

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2002

1) PRINCIPAL ACCOUNTING POLICIES

a) *Statement of compliance*

These financial statements have been prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. A summary of the significant accounting policies adopted by the Company is set out below.

b) *Basis of preparation of the financial statements and consolidation*

The measurement basis used in the preparation of the financial statements is historical cost as modified by the revaluation of certain properties and investment in securities, and in accordance with accounting principles generally accepted in Hong Kong.

The consolidated financial statements incorporate the financial statements of the Company and all its subsidiaries made up to 31 March 2002. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal respectively. All significant intercompany transactions and balances within the group are eliminated on consolidation.

c) *Goodwill on consolidation*

Goodwill arising on consolidation of subsidiaries and on acquisition of associates represents the excess of the purchase consideration over the fair values ascribed to the net assets of subsidiaries and associates acquired and is written off to the income statement in the year of acquisition.

d) *Subsidiary companies*

Subsidiary companies are those in which the Company, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors.

Investments in subsidiaries in the Company's balance sheet are stated at cost less any provisions for diminution in value which is other than temporary as determined by the directors for each subsidiary individually. Any such provisions are recognised as an expense in the income statement.

NOTES TO THE FINANCIAL STATEMENTS

(Cont'd) For the year ended 31 March 2002

1) PRINCIPAL ACCOUNTING POLICIES (Cont'd)

e) Fixed assets

All fixed assets are stated at cost or valuation, being fair value at the date of revaluation, less accumulated depreciation or amortization and any impairment losses. Depreciation is calculated to write off the cost of fixed assets at an annual rate on a straight line basis over their estimated useful lives as follows:

Land held on short and medium-term leases	:	Over the remaining leases terms
Buildings and improvements	:	Over the remaining leases terms or expected useful lives to the Group whichever is shorter
Office equipment, furniture & fixtures and motor vehicles	:	7% to 20%
Computer equipment	:	25%

Major costs incurred in restoring fixed assets to their normal working condition are charged to the income statement. Improvements are capitalized and depreciated over the estimated useful lives to the Group.

The carrying amounts of fixed assets are reviewed regularly to assess whether their recoverable amounts have declined below their carrying amounts. When such a decline has occurred, their carrying amount is reduced to their recoverable amount. Recoverable amount is the amount which the Group expects to recover from the future use of the assets, including its residual value on disposal.

The gain or loss on disposal of fixed assets other than investment properties is the difference between the net sales proceeds and the carrying amount of the relevant assets and is recognized in the income statement. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained profits and is shown as a movement in reserves.

f) Reliance on paragraph 80 of Statement of Standard Accounting Practice No. 17

Effective from 1 April 1995 no further revaluation of the Group's fixed assets has been carried out. The group places reliance on paragraph 80 of Statement of Standard Accounting Practice No. 17 which provides exemption from the need to make regular revaluation of such assets.

NOTES TO THE FINANCIAL STATEMENTS

(Cont'd) For the year ended 31 March 2002

1) PRINCIPAL ACCOUNTING POLICIES (Cont'd)

g) *Investment securities*

Investment securities which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

h) *Other investments in securities*

Other investments in securities are stated at fair value in the balance sheet. Realized and unrealized holding gains and losses for other investments in securities are included in net profit or loss for the year.

i) *Inventories*

Inventories are stated at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis and includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

j) *Research and development*

Research and development costs are charged to income statement as incurred, except that development costs are capitalized and amortized on a straight-line basis over the period of expected future benefits where it is expected that the product under development will be profitable and will be produced, and technical feasibility has been demonstrated. The deferred costs are written off over five years.

k) *Operating leases*

Rental income and expenses applicable to operating leases, under which substantially all the rewards and risks of ownership of assets remain with the lessor are credited or charged to the income statement on a straight line basis over the term of the respective leases.

NOTES TO THE FINANCIAL STATEMENTS

(Cont'd) For the year ended 31 March 2002

1) PRINCIPAL ACCOUNTING POLICIES (Cont'd)

l) Translations of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date.

Profits and losses arising on exchange are dealt with in the income statement.

m) Deferred taxation

Provision for deferred taxation is calculated using the liability method for all significant timing differences to extent that there is a reasonable probability that these will be subject to reversal within the foreseeable future.

Deferred tax net debit balances are not carried forward as assets, except to the extent that they are expected to be recoverable without replacement by equivalent debit balances and it is justified to treat them as assets.

n) Borrowing costs

Borrowing costs are expensed in the income statement in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

o) Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

p) Cash equivalents

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which were within three months of maturity when acquired. For the purposes of the cash flow statement, cash equivalents would also include advances from banks repayable within three months from the date of the advance.

NOTES TO THE FINANCIAL STATEMENTS

(Cont'd) For the year ended 31 March 2002

1) PRINCIPAL ACCOUNTING POLICIES (Cont'd)

q) *Retirement benefit cost*

The Group contributes to defined contribution retirement benefit schemes which are available to employees. The assets of the schemes are held separately from those of the Group in independently administered funds. The Group's contributions to these schemes are expensed as incurred.

r) *Recognition of revenue*

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following basis:

- (a) on the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Company maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) on the rendering of services, based on the stage of completion of the transaction, provided that this and the costs incurred as well as the estimated costs to completion can be measured reliably;
- (c) interest, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;
- (d) dividends, when the right to receive payments is established; and
- (e) rental income, on a straight-line basis over the lease terms.

NOTES TO THE FINANCIAL STATEMENTS

(Cont'd) For the year ended 31 March 2002

2) TURNOVER AND OTHER REVENUE

The Company is principally engaged in the investment holding. Principal activities of subsidiaries are set out in note 11.

An analysis of turnover and other revenue is as follows:

	2002 HK\$'000	2001 HK\$'000
Turnover		
Sale of computer-aided-design systems and machinery	2,238	13,067
Rental income	1,835	–
	<u>4,073</u>	<u>13,067</u>
Other revenue		
Gain on disposal of other investments in securities	2,864	–
Gain on disposal of fixed assets	40	–
Dividend income	–	3
Unrealised gains on revaluation of other investments in securities at fair value	800	–
Rental income	–	96
Interest income	132	305
Other income	188	274
	<u>4,024</u>	<u>678</u>

NOTES TO THE FINANCIAL STATEMENTS

(Cont'd) For the year ended 31 March 2002

3) NET LOSS BEFORE TAXATION

Net loss before taxation is arrived at after charging and crediting the following:

	2002 HK\$'000	2001 HK\$'000
Charging:		
Audit fee	200	200
Depreciation	1,190	1,781
Amortization of deferred development cost	926	689
Loss on disposal of fixed assets	173	713
Bad debts written off	1,120	1,852
Operating lease rental for land & buildings	833	736
Borrowing costs recognized as expenses	96	254
Staff costs		
– salaries and other benefits	1,911	6,881
– pension contributions	36	12
	1,947	6,893
Cost of inventories	3,333	5,620
Exchange loss	92	1,042
Loss on disposal and dissolution of subsidiaries	612	–
Crediting:		
Dividend income	–	3
Interest income	132	305
Rental income	–	96
Unrealised gain on revaluation of other investments in securities at fair value	800	–
Gain on disposal of subsidiaries	–	2,495
Other income	188	274
Gain on disposal of other investments in securities	2,864	–
Gain on disposal of fixed assets	39	–
	<u>39</u>	<u>–</u>

4) SEGMENT INFORMATION

The Group is principally engaged in sale of computer-aided-designed systems and machinery and property investment. In accordance with the Group's internal financial reporting and operating activities, the primary reporting is by business segments and the secondary reporting is by geographical segments.

NOTES TO THE FINANCIAL STATEMENTS

(Cont'd) For the year ended 31 March 2002

4) SEGMENT INFORMATION (Cont'd)

Business segments

A summary of business segments is set out as follows:

For the year ended 31 March 2002

	Property investment HK\$'000	Sale of computer- aided-design- systems and machinery HK\$'000	Consolidated HK\$'000
Turnover	<u>1,835</u>	<u>2,238</u>	<u>4,073</u>
Operating profit/(loss)	<u>1,293</u>	<u>(1,843)</u>	(550)
Unallocated expenses			<u>(5,901)</u>
Loss from operations			(6,451)
Loss on disposal of subsidiaries			(612)
Finance costs			<u>(96)</u>
Net loss attributable to shareholders			<u>(7,159)</u>
ASSETS			
Segment assets	31,344	7,912	39,256
Unallocated assets			160,338
Total assets			<u>199,594</u>
LIABILITIES			
Segment liabilities	356	114	470
Unallocated liabilities			804
Total liabilities			<u>1,274</u>
OTHER INFORMATION			
Depreciation	84		84
Unallocated depreciation			1,106
Unallocated amortization			926
Unallocated impairment and revaluation			2,900

NOTES TO THE FINANCIAL STATEMENTS

(Cont'd) For the year ended 31 March 2002

4) SEGMENT INFORMATION (Cont'd)

Business segments (Cont'd)

For the year ended 31 March 2001

	Property investment HK\$'000	Sale of computer- aided-design- machinery HK\$'000	Consolidated HK\$'000
Turnover	<u>–</u>	<u>13,067</u>	<u>13,067</u>
Operating loss	<u>–</u>	<u>(15,878)</u>	(15,878)
Unallocated expenses			<u>(569)</u>
Loss from operations			(16,447)
Gain on disposal of subsidiaries			2,496
Finance costs			<u>(254)</u>
Net loss attributable to shareholders			<u>(14,205)</u>
ASSETS			
Segment assets		9,878	9,878
Unallocated corporate assets			<u>45,950</u>
Total assets			<u>55,828</u>
LIABILITIES			
Segment liabilities		290	290
Unallocated corporated liabilities			<u>5,455</u>
Total liabilities			<u>5,745</u>
OTHER INFORMATION			
Depreciation		1,474	1,474
Unallocated depreciation			307
Unallocated amortization			689

NOTES TO THE FINANCIAL STATEMENTS

(Cont'd) For the year ended 31 March 2002

4) SEGMENT INFORMATION (Cont'd)

Geographical segments

An analysis of the Group's revenue and contribution to operating results by geographical location of its customers is presented below:

	Turnover		Contribution to operating profit/(loss)	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Computer-aided-design systems and machinery				
Mainland China	11	2,028	(1,943)	(3,765)
Hong Kong	251	3,141	(5,897)	(4,205)
Other Far East Asian countries	1,974	3,008	225	(2,456)
North America	2	4,890	(41)	(6,021)
	<u>2,238</u>	<u>13,067</u>	<u>(7,656)</u>	<u>(16,447)</u>
Property investment				
Mainland China	1,754	–	1,332	–
Hong Kong	81	–	(127)	–
	<u>4,073</u>	<u>13,067</u>	<u>(6,451)</u>	<u>(16,447)</u>

The following is an analysis of the carrying amount of segment assets, and capital additions analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Capital additions	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Mainland China	33,494	8,333	25,681	–
Hong Kong	166,100	41,155	426	1,014
Others	–	6,340	–	–
	<u>199,594</u>	<u>55,828</u>	<u>26,107</u>	<u>1,014</u>

NOTES TO THE FINANCIAL STATEMENTS

(Cont'd) For the year ended 31 March 2002

5) TAXATION

No Hong Kong profits tax has been provided for in the financial statements as companies within the Group derived no assessable profits during the year. (2001 – Nil)

Deferred tax has not been provided for in the financial statements as there are deferred tax net debit balance. At the balance sheet date, potential assets unprovided in respect of deferred tax are as follows:

	2002 HK\$'000	2001 HK\$'000
Depreciation allowances in excess of depreciation charges	192	(156)
Accumulate tax loss	3,808	3,474
	<u>4,000</u>	<u>3,318</u>
Net debit balance	<u>4,000</u>	<u>3,318</u>

6) DIRECTORS' EMOLUMENTS

a) Directors' emolument disclosed pursuant to Section 161 of the Companies Ordinance are as follows:

	2002 HK\$'000	2001 HK\$'000
Fees	–	–
Other emoluments	1,538	2,672
	<u>1,538</u>	<u>2,672</u>

b) The remuneration of the directors is within the following bands:

HK\$	Number of directors	
	2002	2001
Nil – 1,000,000	7	11
1,000,001 – 1,500,000	<u>0</u>	<u>1</u>

NOTES TO THE FINANCIAL STATEMENTS

(Cont'd) For the year ended 31 March 2002

6) DIRECTORS' EMOLUMENTS (Cont'd)

- c) Amongst the five highest paid individuals in the Group, four (2001: Three) are directors of the Company whose emoluments are disclosed in note 6(a). The aggregate amounts of emoluments of the remaining one (2001: Two) individuals are as follows:

	2002 HK\$'000	2001 HK\$'000
Emoluments	<u>294</u>	<u>792</u>

7) NET LOSS ATTRIBUTABLE TO SHAREHOLDERS

The net loss attributable to shareholders includes a loss of HK\$8,986,461 (2001: HK\$14,139,237) which have been dealt with in the financial statements of the Company.

8) LOSS PER SHARE

The calculation of loss per share is based on the consolidated losses attributable to the shareholders of HK\$7,159,335 (2001: HK\$14,205,265) and the weighted average number of 251,284,904 shares in issue during the year. (2001: 172,882,192)

No diluted loss per share is presented for the year ended 31 March 2002 and 31 March 2001 as exercise of the Company's outstanding share options and conversion of the Company's outstanding convertible notes has an anti-dilutive effect.

NOTES TO THE FINANCIAL STATEMENTS

(Cont'd) For the year ended 31 March 2002

9) FIXED ASSETS

The Group	Land and buildings in Hong Kong under medium-term lease HK\$'000	Freehold Land and buildings outside Hong Kong HK\$'000	Land and buildings outside Hong Kong HK\$'000	Office equipment, motor vehicle, machinery and furniture & fixture HK\$'000	Leasehold improvement HK\$'000	Computer equipment HK\$'000	Total HK\$'000
Cost/valuation							
At 31/3/2001							
At cost	8,729	4,889	6,139	6,926	2,777	4,958	34,418
At valuation	7,350	-	-	-	-	-	7,350
Provision for diminution in value	(2,900)	-	-	-	-	-	(2,900)
Additions							
- through acquisition of subsidiaries	-	-	25,682	-	-	-	25,682
- others	-	-	-	347	-	79	426
Disposal							
- through disposal of subsidiaries	-	(4,889)	-	(890)	(207)	(73)	(6,059)
- others	(7,329)	-	-	(972)	-	(48)	(8,349)
At 31/3/2002	<u>5,850</u>	<u>-</u>	<u>31,821</u>	<u>5,411</u>	<u>2,570</u>	<u>4,916</u>	<u>50,568</u>
Accumulated depreciation							
At 31/3/2001							
Charges for the year	317	-	125	454	193	100	1,189
Written back							
- through disposal of subsidiaries	-	(773)	-	(18)	(15)	(11)	(817)
- others	(382)	-	-	(896)	-	(48)	(1,326)
At 31/3/2002	<u>1,185</u>	<u>-</u>	<u>738</u>	<u>3,945</u>	<u>1,306</u>	<u>4,823</u>	<u>11,997</u>
Net book value							
At 31/3/2002							
	<u>4,665</u>	<u>-</u>	<u>31,083</u>	<u>1,466</u>	<u>1,264</u>	<u>93</u>	<u>38,571</u>
At 31/3/2001	<u>14,829</u>	<u>4,116</u>	<u>5,526</u>	<u>2,521</u>	<u>1,649</u>	<u>176</u>	<u>28,817</u>

The land and buildings in Hong Kong under medium-term lease were revalued by the directors on 29 February 1992 by reference to a valuation report prepared by Jones Lang Wotton on a fair market value basis on 29 February 1992.

NOTES TO THE FINANCIAL STATEMENTS

(Cont'd) For the year ended 31 March 2002

9) FIXED ASSETS (Cont'd)

Land and buildings outside Hong Kong as stated above are held as follows:

	HK\$'000
Under short-term leases	1,208
Under medium-term leases	30,613
	<u>31,821</u>

10) DEFERRED DEVELOPMENT COSTS

	2002 HK\$'000	2001 HK\$'000
Balance at the beginning of the year	926	1,615
Amortized during the year	(926)	(690)
	<u>–</u>	<u>926</u>

11) INTEREST IN SUBSIDIARIES

	2002 HK\$'000	2001 HK\$'000
Unlisted shares at cost	45,623	45,623
Amount due from subsidiaries	51,962	25,246
Amount due to subsidiaries	–	(3,225)
	<u>97,585</u>	<u>67,644</u>
Provision for losses in subsidiaries	(39,500)	(33,000)
	<u>58,085</u>	<u>34,644</u>

Amount due from subsidiaries is interest-free, unsecured and has no fixed term of repayment.

NOTES TO THE FINANCIAL STATEMENTS

(Cont'd) For the year ended 31 March 2002

11) INTEREST IN SUBSIDIARIES (Cont'd)

Details of subsidiaries at 31 March 2002 are as follows:

Name of companies	Country or place of incorporation	Issued and paid up capital	Percentage holding	Principal activities
Shares held directly:				
Capital Automation (BVI) Limited	British Virgin Islands	Ordinary US\$50,000	100	Investment holding
Smartech Cyberworks Limited	British Virgin Islands	Ordinary US\$1	100	Investment holding
Shares held indirectly:				
Citimate (Hong Kong) Limited (Formerly known as Capital Automation Company Limited)	Hong Kong	Ordinary HK\$100 Non-voting deferred HK\$1,000,000	100	Development, production and Sale of computer-aided-design systems
Fast Rich Investment Limited	Hong Kong	Ordinary HK\$10,000	100	Dormant
Profit Made Properties Limited	Hong Kong	Ordinary HK\$10,000	100	Dormant
Top Advance Technology Limited	Hong Kong	Ordinary HK\$10,000	100	Dormant
Best Power Properties Limited	Hong Kong	Ordinary HK\$10,000	100	Dormant
Capital Computerized Machinery Manufacturing (Shaoxing) Company Limited	People's Republic of China	Registered capital HK\$6,286,189	100	Manufacturing of computerized embroidery machinery

NOTES TO THE FINANCIAL STATEMENTS

(Cont'd) For the year ended 31 March 2002

11) INTEREST IN SUBSIDIARIES (Cont'd)

Name of companies	Country or place of incorporation	Issued and paid up capital	Percentage holding	Principal activities
Shares held indirectly: (Cont'd)				
New Smarter Trading Limited	Hong Kong	Ordinary HK\$100	100	Dormant
Capital Machinery Agency And Supplies Limited	Hong Kong	Ordinary HK\$10,000	100	Marketing of machinery
Capital Realty Development Company Limited	Hong Kong	Ordinary HK\$100,000	100	Property holding
Hong Kong Punching Centre Limited	Hong Kong	Ordinary HK\$100,000	100	Property holding
China Sino Technology Limited	Hong Kong	Ordinary HK\$10,000	100	Property investment

12) CURRENT ASSETS

	The Group		The Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Inventories				
– Raw materials	1,423	1,951	–	–
– Work-in-progress	634	441	–	–
– Finished goods	3,885	4,645	–	–
Other investments in securities	3,800	108	–	–
Accounts receivable, prepayment and deposits	1,324	14,044	472	12,329
Cash and bank balances	14,933	560	3,937	112
Time deposit, unpledged	135,024	3,010	135,024	3,010
	161,023	24,759	139,433	15,451
Other investments in securities listed in Hong Kong at market value	3,800	108	–	–

NOTES TO THE FINANCIAL STATEMENTS

(Cont'd) For the year ended 31 March 2002

13) CURRENT LIABILITIES

	The Group		The Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Accounts payable and accrued expenses	1,274	1,428	56	63
Amount due to a former director	–	1,456	–	–
Amount due to related companies	–	263	–	–
Bank loan, secured, repayable within one year	–	540	–	–
Bank overdraft, unsecured	–	2	–	–
	<u>1,274</u>	<u>3,689</u>	<u>56</u>	<u>63</u>

14) NON-CURRENT LIABILITIES

	The Group		The Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Bank loan, secured and repayable within a period of:				
– One year	–	540	–	–
– More than one year but within five years	–	2,056	–	–
	–	2,596	–	–
Less: Amount due within one year	–	(540)	–	–
	<u>–</u>	<u>2,056</u>	<u>–</u>	<u>–</u>

NOTES TO THE FINANCIAL STATEMENTS

(Cont'd) For the year ended 31 March 2002

15) SHARE CAPITAL

	2002 HK\$'000	2001 HK\$'000
Authorised: 5,000,000,000 ordinary shares of HK\$0.1 each (2001: 500,000,000 ordinary shares of HK\$0.1 each)	<u>500,000</u>	<u>50,000</u>

Pursuant to the special general meeting held on 27 March 2002, authorized share capital was increased from HK\$50,000,000 to HK\$500,000,000 by creation of additional 4,500,000,000 shares of HK\$0.10 each.

	2002 HK\$'000	2001 HK\$'000
Issued & fully paid:		
At the beginning of the year (188,000,000 ordinary shares of HK\$0.1 each)	18,800	15,700
Issue of shares	<u>143,030</u>	<u>3,100</u>
At the end of the year (1,618,303,500 ordinary shares of HK\$0.1 each)	<u>161,830</u>	<u>18,800</u>

In accordance with the acquisition agreement dated 28 December 2000, an aggregate of 36,003,500 new ordinary shares of HK\$0.1 each of the Company at an issue price of HK\$0.38 per consideration share was allotted to settle the remaining balance of HK\$13,681,330 of the total consideration of HK\$25,681,330.

Pursuant to the board resolution on 12 September 2001, the Company entered a placing agreement with Berich Brokerage Limited (the placing agent) for procuring on a fully underwritten basis of 44,300,000 shares of HK\$0.10 each at a subscription price of HK\$0.18 each.

Pursuant to the conditional subscription agreement dated 5 February 2002 entered into between the Company as issuer and Shinning Crown Holdings Ins., 1,350,000,000 new shares were subscribed by Shinning Crown Holdings Inc. at a subscription price of HK\$0.1 each.

16) SHARE PREMIUM

	2002 HK\$'000	2001 HK\$'000
Balance at the beginning of the year	27,349	18,422
Net premium on issue of ordinary shares	<u>13,385</u>	<u>8,927</u>
Balance at the end of the year	<u>40,734</u>	<u>27,349</u>

NOTES TO THE FINANCIAL STATEMENTS

(Cont'd) For the year ended 31 March 2002

17) REVALUATION RESERVE

	2002 HK\$'000	2001 HK\$'000
Surplus arising on revaluation of land and buildings		
Balance at the beginning of the year	1,019	1,019
Provision for diminution in value	(1,019)	–
	<hr/>	<hr/>
Balance at the end of the year	<u>–</u>	<u>1,019</u>

18) CONTRIBUTED SURPLUS

The contributed surplus of the Company represents the difference between the nominal value of the Company's shares issued in exchange for the issued ordinary shares of Capital Automation (BVI) Limited and the value of net assets of the underlying subsidiaries acquired as at 27 March 1992. At group level, the contributed surplus is reclassified into its components of reserves of the underlying subsidiaries.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

- (i) it is, or would the payment be, unable to pay its liabilities as they become due; or
- (ii) the realizable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium.

19) (ACCUMULATED LOSS)/RETAINED EARNINGS

	The Group		The Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Retained earnings/ (accumulated loss) brought forward	2,295	16,500	(36,540)	(22,401)
Net loss for the year	(7,159)	(14,205)	(8,985)	(14,139)
	<hr/>	<hr/>	<hr/>	<hr/>
(Accumulated loss)/ retained earnings carried forward	<u>(4,864)</u>	<u>2,295</u>	<u>(45,525)</u>	<u>(36,540)</u>

NOTES TO THE FINANCIAL STATEMENTS

(Cont'd) For the year ended 31 March 2002

20) NOTES TO CASH FLOW STATEMENT

a) Reconciliation of operating loss to net cash inflow/(outflow) from operating activities

	2002 HK\$'000	2001 HK\$'000
Operating loss before taxation	(6,547)	(16,701)
Dividend received	–	(2)
Interest received	(132)	(305)
Interest paid	96	254
Depreciation	1,189	1,781
Provision for diminution in value	3,206	–
Amortization of deferred development costs	926	689
Net loss on disposals of fixed assets	133	713
Increase in other investment in securities	(3,693)	–
Decrease in inventories	1,096	4,724
Decrease/(increase) in accounts receivable and prepayments	12,720	(9,570)
Decrease in hire purchase debtors	–	1
Decrease in accounts payable and accruals	(154)	(3,612)
Decrease in sales tax payable overseas	–	(471)
(Decrease)/increase in amount due to related companies	(262)	262
(Decrease)/increase in amount due to a former director	(1,456)	1,456
	<u>7,122</u>	<u>(20,781)</u>

NOTES TO THE FINANCIAL STATEMENTS

(Cont'd) For the year ended 31 March 2002

20) NOTES TO CASH FLOW STATEMENT (Cont'd)

b) Acquisition of a subsidiary

On 28 December 2000, the Company entered an acquisition agreement with Wong Kwong Yu for the acquisition of entire issued share capital in and loans advanced to, Smartech Cyberworks Limited at a consideration of HK\$25,681,330. Smartech Cyberworks Limited was an investment holding company which owned the entire issued share capital in China Sino Technology Limited which entered into an agreement for the acquisition of Units 1901, 1902 and 1909, Block B, Pengrun Building, 26 Xiaoyun Road, Chaoyang District, Beijing, People's Republic of China.

The consideration of HK\$25,681,330 was satisfied by a deposit of HK\$12 million upon signing of the acquisition agreement and the remaining balance of HK\$13,681,330 was paid on completion of the acquisition agreement on 21 June 2001 by way of allotment and issue of an aggregate of 36,003,500 new ordinary shares of HK\$0.1 each in the Company at an issue price of HK\$0.38 per consideration share.

	2002 HK\$'000	2001 HK\$'000
Net assets acquired:		
Fixed assets	<u>25,682</u>	<u>–</u>
Satisfied by:		
Cash	12,000	–
Issue of new ordinary shares at HK\$0.38 per consideration share	<u>13,682</u>	<u>–</u>
	<u>25,682</u>	<u>–</u>
Analysis of the net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:		
Cash consideration	<u>(12,000)</u>	<u>–</u>

NOTES TO THE FINANCIAL STATEMENTS

(Cont'd) For the year ended 31 March 2002

20) NOTES TO CASH FLOW STATEMENT (Cont'd)

c) Analysis of changes in financing activities

	Issued share capital (including share premium) HK\$'000	Bank loan, secured HK\$'000
Balance at 31/3/2000	34,122	1,216
Cash inflow from financing activities, net	<u>12,027</u>	<u>1,380</u>
Balance at 31/3/2001	46,149	2,596
Issue of new ordinary shares as consideration	13,681	–
Cash inflow/(outflow) from financing activities, net	<u>142,735</u>	<u>(2,596)</u>
Balance at 31/3/2002	<u><u>202,565</u></u>	<u><u>–</u></u>

21) COMMITMENTS AND CONTINGENT LIABILITIES

At the balance sheet date, neither the Group nor the Company had any significant commitments and contingent liabilities.

22) DISPOSAL AND DISSOLUTION OF SUBSIDIARIES

	2002 HK\$'000	2001 HK\$'000
Net assets disposed of:		
Fixed assets	5,242	374
Current assets	3,151	–
Liabilities and accumulated loss taken up by purchasers or loan waived	(7,001)	(2,868)
(Loss)/gains on disposals	<u>(612)</u>	<u>2,495</u>
Sales proceeds	<u><u>780</u></u>	<u><u>1</u></u>

NOTES TO THE FINANCIAL STATEMENTS

(Cont'd) For the year ended 31 March 2002

22) DISPOSAL AND DISSOLUTION OF SUBSIDIARIES (Cont'd)

On 18 May 2001, the Company's subsidiary (Capital Automation (BVI) Limited) entered an agreement with Li Man Yick on the disposal of a subsidiary (Capital Services & Supplies Inc.) which had a net assets of HK\$780,000 at 31 March 2001. The consideration was HK\$780,000 for the shares and HK\$3,330,000 for the full discharge of the loan due to Capital Automation (BVI) Limited.

On 18 June 2001, the Company's subsidiary (Capital Automation (BVI) Limited) entered an agreement with HK Concepts International Limited (Chan Ngan Hoi, Chan Tik Yuen and Leung King Wa are former directors of Capital Automation (BVI) Limited) on the disposal of Capital Automation Information System Inc. which had a net liabilities of HK\$1,060,113.30 at 31 March 2001. The consideration was HK\$7.8 for the shares.

On 9 August 2001, the Company dissolved a subsidiary (Capital Automation Inc.) which had a net liabilities of HK\$5,712,716.57 as at that date.

The revenue and operating results of the disposed subsidiaries are as follows:

	2002 HK\$'000	2001 HK\$'000
Turnover	–	757
Contribution to operating loss	<u>(42)</u>	<u>(3,090)</u>

23) OPERATING LEASE ARRANGEMENTS

a) As lessor

The Group leases its investment properties under operating lease arrangements, with leases negotiated for a term of 2 years with a rent-free period of two months.

At 31 March 2002, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	The Group	
	2002 HK\$'000	2001 HK\$'000
Within one year	2,339	–
In the second to fifth years, inclusive	<u>585</u>	<u>–</u>
	<u>2,924</u>	<u>–</u>

NOTES TO THE FINANCIAL STATEMENTS

(Cont'd) For the year ended 31 March 2002

23) OPERATING LEASE ARRANGEMENTS (Cont'd)

b) As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for the properties are negotiated for terms of 2 years.

At 31 March 2002, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	The Group		The Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Within one year	1,447	615	895	–
In the second to fifth years, inclusive	1,280	–	199	–
	<u>2,727</u>	<u>615</u>	<u>1,094</u>	<u>–</u>

24) MATERIAL RELATED PARTY TRANSACTIONS

During the year, the Company's subsidiary, Capital Machinery Agency & Supplies Limited acquired goods of HK\$2,516,646 and HK\$1,616,690 from the Company's subsidiaries, Citimate (Hong Kong) Limited and Capital computerized Machinery Manufacturing (Shaoxing) Company Limited respectively.

The Company's subsidiary, Citimate (Hong Kong) Limited, sold its fixed assets of HK\$7,716,374 and HK\$946,546 to the Company's subsidiaries, Hong Kong Punching Centre Limited and Capital Realty Development Company Limited respectively.

Furthermore, the Company's subsidiary, Citimate (Hong Kong) Limited transferred its interest in Hong Kong Punching Centre Limited of HK\$100,000 to Capital Automation (BVI) Limited.

The above transactions were transacted at carrying value.

NOTES TO THE FINANCIAL STATEMENTS

(Cont'd) For the year ended 31 March 2002

25) POST BALANCE SHEET EVENT

On 10 April 2002, the Company had entered into an acquisition agreement with Link Zone International Limited, a company incorporated in the British Virgin Islands for the acquisition of the entire issued shares capital of Artway Development Limited, a company incorporated in the British Virgin Islands, which in turn holds an attributable interest of 39.2% in a property located at the Area no. 7, Xi Ba He Bei Lane, Chaoyang District, Beijing, the PRC 中國北京朝陽區西坝河北里7號院土地 (北三環東路甲7號). The agreement is unconditional and was completed on 10 April 2002. The consideration for the acquisition amounts to HK\$195,000,000, as to an amount of HK\$120,000,000 has been settled in cash at completion which has taken place after signing of the agreement, as to an amount of HK\$37,500,000 has been settled by the issue of the First Notes on 22 April 2002 and as to an amount of HK\$37,500,000 to be settled by the issue of the Second Notes or in cash at the option of the Company.

Pursuant to a special general meeting held on 20 June 2002, the Company's name was resolved to be changed from "Capital Automation Holdings Limited" to "China Eagle Group Company Limited" and adopted "中國鵬潤集團有限公司" to replace the existing Chinese translation of the Company's name "京華自動化集團有限公司".

Pursuant to the same meeting, authorized share capital of the Company was resolved to be increased from HK\$500,000,000 to HK\$2,000,000,000 by the creation of additional 15,000,000,000 new shares at HK\$0.10 each.

The Company's directors were authorized to issue Second Notes of HK\$37,500,000 as mentioned in the subscription agreement and to issue and allot the Company's new ordinary shares upon conversion of the Second Notes.

26) RETIREMENT SCHEME

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for its eligible employees in Hong Kong. The MPF Scheme has operated since 1 December 2000.

Contributions are made based on rates applicable to the respective employees' monthly salaries and are charged to the income statement as they become payable in accordance with government regulations.

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.

NOTES TO THE FINANCIAL STATEMENTS

(Cont'd) For the year ended 31 March 2002

27) SHARE OPTION SCHEME

On 27 March 1992, a share option scheme was approved by shareholders of the Company, under which the directors of the Company may, at their discretion, invite full time employees including executive directors of the Company and its subsidiaries, to take up options to subscribe for shares in the Company. This share option scheme will be expired at the close of business on the day preceding the tenth anniversary thereof. As at 31 March 2002 no options have been granted under this scheme and the scheme had expired on the same date.