves available for distribution to the shareholders of the Company as at 31 December 2007 (2006: Nil)

## **GROUP FINANCIAL SUMMARY**

A summary of the results and assets and liabilities of the Group announced in previous years are set out on page 2 of this annual report.

## **PROPERTY, PLANT AND EQUIPMENT**

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

# Directors' Report

For the year ended 31 December 2007

## DIRECTORS

The Directors during the year ended 31 December 2007 and up to the date of this report were as follows:

### Executive Directors:

Mr. Chu Yen Ling	(resigned on 19 September 2007)
Mr. Lee Chan Wah	(resigned on 19 September 2007)
Mr. Pong Wai San, Wilson	(appointed on 19 September 2007)
Mr. Lau Wai Shu	(appointed on 19 September 2007)

### Independent non-executive Directors:

Mr. Lu Da	(resigned on 19 September 2007)
Mr. Lau Man Yiu	(resigned on 19 September 2007)
Mr. Xue Xiaoyi	(resigned on 19 September 2007)
Mr. Ko Chun Hay, Kelvin	(appointed on 19 September 2007 and resigned on 1 March 2008)
Mr. Lai Hin Wing, Henry	(appointed on 19 September 2007)
Mr. Lung Hung Cheuk	(appointed on 19 September 2007)
Mr. Yip Tai Him	(appointed on 1 March 2008)

Pursuant to bye-law 86(2) of the Company's bye-laws, all Directors shall retire from office at the conclusion of the annual general meeting of the Company and, being eligible, will offer themselves for re-election.

## DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and senior management of the Group as at the date of this report are set out on pages 9 to 10.

## DIRECTORS' SERVICE CONTRACTS

Mr. Pong Wai San, Wilson, the executive Director, chief executive officer and chairman of the Company, has not signed any service contract or letter of appointment with the Company.

Mr. Lau Wai Shu, the executive Director, has signed a letter of appointment with the Company commencing from 1 March 2008 and shall continue from such date unless terminated by either party by giving not less than two months' notice in writing.

Each of the independent non-executive Directors has signed a letter of appointment with the Company for a term of 1 year. The letters of appointment of both Mr. Lai Hin Wing, Henry and Mr. Lung Hung Cheuk were commencing on 19 September 2007 and expiring on 18 September 2008, and that of Mr. Yip Tai Him was commencing from 1 March 2008 and expiring on 28 February 2009.

None of the Directors proposed for re-election at the forthcoming annual general meeting of the Company has a service contract with the Company which is not determinable by the Company within one year without payment of compensation.

## DIRECTORS' INTERESTS IN CONTRACTS

None of the Directors had a material interest, whether directly or indirectly, in any contract of significance subsisting during or at the end of the year to which the Company or any of its subsidiaries was a party.

# Directors' Report

For the year ended 31 December 2007

## MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 31 December 2007, the interests and short 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 pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short 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 Issuers ("Model Code"), were as follows:

### Long positions in shares and underlying shares of the Company

Name	Number of Shares		Total	Approximate percentage of shareholding
	Personal Interest	Corporate Interest		
Mr. Pong Wai San, Wilson	660,000,000	10,540,000,000 (Note)	11,200,000,000	262.42%

Note: These shares are owned by Almond Global Limited, a company wholly owned by Mr. Pong Wai San, Wilson. The 10,540,000,000 shares of the Company held by Almond Global Limited consist of a zero coupon convertible bonds of HK\$4,000,000 which can be converted into 8,000,000,000 shares of the Company during its conversion period of five years from 4 September 2007.

Save as disclosed above, as at 31 December 2007, none of the Directors and the chief executives of the Company had any interests or short positions 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 short 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.

## RETIREMENT BENEFITS SCHEMES

Details of the retirement benefits schemes are set out in note 25 to the financial statements.

## 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 22 to the financial statements.

# Directors' Report

For the year ended 31 December 2007

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

At no time during the year had the Directors and chief executives of the Company (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).

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2007, other than the interests of certain Directors as disclosed under the section headed "Directors' and chief executives' interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation" above, the interest or short positions of person in the shares and underlying shares and debentures 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, who is, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or any other substantial shareholders whose interests or short positions were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

### Long positions in shares and underlying shares of the Company

Name of shareholder	Number of issued shares	Capacity in which shares are held	Percentage of issued share capital
Almond Global Limited	10,540,000,000 (Note 1)	Beneficial owner	246.95%
Ms. Tung Ching Yee, Helena	11,200,000,000 (Note 2)	Family interest	262.42%

Notes:

- (1) These shares are owned by Almond Global Limited, a company wholly owned by Mr. Pong Wai San, Wilson. The 10,540,000,000 shares held by Almond Global Limited consist of a zero coupon convertible bonds of HK\$4,000,000 which can be converted into 8,000,000,000 shares of the Company during its conversion period of five years from 4 September 2007.
- (2) Ms. Tung Ching Yee, Helena is the wife of Mr. Pong Wai San, Wilson and accordingly deemed to be interested in the shares beneficially owned by Mr. Pong Wai San, Wilson in his own capacity and through his controlled corporation, Almond Global Limited, under SFO.

## MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2007, sales to the Group's four largest customers accounted for 100% of the total sales for the year and sales to the largest customer included therein amounted to 37%.

None of the Directors or any of their associates or any shareholders of the Company (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 2007.

In view of the nature of the Group's business, no major suppliers were noted.



## Directors' Report

For the year ended 31 December 2007

### **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.

### **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.

### **CONNECTED TRANSACTIONS**

There were no significant connected party transactions entered into by the Group for the year ended 31 December 2007.

### **PUBLIC FLOAT**

Based on information publicly available to the Company and within the knowledge of the Directors as at the date of this annual report, the Company has maintained the prescribed public float under the GEM Listing Rules.

### **PRE-EMPTIVE RIGHTS**

There is no provision for pre-emptive rights under the Company's bye-laws, or laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to its existing shareholders.

### **POST BALANCE SHEET EVENTS**

Details of post balance sheet events of the Group are set out in note 29 to the financial statements.

### **AUDITORS**

The Company's auditors, Grant Thornton, would retire at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-appointment. The Company has not changed its auditors in the preceding three years.

On behalf of the Board

**Pang Wai San, Wilson**

*Chairman*

Hong Kong, 17 March 2008

# Corporate Governance Report

## CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions set out in the Code on Corporate Governance Practices (the “Code”) as set out in Appendix 15 of the GEM Listing Rules. The Company has applied the principles in the Code and complied with the code provisions set out in the Code for the year ended 31 December 2007 except for the deviation from code provision A.2.1 regarding the separate roles of chairman and chief executive officer of the Company.

## DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding directors’ securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company had made specific enquiry of all Directors, the Directors have complied with such code of conduct and the required standard of dealings regarding securities transactions throughout the year ended 31 December 2007.

## BOARD OF DIRECTORS AND BOARD MEETING

The Board members for the year ended 31 December 2007 and up to the date of this annual report were:

### Executive Directors

Mr. Chu Yen Ling	(resigned on 19 September 2007)
Mr. Lee Chan Wah	(resigned on 19 September 2007)
Mr. Pong Wai San, Wilson	(appointed on 19 September 2007)
Mr. Lau Wai Shu	(appointed on 19 September 2007)

### Independent non-executive Directors

Dr. Lu Da	(resigned on 19 September 2007)
Mr. Lau Man Yiu	(resigned on 19 September 2007)
Ms. Xue Xiaoyi	(resigned on 19 September 2007)
Mr. Ko Chun Hay, Kelvin	(appointed on 19 September 2007 and resigned on 1 March 2008)
Mr. Lai Hin Wing, Henry	(appointed on 19 September 2007)
Mr. Lung Hung Cheuk	(appointed on 19 September 2007)
Mr. Yip Tai Him	(appointed on 1 March 2008)

The Board is responsible for the Group’s corporate policy formulation, business strategies planning, business development, risk management, major acquisitions, disposals and capital transactions, and other significant operational and financial matters. Major corporate matters that are specifically delegated by the Board to the management include the preparation of annual and interim accounts for Board approval before public reporting, execution of business strategies and initiatives adopted by the Board, implementation of adequate systems of internal controls and risk management procedures, and compliance with relevant statutory requirements and rules and regulations.

Each of the Directors’ biographical information is set out on pages 9 and 10 of this annual report. All executive Directors have given sufficient time and attention to the affairs of the Group and each of them has sufficient experience to hold the position so as to carry out his duties effectively and efficiently.

The Company had appointed three independent non-executive Directors who have appropriate and sufficient experience and qualification to carry out their duties so as to protect the interests of the shareholders of the Company. All of them have been appointed for a term of one year commencing from the date of their appointment.

To the best knowledge of the Company, there is no financial, business, family or other material/relevant relationship among the members of the Board.

# Corporate Governance Report

## **BOARD OF DIRECTORS AND BOARD MEETING** *(Continued)*

### **Directors' Appointment, Re-election and Removal**

Mr. Pong Wai San, Wilson, the executive Director, chief executive officer and chairman of the Company, has not signed any service contract or letter of appointment with the Company.

Mr. Lau Wai Shu, the executive Director, has signed a letter of appointment with the Company commencing from 1 March 2008 and shall continue from such date unless terminate by either party giving not less than two months' notice in writing.

Each of the independent non-executive Directors has signed a letter of appointment with the Company for a term of 1 year. The letters of appointment of both Mr. Lai Hin Wing, Henry and Mr. Lung Hung Cheuk were commencing on 19 September 2007 and expiring on 18 September 2008, and that of Mr. Yip Tai Him was commencing from 1 March 2008 and expiring on 29 February 2009.

In accordance with the Company's bye-laws, any Director so appointed by the Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at that meeting. Also, all Directors are subject to retirement by rotation at least once every three years. The Directors to retire every year shall be those appointed by the Board during the year and those who have been longest in office since their last election or re-election.

### **Independent Non-executive Directors**

Pursuant to the requirements of the GEM Listing Rules 5.09, the Company has received written confirmation from each of the independent non-executive Directors of his independence to the Company. Based on such confirmations of independence, the Company considers all of the independent non-executive Directors to be independent.

### **Board Meetings and Board Practices**

The Board meets four times a year to review the financial and operating performance of the Group.

Details of the attendance of the meetings of the Board are as follows:

<b>Directors</b>	<b>Attendance</b>
Mr. Chu Yen Ling (resigned on 19 September 2007)	3/4
Mr. Lee Chan Wah (resigned on 19 September 2007)	3/4
Dr. Lu Da (resigned on 19 September 2007)	3/4
Mr. Lau Man Yiu (resigned on 19 September 2007)	3/4
Ms. Xue Xiaoyi (resigned on 19 September 2007)	3/4
Mr. Pong Wai San, Wilson (appointed on 19 September 2007)	1/4
Mr. Lau Wai Shu (appointed on 19 September 2007)	1/4
Mr. Ko Chun Hay, Kelvin (appointed on 19 September 2007 and resigned on 1 March 2008)	1/4
Mr. Lai Hin Wing, Henry (appointed on 19 September 2007)	0/4
Mr. Lung Hung Cheuk (appointed on 19 September 2007)	1/4
Mr. Yip Tai Him (appointed on 1 March 2008)	0/4

# Corporate Governance Report

## **BOARD OF DIRECTORS AND BOARD MEETING** *(Continued)*

### **Board Meetings and Board Practices** *(Continued)*

Apart from the above regular Board meetings of the year, the Board will meet on other occasions when a board-level decision on a particular matter is required. The Directors will receive details of agenda items for decision in advance of each Board meeting. The Company Secretary of the Company (the "Company Secretary") is responsible for distributing detailed documents to the Directors prior to the meetings of the Board to ensure that the Directors are able to make informed decisions regarding the matters discussed in the meetings so that they may receive accurate, timely and clear information. All Directors have access to the advice and services of the Company Secretary who regularly updates the Board on governance and regulatory matters. The Company Secretary is also responsible for providing to the Board opinions on matters in relation to the compliance with the procedures of the Board meetings.

### **CHAIRMAN AND CHIEF EXECUTIVE OFFICER**

The roles of the chairman and chief executive officer of the Company have been performed by Mr. Pong Wai San, Wilson, who is also the executive Director. The Board considered that the non-segregation would not result in considerable concentration of power in one person and has the advantage of a strong and consistent leadership which is conducive to making and implementing decisions quickly and consistently. The Board will review the effectiveness of this arrangement from time to time and will consider appointing an individual as the chief executive officer of the Company when it thinks appropriate.

### **NOMINATION COMMITTEE**

The nomination committee of the Company (the "Nomination Committee") was established with written terms of reference in compliance with the code provisions. As at the date of this annual report, it consists of four members, of which majority are independent non-executive Directors, namely Mr. Lau Wai Shu, Mr. Lai Hin Wing, Henry, Mr. Lung Hung Cheuk and Mr. Yip Tai Him, and all were appointed on 1 March 2008. The chairman of the Nomination Committee is Mr. Lung Hung Cheuk.

The roles and functions of the Nomination Committee include nomination of the potential candidates for directorship, reviewing the nomination of the Directors and making recommendations to the Board for ensuring that all nominations are fair and transparent.

Details of the attendance of the meetings of the Nomination Committee are as follows:

<b>Members</b>	<b>Attendance</b>
Mr. Lee Chan Wah (resigned on 19 September 2007)	1/1
Dr. Lu Da (resigned on 19 September 2007)	1/1
Mr. Lau Man Yiu (resigned on 19 September 2007)	1/1
Ms. Xue Xiaoyi (resigned on 19 September 2007)	1/1
Mr. Lau Wai Shu (appointed on 1 March 2008)	0/1
Mr. Lai Hin Wing, Henry (appointed on 1 March 2008)	0/1
Mr. Lung Hung Cheuk (appointed on 1 March 2008)	0/1
Mr. Yip Tai Him (appointed on 1 March 2008)	0/1

# Corporate Governance Report

## REMUNERATION COMMITTEE

The remuneration committee of the Company (the “Remuneration Committee”) was established with written terms of reference in compliance with the code provisions. As at the date of this annual report, the Remuneration Committee consists of five members, of which majority are independent non-executive Directors, namely Mr. Pong Wai San, Wilson, Mr. Lau Wai Shu, Mr. Lai Hin Wing, Henry, Mr. Lung Hung Cheuk and Mr. Yip Tai Him. The chairman of the Remuneration Committee is Mr. Yip Tai Him.

The roles and functions of the Remuneration Committee include the determination of the specific remuneration packages of all executive Directors, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board of the remuneration of all the independent non-executive Directors and the senior management of the Company.

Details of the attendance of the meetings of the Remuneration Committee are as follows:

Members		Attendance
Dr. Lu Da	(resigned on 19 September 2007)	1/1
Mr. Lau Man Yiu	(resigned on 19 September 2007)	1/1
Ms. Xue Xiaoyi	(resigned on 19 September 2007)	1/1
Mr. Ko Chun Hay, Kelvin	(appointed on 19 September 2007 and resigned on 1 March 2008)	0/1
Mr. Pong Wai San, Wilson	(appointed on 19 September 2007)	0/1
Mr. Lau Wai Shu	(appointed on 19 September 2007)	0/1
Mr. Lai Hin Wing, Henry	(appointed on 19 September 2007)	0/1
Mr. Lung Hung Cheuk	(appointed on 19 September 2007)	0/1
Mr. Yip Tai Him	(appointed on 1 March 2008)	0/1

## AUDIT COMMITTEE

The Company established an audit committee (the “Audit Committee”) with written terms of reference in compliance with Rules 5.28 and 5.33 of the GEM Listing Rules and which had been revised on 1 March 2008. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal controls system of the Group, and provide advice and comments on the Company’s draft annual reports and accounts, half year reports and quarterly reports to the Directors. As at the date of this annual report, the Audit Committee comprises three members, Mr. Lai Hin Wing, Henry, Mr. Lung Hung Cheuk and Mr. Yip Tai Him, all of them are independent non-executive Directors. The chairman of the Audit Committee is Mr. Lai Hin Wing, Henry.

The Audit Committee held 4 meetings during the year under review. Details of the attendance of the Audit Committee meetings are as follows:

Members		Attendance
Dr. Lu Da	(resigned on 19 September 2007)	3/4
Mr. Lau Man Yiu	(resigned on 19 September 2007)	3/4
Ms. Xue Xiaoyi	(resigned on 19 September 2007)	3/4
Mr. Ko Chun Hay, Kelvin	(appointed on 19 September 2007 and resigned on 1 March 2008)	1/4
Mr. Lai Hin Wing, Henry	(appointed on 19 September 2007)	0/4
Mr. Lung Hung Cheuk	(appointed on 19 September 2007)	1/4
Mr. Yip Tai Him	(appointed on 1 March 2008)	0/4

# Corporate Governance Report

## **AUDIT COMMITTEE** *(Continued)*

The Group's unaudited quarterly and interim results, also, the audited annual results for the year ended 31 December 2007 have been reviewed by the Audit Committee during the year, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

## **AUDITORS' REMUNERATION**

The Company has appointed Messrs. Grant Thornton as the auditors of the Group (the "Auditors"). The Board is authorised in the annual general meeting of the Company to determine the remuneration of the Auditors. During the year, the Auditors performed the work of statutory audit for the year ended 31 December 2007 and also involved in non-audit assignment of the Group. The remuneration of the Auditors for the year ended 31 December 2007 for the work of statutory audit and non-audit assignment are approximately HK\$260,000 and HK\$63,000, respectively.

## **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

The Directors acknowledge their responsibility for the preparation of the financial statements of the Company. In preparing the financial statements, the generally accepted accounting standards in Hong Kong have been adopted, appropriate accounting policies have been used and applied consistently, and reasonable and prudent judgements and estimates have been made.

The Board is not aware of any material uncertainties relating to the events or conditions which may cast significant doubt over the Group's ability to continue as a going concern. Accordingly, the Board has continued to adopt the on-going concern basis in preparing the financial statements.

The Auditors' responsibilities are set out in the section headed "Independent Auditors' Report".

## **INVESTOR RELATIONS AND SHAREHOLDERS' RIGHT**

The Board recognises the importance of maintaining clear, timely and effective communication with the shareholders of the Company and investors. Therefore, the Company uses a number of formal communication channels to account to the shareholders and investors for the performance of the Company, which include the publication of the reports on the website of the Company, holding of the annual general meeting or extraordinary general meeting providing a forum for shareholders of the Company to raise comments and exchanging views with the Board and updating key information of the Group available on the website of the Company.

# Independent Auditors' Report



**To the members of Global Solution Engineering Limited 環球工程有限公司**

*(continued in Bermuda with limited liability)*

We have audited the consolidated financial statements of Global Solution Engineering Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 23 to 52, which comprise the Company and consolidated balance sheets as at 31 December 2007, 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, in accordance with section 90 of Bermuda Companies Act 1981, 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.

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

## Independent Auditors' Report

### **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 2007 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

17 March 2008



# Consolidated Income Statement

For the year ended 31 December 2007

	Notes	2007 HK\$'000	2006 HK\$'000
<b>Revenue</b>	6	<b>1,417</b>	2,823
Other income	6	<b>66</b>	20
Depreciation		<b>(65)</b>	(66)
Staff costs	13	<b>(1,188)</b>	(1,929)
Other operating expenses		<b>(2,992)</b>	(2,219)
<b>Loss from operations</b>		<b>(2,762)</b>	(1,371)
Finance costs	8	<b>(84)</b>	–
<b>Loss before income tax</b>	9	<b>(2,846)</b>	(1,371)
Income tax expense	10	–	–
<b>Net loss for the year</b>		<b>(2,846)</b>	(1,371)
<b>Loss attributable to the equity holders of the Company</b>	11	<b>(2,846)</b>	(1,371)
<b>Loss per share</b>	12		
– Basic (2006: restated)		<b>HK(0.06) cents</b>	HK(0.03) cents
– Diluted		<b>N/A</b>	N/A

# Consolidated Balance Sheet

As at 31 December 2007

	Notes	2007 HK\$'000	2006 HK\$'000
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment	15	107	217
<b>Current assets</b>			
Other receivables, deposits and prepayments		207	352
Cash and cash equivalents	17	4,858	1,820
		<b>5,065</b>	2,172
<b>Current liabilities</b>			
Accruals and other payables		800	543
		<b>4,265</b>	1,629
<b>Net current assets</b>			
		<b>4,372</b>	1,846
<b>Non-current liabilities</b>			
Amount due to a shareholder company	18	–	1,012
Convertible bonds	19	2,408	–
Deferred tax liabilities	20	293	–
		<b>2,701</b>	1,012
<b>Net assets</b>		<b>1,671</b>	834
<b>EQUITY</b>			
<b>Equity attributable to the equity holders of the Company</b>			
Share capital	21	2,134	6,912
Reserves		(463)	(6,078)
<b>Total equity</b>		<b>1,671</b>	834

**Pong Wai San, Wilson**  
Chairman

**Lau Wai Shu**  
Director

# Balance Sheet

As at 31 December 2007

	Notes	2007 HK\$'000	2006 HK\$'000
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Interests in subsidiaries	16	–	–
<b>Current assets</b>			
Other receivables		116	120
Cash and cash equivalents	17	4,854	1,119
		<b>4,970</b>	1,239
<b>Current liabilities</b>			
Accruals and other payables		502	329
Net current assets		<b>4,468</b>	910
<b>Non-current liabilities</b>			
Convertible bonds	19	2,408	–
Deferred tax liabilities	20	293	–
		<b>2,701</b>	–
<b>Nets assets</b>		<b>1,767</b>	910
<b>EQUITY</b>			
Share capital	21	2,134	6,912
Reserves	23	(367)	(6,002)
<b>Total equity</b>		<b>1,767</b>	910

**Pong Wai San, Wilson**  
Chairman

**Lau Wai Shu**  
Director

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2007

	Equity attributable to equity holders of the Company						
	Share capital HK\$'000	Capital reserve HK\$'000	Share premium HK\$'000	Special reserve HK\$'000	Convertible bonds equity reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2006	5,760	-	14,859	11	-	(20,326)	304
Net loss for the year	-	-	-	-	-	(1,371)	(1,371)
Total recognised income and expense for the year	-	-	-	-	-	(1,371)	(1,371)
Shares issued at premium	1,152	-	749	-	-	-	1,901
At 31 December 2006 and 1 January 2007	6,912	-	15,608	11	-	(21,697)*	834
Net loss for the year	-	-	-	-	-	(2,846)	(2,846)
Total recognised income and expense for the year	-	-	-	-	-	(2,846)	(2,846)
Capital reduction and capital reorganisation (note 21(ii))	(6,048)	-	(15,608)	-	-	21,656	-
Recognition of equity component of convertible bonds	-	-	-	-	1,676	-	1,676
Deferred tax charge to equity	-	-	-	-	(293)	-	(293)
Capital contribution by a shareholder company	-	1,030	-	-	-	-	1,030
Issue of shares	1,270	-	-	-	-	-	1,270
<b>At 31 December 2007</b>	<b>2,134</b>	<b>1,030*</b>	<b>-</b>	<b>11*</b>	<b>1,383*</b>	<b>(2,887)*</b>	<b>1,671</b>

\* The aggregated amount of these balances of HK\$463,000 (2006: HK\$6,078,000) 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 the Group reorganisation in 2002.

# Consolidated Cash Flow Statement

For the year ended 31 December 2007

	Notes	2007 HK\$'000	2006 HK\$'000
<b>Cash flows from operating activities</b>			
Loss before income tax		(2,846)	(1,371)
Adjustments for:			
Interest income	9	(63)	(20)
Interest expenses on convertible bonds	8	84	–
Depreciation	9	65	66
Write off of property, plant and equipment	9	45	–
Operating loss before working capital changes		(2,715)	(1,325)
Decrease in other receivables, deposits and prepayment		145	1,049
Increase/(Decrease) in accruals and other payables		275	(368)
Net cash used in operating activities		(2,295)	(644)
<b>Cash flows from investing activities</b>			
Interest received		63	20
Purchase of property, plant and equipment		–	(11)
Net cash generated from investing activities		63	9
<b>Cash flows from financing activities</b>			
Proceeds from the issue of shares	21(iii)	1,270	1,901
Proceeds from the issue of convertible bonds	19	4,000	–
Net cash generated from financing activities		5,270	1,901
<b>Net increase in cash and cash equivalents</b>		<b>3,038</b>	<b>1,266</b>
<b>Cash and cash equivalents at beginning of the year</b>		<b>1,820</b>	<b>554</b>
<b>Cash and cash equivalents at end of the year</b>		<b>4,858</b>	<b>1,820</b>



# Notes to the Financial Statements

For the year ended 31 December 2007

## 1. NATURE OF OPERATIONS

The principal activity of Global Solution Engineering Limited (“the Company”) is investment holding. The principal activities of the Company and its subsidiaries (collectively referred to as the “Group”) are set out in note 16 to the financial statements.

## 2. GENERAL INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands and continued in Bermuda. The address of the Company’s registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and its principal place of business is Room 1301, 13/F., Park Commercial Centre, 180 Tung Lo Wan Road, Causeway Bay, 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”).

During the year, the Company had changed its domicile from the Cayman Islands to Bermuda by way of de-registration in the Cayman Islands and continuation as an exempted company under the laws of Bermuda. The change of domicile became effective on 31 August 2007.

The financial statements on pages 23 to 52 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 “HKICPA”). 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 GEM of the Stock Exchange (“GEM Listing Rules”).

The financial statements for the year ended 31 December 2007 were approved to publish by the board of directors on 17 March 2008.

## 3. ADOPTION OF NEW OR AMENDED HKFRSs

In the current year, the Group has applied, for the first time, the following new standards, amendment and interpretations issued by the HKICPA, which are relevant to the Group’s operations and effective for the Group’s financial statements beginning on 1 January 2007.

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) – Interpretation 8	Scope of HKFRS 2
HK(IFRIC) – Interpretation 9	Reassessment of Embedded Derivatives
HK(IFRIC) – Interpretation 10	Interim Financial Reporting and Impairment

The adoption of the new or amended HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented but with expanded disclosures on the Group’s capital management policies and the significance, nature and extent of risk relating to the Group’s use of financial instruments. Accordingly, no prior period adjustment is required.

### 3.1 HKAS 1 (Amendment) – Capital Disclosures

In accordance with the HKAS 1 (Amendment) – Capital Disclosures, the Group now reports on its capital management objectives, policies and procedures in each annual financial report. The new disclosures that become necessary due to this change in HKAS 1 are detailed in note 28.

# Notes to the Financial Statements

For the year ended 31 December 2007

### 3. ADOPTION OF NEW OR AMENDED HKFRSs (Continued)

#### 3.2 HKFRS 7 – Financial Instruments: Disclosures

HKFRS 7 – Financial Instruments: Disclosures is mandatory for reporting periods beginning on 1 January 2007 or later. The new standard replaces and amends the disclosure requirements previously set out in HKAS 32 Financial Instruments: Presentation and Disclosures and has been adopted by the Group in its financial statements for the year ended 31 December 2007. All disclosures relating to financial instruments including all comparative information have been updated to reflect the new requirements. In particular, the Group’s financial statements now feature :

- a sensitivity analysis explaining the Group’s market risk exposure in regards to its financial instruments; and
- a maturity analysis that shows the remaining contractual maturities of financial liabilities,

as at the balance sheet date. The first-time application of HKFRS 7, however, has not resulted in any prior-period adjustments on cash flows, net income or balance sheet line items.

#### 3.3 New or amended HKFRSs that have been issued but are not yet effective

The Group has not early adopted the following standards or interpretations that have been issued but are not yet effective. Among these new standards and interpretations, HKAS 1 (revised) is expected to be relevant to the Group’s financial statements. The directors of the Company is currently assessing the impact the other new standards, and or interpretations but are not yet in a position to state whether they would have material financial impact on the Group’s financial statements.

HKAS 1 (Revised)	“Presentation of Financial Statements” <sup>1</sup>
HKAS 23 (Revised)	“Borrowing Costs” <sup>1</sup>
HKFRS 8	“Operating Segments” <sup>1</sup>
HK(IFRIC) – Interpretation 11	“Group and Treasury Share Transactions” <sup>2</sup>
HK(IFRIC) – Interpretation 12	“Service Concession Arrangements” <sup>3</sup>
HK(IFRIC) – Interpretation 13	“Customer Loyalty Programmes” <sup>4</sup>
HK(IFRIC) – Interpretation 14	“HKAS 19 – The Limit on Defined Benefit Asset, Minimum Funding Requirements and their Interaction” <sup>3</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2009

<sup>2</sup> Effective for annual periods beginning on or after 1 March 2007

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2008

<sup>4</sup> Effective for annual periods beginning on or after 1 July 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. These policies have been consistently applied to all years presented unless otherwise stated.

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 preparing these financial statements. Although these estimates are based on management’s best knowledge and judgements of current events and actions, actual results may ultimately differ from those estimates. The areas involving a high degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 5.

# Notes to the Financial Statements

For the year ended 31 December 2007

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

### (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.

### (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 carrying amount of the investment is reduced to its recoverable amount on an individual basis. 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 consolidated 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.

### (e) Revenue recognition

Revenue comprises the fair value for the rendering of services. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised as follow:

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.



# Notes to the Financial Statements

For the year ended 31 December 2007

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

### (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 rate of 20% per annum.

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.

### (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.

# Notes to the Financial Statements

For the year ended 31 December 2007

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

### (h) Leases (Continued)

#### *Operating lease charges as the lessee*

Where the Group has the right to use 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.

### (i) Financial assets

The Group's financial assets include other receivables.

Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at every reporting date.

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. When financial assets are recognised initially, they are measured at fair value, plus any directly attributable transaction costs.

Derecognition of financial assets occurs when the rights to receive cash flows from the financial assets expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. At each balance sheet date, financial assets are reviewed to assess whether there is objective evidence of impairment. If any such evidence exists, impairment loss is determined and recognised based on the classification of asset.

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less impairment losses. Any changes in their value are recognised in the income statement.

#### *Impairment of financial assets*

At each balance sheet date, financial assets other than at fair value through profit or loss are reviewed to determine whether there is any objective evidence of impairment. Significant financial difficulties of the debtor, probability that the debtor will bankruptcy or financial reorganization are considered indicators that the trade receivable is impaired.

If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognized in profit or loss of the period in which the impairment occurs.

If, in subsequent period, the amount of the impairment loss decrease and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not recognized in profit or loss of the period in which the reversal occurs.



# Notes to the Financial Statements

For the year ended 31 December 2007

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

### (j) Income tax

Income tax comprises current and deferred tax.

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

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

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

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

### (k) Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand as well as short term bank deposits with original maturities of three months or less.

### (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.

# Notes to the Financial Statements

For the year ended 31 December 2007

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

### (m) Related parties

Parties are considered to be related to the Group if:

- (i) directly, or indirectly through one or more intermediaries, the party:
  - controls, is controlled by, or is under common control with, the Company/Group;
  - has an interest in the Company/Group that gives it significant influence over the Company/Group; or
  - has joint control over the Company/Group;
- (ii) the party is a jointly-controlled entity;
- (iii) the party is an associate of the Company/Group;
- (iv) the party is a member of the key management personnel of the Company/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 Company/Group, or of any entity that is a related party of the Company/Group.

### (n) Retirement benefit costs and short term employee benefits

Retirement benefits to employees are provided through a defined contribution plan.

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

### (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.

# Notes to the Financial Statements

For the year ended 31 December 2007

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

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

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.

### (p) Financial liabilities

The Group's financial liabilities include other payables and convertible bonds. They are included in balance sheet items as "Accruals and other payables" and "Convertible bonds".

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 finance costs in the income statement.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in the income statement.

#### **Convertible bonds that contain an equity component**

Convertible bonds that can be converted to equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component.

Convertible bonds issued by the Company that contain both financial liability and equity components are classified separately into respective liability and equity components on initial recognition. On initial recognition, the fair value of the liability component is determined using the prevailing market interest rate for similar non-convertible debts. The difference between the proceeds of the issue of the convertible bonds and the fair value assigned to the liability component, representing the call option for conversion of the bonds into equity, is included in equity as convertible bonds equity reserve.

The liability component is subsequently carried at amortised cost using the effective interest method. The equity component will remain in equity until conversion or redemption of the bonds.

When the bonds are converted, the convertible bonds equity reserve and the carrying value of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the bonds are redeemed, the convertible bonds equity reserve is released directly to accumulated losses.

# Notes to the Financial Statements

For the year ended 31 December 2007

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

### (p) Financial liabilities (Continued)

#### Other payables

Other payables are recognised initially at their 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 under the circumstances.

### Critical accounting estimates and assumptions

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

### Valuation of convertible bonds

On initial recognition date, the fair value of the liability component of the convertible bonds that are not traded in an active market is determined by using discounted cash flow method. The Group uses its judgement to make assumptions that are mainly based on market conditions existing at the issue date. Details of key assumptions are disclosed in note 19.

## 6. REVENUE AND OTHER INCOME

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. Revenue and other income recognised during the year are as follows:

	2007 HK\$'000	2006 HK\$'000
<b>Revenue</b>		
Service income	1,417	2,823
<b>Other income</b>		
Net exchange gain	3	-
Interest income on the financial assets stated at amortised cost	63	20
	66	20

## Notes to the Financial Statements

For the year ended 31 December 2007

### 7. BUSINESS AND GEOGRAPHICAL SEGMENTS

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

Analysis of the Group's turnover as well as analysis of the carrying amount of segment assets and capital expenditures by geographical market have not been presented as the Group's turnover and results are substantially generated from the PRC, and the Group's assets and capital expenditures are situated in Hong Kong.

### 8. FINANCE COSTS

	2007 HK\$'000	2006 HK\$'000
Interest expenses on convertible bonds carried at amortised cost	84	–

### 9. LOSS BEFORE INCOME TAX

	2007 HK\$'000	2006 HK\$'000
Loss before income tax is arrived at after charging/(crediting):		
Auditors' remuneration	260	250
Depreciation	65	66
Net exchange (gain)/loss	(3)	7
Operating lease rentals in respect of land and buildings	601	362
Write off of property, plant and equipment	45	–

## Notes to the Financial Statements

For the year ended 31 December 2007

### 10. INCOME TAX EXPENSE

No provision for income tax has been made in the financial statements as the Group had no assessable profits for the year (2006: Nil).

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

	2007 HK\$'000	2006 HK\$'000
Loss before income tax	<b>(2,846)</b>	(1,371)
Tax at applicable rate of 17.5% (2006: 17.5%)	<b>(498)</b>	(240)
Tax effect of non-deductible expenses	<b>393</b>	259
Tax effect of non-taxable income	<b>(11)</b>	(12)
Tax effect of temporary differences not recognised	<b>8</b>	10
Tax effect of unused tax losses not recognised	<b>108</b>	–
Tax effect of utilisation of tax losses	–	(17)
<b>Total income tax expense</b>	<b>–</b>	–

### 11. LOSS ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY

Of the consolidated net loss for the year of HK\$2,846,000 (2006: HK\$1,371,000), a loss of HK\$2,826,000 (2006: HK\$1,001,000) 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\$2,846,000 (2006: HK\$1,371,000) and on the weighted average number of 5,009,202,014 ordinary shares (2006: 4,073,310,197 ordinary shares, as restated) in issue during the year after adjusting for the effects of the issuance of new shares and the share subdivision, details of which are set out in note 21 to the financial statements. The comparative figure of basic loss per share for the year ended 31 December 2006 had been re-calculated to reflect the share subdivision occurred during the year.

No diluted result per share has been presented because the potential ordinary shares had anti-dilutive effect for the year ended 31 December 2007.

No diluted result per share has been presented because there is no dilutive potential share for the year ended 31 December 2006.

On 4 February 2008, 1,200,000,000 shares were issued on the partial conversion of the convertible bonds. Details of this conversion are in note 29(a).

### 13. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	2007 HK\$'000	2006 HK\$'000
Wages and salaries	<b>1,115</b>	1,964
Retirement benefits scheme contributions*	<b>41</b>	(73)*
Staff benefits	<b>32</b>	38
	<b>1,188</b>	1,929

\* During the year ended 31 December 2006, 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 2007

## 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
<b>2007</b>					
<i>Executive directors:</i>					
Mr. Pong Wai San, Wilson <sup>1</sup>	-	-	-	-	-
Mr. Lau Wai Shu <sup>1</sup>	-	-	-	-	-
Mr. Chu Yen Ling <sup>2</sup>	-	-	-	-	-
Mr. Lee Chan Wah <sup>2</sup>	-	394	-	14	408
	-	394	-	14	408
<i>Independent non-executive directors:</i>					
Mr. Lai Hin Wing, Henry <sup>3</sup>	15	-	-	-	15
Mr. Ko Chun Hay, Kelvin <sup>3</sup>	15	-	-	-	15
Mr. Lung Hung Cheuk <sup>3</sup>	15	-	-	-	15
Dr. Lu Da <sup>4</sup>	17	-	-	-	17
Mr. Lau Man Yiu <sup>4</sup>	43	-	-	-	43
Ms. Xue Xiaoyi <sup>4</sup>	43	-	-	-	43
	148	-	-	-	148
	148	394	-	14	556
<b>2006</b>					
<i>Executive directors:</i>					
Mr. Chu Yen Ling <sup>2</sup>	-	200	-	-	200
Mr. Lee Chan Wah <sup>2</sup>	-	474	45	19	538
	-	674	45	19	738
<i>Independent non-executive directors:</i>					
Dr. Lu Da <sup>4</sup>	24	-	-	-	24
Mr. Lau Man Yiu <sup>4</sup>	60	-	-	-	60
Ms. Xue Xiaoyi <sup>4</sup>	60	-	-	-	60
	144	-	-	-	144
	144	674	45	19	882

# Notes to the Financial Statements

For the year ended 31 December 2007

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

### (a) Directors' emoluments (Continued)

- 1 The executive directors, Mr. Pong Wai San, Wilson and Mr. Lau Wai Shu, were newly appointed on 19 September 2007.
- 2 The executive directors, Mr. Chu Yen Ling and Mr. Lee Chan Wah, resigned on 19 September 2007.
- 3 The independent non-executive directors, Mr. Lai Hin Wing, Henry, Mr. Ko Chun Hay, Kelvin and Mr. Lung Hung Cheuk, were appointed on 19 September 2007. On 1 March 2008, Mr. Ko Chun Hay, Kelvin was resigned and Mr. Yip Tai Him was appointed.
- 4 The independent non-executive directors, Dr. Lu Da, Mr. Lau Man Yiu and Ms. Xue Xiaoyi, resigned on 19 September 2007.

### (b) Five highest paid individuals

The five highest paid individuals during the year included three (2006: two) directors, whose emoluments are set out above. The details of the emoluments of the remaining two (2006: three) highest paid individuals are as follows:

	2007 HK\$'000	2006 HK\$'000
Basic salaries and allowances	539	664
Retirement benefits scheme contributions	25	34
	<b>564</b>	<b>698</b>

None of the above two (2006: three) highest paid individuals received individual emoluments in excess of HK\$1 million.

During each of the two years ended 31 December 2007 and 2006, 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 2007 and 2006, except Mr. Chu Yen Ling, who has agreed to unconditionally waive his rights to receive the outstanding director's remuneration due for the period from 1 January 2007 to 18 September 2007 in accordance with the service agreement.

## Notes to the Financial Statements

For the year ended 31 December 2007

### 15. PROPERTY, PLANT AND EQUIPMENT

#### The Group

	<b>Furniture, fixtures and equipment</b>
	HK\$'000
<hr/>	
At 31 December 2005	
Cost	322
Accumulated depreciation	(50)
<hr/>	
Net book amount	272
<hr/>	
Year ended 31 December 2006	
Opening net book amount	272
Additions	11
Depreciation	(66)
<hr/>	
Closing net book amount	217
<hr/>	
At 31 December 2006	
Cost	333
Accumulated depreciation	(116)
<hr/>	
Net book amount	217
<hr/>	
Year ended 31 December 2007	
Opening net book amount	217
Disposal	(45)
Depreciation	(65)
<hr/>	
Closing net book amount	107
<hr/>	
At 31 December 2007	
Cost	<b>222</b>
Accumulated depreciation	<b>(115)</b>
<hr/>	
Net book amount	<b>107</b>
<hr/>	

# Notes to the Financial Statements

For the year ended 31 December 2007

## 16. INTERESTS IN SUBSIDIARIES

	The Company	
	2007 HK\$'000	2006 HK\$'000
Unlisted shares, at cost	10	10
Less: Impairment	(10)	(10)
	-	-
Amounts due from subsidiaries	5,725	4,982
Less: Provision for amounts due from subsidiaries	(5,725)	(4,982)
	-	-

The amounts due from subsidiaries are unsecured, interest-free and not repayable within twelve months from 31 December 2007.

Details of the Company's subsidiaries at 31 December 2007 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
New Goal Plus Limited (Formerly known as 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
Global Solution Engineering (HK) Limited (Formerly known as Goal Plus Limited)*	Hong Kong, limited liability company	1 ordinary share of HK\$1	100%	Dormant
Ally Champ 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.

\* Subsidiaries newly set up during the year.

# Notes to the Financial Statements

For the year ended 31 December 2007

## 17. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Cash at bank and in hand	4,858	1,820	4,854	1,119

The effective interest rates of the bank balances of the Group and the Company ranged from 2.1% to 5.3% (2006: 2.5% to 2.75%) per annum.

## 18. AMOUNT DUE TO A SHAREHOLDER COMPANY

The amount due was 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.

## 19. CONVERTIBLE BONDS

	The Group and the Company	
	2007 HK\$'000	2006 HK\$'000
Convertible bonds	2,408	–

The convertible bonds were issued by the Company on 4 September 2007. The bonds are convertible into ordinary shares of the Company at any time between the date of issue of the bonds and their settlement date. The bonds can be converted into approximately 8,000,000,000 ordinary shares of HK\$0.0005 each.

If the bonds have not been converted, they will be redeemed on 4 September 2012 at par. The convertible bonds do not bear any interests.

The fair value of the liability component, included in the convertible bonds, was calculated using a market interest rate for an equivalent non-convertible bond. The excess of consideration received on issue of convertible bond over the fair value of liability component, representing the value of the equity conversion component, is included in shareholders' equity in convertible bonds equity reserve, net of deferred taxes.

The carrying amount of the convertible bonds is denominated in Hong Kong dollars which is the functional currency of the Company.

# Notes to the Financial Statements

For the year ended 31 December 2007

## 19. CONVERTIBLE BONDS (Continued)

### Group and Company (Continued)

The convertible bonds recognised in the balance sheet are calculated as follows:

	2007 HK\$'000	2006 HK\$'000
Proceeds of issue	4,000	–
Equity component	(1,676)	–
Liability component on initial recognition	2,324	–
Imputed interest expenses	84	–
Liability component at 31 December	<b>2,408</b>	–

Interest expenses of HK\$84,000 has been recognised in the income statement, using the effective interest method by applying the effective interest rate of 11.473% per annum to the liability component.

## 20. DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liabilities method using a principal taxation rate of 17.5%.

### Recognised deferred tax liabilities

	The Group and the Company	
	2007 HK\$'000	2006 HK\$'000
Convertible bonds	293	–
Net deferred tax liabilities	<b>293</b>	–

The movement in the deferred tax liabilities is as follow:

	The Group and the Company	
	2007 HK\$'000	2006 HK\$'000
At 1 January	–	–
Charged to equity	293	–
At 31 December	<b>293</b>	–

# Notes to the Financial Statements

For the year ended 31 December 2007

## 20. DEFERRED TAXATION (Continued)

### Unrecognised deferred tax assets

As at 31 December 2007, the Group and the Company had unutilised tax losses of HK\$9,462,000 (2006: HK\$8,846,000) and HK\$3,784,000 (2006: HK\$3,784,000) respectively available for offsetting against future profits. No deferred tax asset has been recognised in respect of the tax losses due to unpredictability of future profit streams. These tax losses can be carried forward indefinitely.

## 21. SHARE CAPITAL

	2007		2006	
	Number of shares '000	HK\$'000	Number of shares '000	HK\$'000
<i>Authorised:</i>				
Ordinary shares of HK\$0.08 (2006: HK\$0.01) each at beginning of year	250,000	20,000	2,000,000	20,000
Share consolidation (Note (i))	–	–	(1,750,000)	–
Capital reduction and capital reorganisation (Note (ii))	1,750,000	–	–	–
Share subdivision (Note (iv))	38,000,000	–	–	–
Ordinary shares of HK\$0.0005 (2006 : HK\$0.08) each at end of year	40,000,000	20,000	250,000	20,000
<i>Issued and fully paid:</i>				
Ordinary shares of HK\$0.08 (2006: HK\$0.01) each at beginning of year	86,400	6,912	576,000	5,760
Share consolidation (Note (i))	–	–	(604,800)	–
Capital reduction and capital reorganisation (Note (ii))	–	(6,048)	–	–
Issue of shares (Note (iii))	127,000	1,270	115,200	1,152
Share subdivision (Note (iv))	4,054,600	–	–	–
Ordinary shares of HK\$0.0005 (2006 : HK\$0.08) each at end of year	4,268,000	2,134	86,400	6,912

Notes:

### (i) 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.

# Notes to the Financial Statements

For the year ended 31 December 2007

## 21. SHARE CAPITAL (Continued)

Notes: (Continued)

### (ii) Capital reduction and capital reorganisation

Pursuant to a special resolution passed on 17 August 2007, a capital reduction on the basis that the nominal value of each of the issued share was reduced from HK\$0.08 each by cancelling the paid-up capital to the extent of HK\$0.07 on each issued share and the existing issued share capital of HK\$6,912,000 was reduced by HK\$6,048,000 to HK\$864,000 comprising 86,400,000 new shares of HK\$0.01 each with effect from 31 August 2007. As a result of the above capital reduction, the share premium account was cancelled and the credit arising from such cancellation was credited to the contributed surplus of the Company which was used to eliminate the accumulated losses of the Company. Upon the completion of the capital reduction, a share subdivision for each of the authorised but unissued share on the basis being subdivided into 8 subdivided shares of HK\$0.01 each was carried out. The authorised share capital of the Company remained at HK\$20,000,000, but was divided into 2,000,000,000 shares of HK\$0.01 each.

### (iii) Issue of shares

The Company entered into a subscription agreement (the "Share Subscription Agreement") with Almond Global Limited on 25 June 2007. Pursuant to the Subscription Agreement, the Company issued a total of 127,000,000 subscription shares at subscription price of HK\$0.01 each. The issued share capital of the Company was thus increased from HK\$864,000 to HK\$2,134,000 as enlarged by the allotment and issue of the subscription shares with effect from 4 September 2007. The Company intended to apply the proceeds raised as general working capital for the Group.

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.

### (iv) Share subdivision

Pursuant to an ordinary resolution passed on 20 December 2007, a share subdivision with effect from 21 December 2007 on the basis that each share of HK\$0.01 in the issued and unissued share capital of the Company being subdivided into 20 subdivided shares of HK\$0.0005 each was carried out. The authorised share capital of the Company remained at HK\$20,000,000, but was divided into 40,000,000,000 shares of HK\$0.0005 each. The subdivided shares rank pari passu in all respects with each other and the share subdivision did not result in any change in the relative rights of the shareholders.



# Notes to the Financial Statements

For the year ended 31 December 2007

## 22. 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 1,152,000,000 shares after the Company's Share subdivision in December 2007), 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.

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 2007 and 2006.

# Notes to the Financial Statements

For the year ended 31 December 2007

## 23. RESERVES

### The Company

	Share premium HK\$'000	Capital reserves HK\$'000	Contributed surplus HK\$'000	Convertible bonds equity reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2006	14,859	-	742	-	(21,351)	(5,750)
Net loss for the year	-	-	-	-	(1,001)	(1,001)
Shares issued at premium	749	-	-	-	-	749
At 31 December 2006 and 1 January 2007	15,608	-	742	-	(22,352)	(6,002)
Net loss for the year	-	-	-	-	(2,826)	(2,826)
Capital reduction	(15,608)	-	-	-	21,656	6,048
Recognition of equity component of convertible bonds	-	-	-	1,676	-	1,676
Deferred tax charge to equity	-	-	-	(293)	-	(293)
Capital contribution by a shareholder company	-	1,030	-	-	-	1,030
<b>At 31 December 2007</b>	<b>-</b>	<b>1,030</b>	<b>742</b>	<b>1,383</b>	<b>(3,522)</b>	<b>(367)</b>

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

## 24. OPERATING LEASE COMMITMENTS

As at 31 December 2007, 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	
	2007 HK\$'000	2006 HK\$'000
Within one year	207	362
In the second to fifth year inclusive	197	-
	<b>404</b>	<b>362</b>

The Group leases an office premise under an operating lease. The lease runs for an initial period of two years with 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 2007

## 25. 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.

## 26. 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 18 to the financial statements, details of other related party transactions during the year ended 31 December 2007 are disclosed as follows:

	2007 HK\$'000	2006 HK\$'000
<i>Compensation of key management personnel:</i>		
<b>Total remuneration of directors and other members of key management during the year</b>	<b>556</b>	<b>1,147</b>

## 27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to market risk through its use of financial instruments and specifically to currency risk, interest rate risk, liquidity risk and credit risk, which result from both its operating and investing activities. The Group does not have written risk management policies and guidelines. However, the board of directors closely monitors and focuses on actively securing the Group's short to medium term cash flows by minimising the exposure to financial markets.

The Group does not actively in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Group is exposed to are described below.

### (i) Interest rate risk

The Group's exposure to changes in interest rates relates mainly to cash and cash equivalents which earn interest at floating rates. However, the Directors are of the opinion that the sensitivity of the Group's result for year to the reasonably possible change in interest rate in the coming twelve months is low.

### (ii) Foreign currency risk

The Group is exposed to foreign currency risk arising from currency exposures to United States Dollars ("US\$"). All the Group's revenue is derived in both HK\$ and US\$, as HK\$ is pegged to US\$, and thus foreign exchange exposure is considered as minimal.

### (iii) Credit risks

Credit risk arises from the possibility that the counterparty to a transaction is unwilling or unable to fulfil its obligation which results in financial loss. The carrying amounts of cash and cash equivalents, and other current assets except for deposits and prepayments included in the balance sheet represent the Group's maximum exposure to credit risk in relation to its financial assets.

# Notes to the Financial Statements

For the year ended 31 December 2007

## 27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### (iv) Liquidity risk

The Group manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash-outflows due in day-to-day business. Liquidity needs are monitored on a day-to-day basis. Long-term liquidity needs for a 360-day lookout period are identified monthly.

The Group maintains mainly cash to meet its liquidity requirements for up to 30-day periods. Funding for long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities.

As at 31 December 2007, the Group's financial liabilities with contractual maturities are the convertible bonds of principal amount of HK\$4,000,000 (2006 : Nil). Unless previously converted, the Group shall repay 100% of principal amount of the outstanding convertible bonds to the holder of the convertible bonds on 4 September 2012.

### (v) Summary of financial assets and liabilities by category

The carrying amounts of the Group's and the Company's financial assets and liabilities as recognised at 31 December 2007 and 2006 may be categorised as follows. See notes 4(i) and 4(p) for explanations about how the category of financial instruments affects their subsequent measurement.

#### (i) Financial assets

	Group		Company	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Cash and cash equivalents	4,858	1,820	4,858	1,119
Loans and receivables:				
Other receivables	4	–	4	–
	<b>4,862</b>	1,820	<b>4,862</b>	1,119

#### (ii) Financial liabilities:

Financial liabilities at amortised cost:

	Group		Company	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Current liabilities:				
Other payables	540	293	–	–
Non-current liabilities:				
Amount due to a shareholder company	–	1,012	–	–
Convertible bonds	2,408	–	2,408	–
	<b>2,948</b>	1,305	<b>2,408</b>	–

# Notes to the Financial Statements

For the year ended 31 December 2007

## 28. CAPITAL MANAGEMENT

The Group's capital management objectives are:

- (i) to ensure the Group's ability to continue as a going concern;
- (ii) to provide an adequate return to the equity holders of the Company;
- (iii) to support the Group's sustainable growth; and
- (iv) to provide capital for the purpose of potential mergers and acquisitions.

The Group sets the amount of equity capital in proportion to its overall financing structure. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to equity holders of the Company, return capital to equity holders of the Company, issue new shares, or sell assets to reduce debt.

Management regards total equity and convertible bonds presented below as capital, for capital management purpose.

	2007 HK\$'000	2006 HK\$'000
Convertible bonds	2,408	–
Total equity	1,671	834
	<b>4,079</b>	834

## 29. POST BALANCE SHEET EVENTS

- (a) On 4 February 2008, the Company announced that a conversion notice for the partial conversion of the convertible bonds issued and as a result of which the Company has issued a total of 1,200,000,000 at a conversion price of HK\$0.0005 per conversion share, according to the terms and conditions of the bonds.

The new shares rank pari passu in all respects with the existing shares of the Company in issue. Following the issue of these new shares, the number of issued and paid-up ordinary shares of the Company would be 5,468,000,000. The outstanding principal amount of the convertible bonds after this conversion is HK\$3,400,000.

- (b) On 6 March 2008, Dragon Vision Group Limited ("Dragon Vision"), a wholly-owned subsidiary of the Company incorporated on 6 February 2008, had entered into a legally binding Letter of Intent with an independent third party (the "Vendor"), pursuant to which Dragon Vision may acquire from the Vendor the entire issued share capital of Sanxia International Energy Investments Limited ("Sanxia International") (the "Proposed Acquisition") with total consideration amounted to HK\$134 million.

Sanxia International currently holds 30% equity interest in Shanxi Tongyu Coalbed Methane Transportation Limited ("Shanxi Tongyu"). Shanxi Tongyu is principally engaged in the construction and operation of 端氏—晉城—博愛煤層氣輸氣管道 (Duanshi to Jincheng to Boai Coalbed Methane Transportation Pipeline), a pipeline to be constructed for the transportation of coalbed methane from Shanxi Province to Henan Province, the PRC.

## Notes to the Financial Statements

For the year ended 31 December 2007

### 29. POST BALANCE SHEET EVENTS (Continued)

Upon signing of the Letter of Intent, Dragon Vision paid to an escrow agent, who was jointly appointed by Dragon Vision and the Vendor, a sum of HK\$1,000,000 (the "Earnest Money"). The Earnest Money will be retained by the escrow agent in an interest-bearing account subject to and in accordance with the terms of a separate escrow agreement of the same date of the Letter of Intent entered into between the escrow agent, the Vendor and Dragon Vision.

If formal agreement is not agreed by the parties and executed before the expiry date of the Letter of Intent, the Earnest Money shall be refunded (together with any interest thereon) in full to Dragon Vision forthwith. Otherwise, it shall be applied (together with any interest thereon) as part of cash consideration of the formal agreement.