

BUSINESS REVIEW

The Group's turnover in the year amounted to around HK\$4.12 million, which is about the same amount of last year's. General trading is the Group's new business in this year. It generated a turnover of about HK\$2.63 million. On the other hand, the sale of computer-aided-design systems and machinery continued to contract. Its turnover in the year was around HK\$0.45 million in amount. For last year, it amounted to around HK\$2.23 million. The decrease was around HK\$1.78 million in amount.

The Group recorded a net loss of around HK\$12.41 million in the year. The loss increased by around HK\$5.25 million as compared to that of last year. In this year, the Group was restructured to improve the operation efficiency. At the initial stages of investment projects, administration expenses increased by around HK\$6.93 millions from that of last year.

The Group completed the acquisition of 100% shareholding of a company in April 2002. The company indirectly held 39.2% interest in a piece of land at Chaoyang district in Beijing. The consideration was HK\$195 million. Amongst this, HK\$120 million was from internal sources of fund. The balance of the consideration was settled by convertible notes of aggregate principal amount HK\$75 million. In July 2003, HK\$51 million convertible notes were converted to 425 million shares of the Company.

To further diversify the Group's businesses, the Group completed acquisitions of 95% shareholding of a securities broker company and a futures broker company in May 2003. The consideration was of total amount around HK\$22.73 million.

On 31st August 2002, the Group disposed of office premises at Chaoyang district in Beijing. The fund realized is to be used for exploring other projects. From date of holding the premise to date of its disposal, the total rental income amounted to around HK\$2.8 million which was reported in this and past reports as the Group's turnover.

Moreover, in April 2003, the Group disposed of a single-storey factory in Shanghai. With sales proceeds of RMB4.5 million, there was a gross profit on disposal of around HK\$0.71 million.

On 18 April 2002, I joined the Company's board of directors to become an executive director as well as the Chairman. To reflect the changes in management and substantial shareholder, the Company's name changed from CAPITAL AUTOMATION HOLDINGS LIMITED to CHINA EAGLE GROUP COMPANY LIMITED with effect from 20 June 2002. The Chinese name changed also from 「京華自動化集團有限公司」 to 「中國鵬潤集團有限公司」。

As at 31 March 2003, the Group did not have any bank loan. Fund at banks and in hand aggregated to about HK\$19.9 million.

Chairman's Statement

To strengthen the Group's cash flow and to make funds available for investment opportunities in future, the Company raised fund of about HK\$37.9 million from the stock market by placing 323 million of the Company's shares to independent third parties in July 2003.

PROSPECTS

China is one of the countries that is boosting in economic growth. People's GDP is continuing to increase at high level. Following Beijing success bid for the 2008 Olympic Games and China's accession to the WTO, and also Shanghai's winning to hold 2010 World Exposition, Shanghai and China's economic development will be fueled new momentum. The economic growth would continue to be achievable. Though Hong Kong is undergoing economic restructure, it would benefit from China being laying at its back and itself is an international financial center. In the future, the Group will reassess the businesses running at present. The old businesses lacking prospects would be cleared. Besides the land and property development and investment, the other businesses including securities and trading will be dedicated to develop.

China's economy grows persistently. To complement China's entry to WTO and future holding of various world class global activities, the demand for good quality estates in big cities like Beijing and Shanghai will increase. The demand comes from people of Mainland, overseas enterprises and overseas investors. The increasing demand of high quality properties will drive the estate market to become more active. Hong Kong is the only international city, next to China in location, having sophisticated system. Its infrastructure is good. Although the estate market is still difficult, the overall market is stabilising. The Group is capturing the confronting opportunities to explore Hong Kong and China estate markets. Efforts will be put onto investing in potential property projects to strengthen the asset scale and enhance the asset structure.

Hong Kong is one of the international cities popular for investment. In addition, Hong Kong is backed by China in location and will be benefited from CEPA signed in July of this year. It is an ideal entry to investment in China. China is the global's focus, attracting investors to establish companies in Mainland to develop businesses. Therefore, there will be significant demand for offices, shops and residential units. When the rental level is satisfactory, the return from rental is attractive. With the above mentioned disposal of office units at Chaoyang district in Beijing, the Group commits to look for quality properties with investment potential. After acquiring the properties, they will be leased out to hope for a stable and satisfactory income stream and return for the Group.

After China's has joined the WTO, the market reform will speed up. More Hong Kong businessmen and overseas businessmen will be allowed to participate into the capital market. The demand for securities services will increase. Hong Kong is ranked the second in international financial center of Asia. The Group plans to develop securities business and invest in derivative products in Hong Kong. This will be a foundation and first step to securities business development in Mainland. The established good network bases and mature management will ensure the business be further expanded into China.

Chairman's Statement

Looking to the future, the Group will continue to view land and property development and investment as its core businesses, while at the same time grasping market opportunities to diversify its business into securities and trading to realize its philosophy of 'interactive, inter-complement, inter-assist'. The Group will leverage Hong Kong's status as an international business and trading center, to attract more overseas business partners and capital to realize its maxim of 'no boundaries between businessmen, intermixing to survive'. To prepare for future internationalization, the management will evaluate and restructure the current businesses. Each project's potential will be identified. My unique enterprise mission derived from successful "Eagle Investment" and "Gome" will continue. New management strategies and long-term business plans to enhance the Company's long-term growth potential will be formulated to place our businesses on the path to growth and to bring in fruitful returns for shareholders.

WONG Kwong Yu

Chairman

Hong Kong, 28 July 2003