

Notes To The Financial Statements

For the year ended 31 March 2003

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.

The consolidated financial statements incorporate the financial statements of the Company and all its subsidiaries made up to 31 March 2003. 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.

In the current year, the Group has adopted the following Statement of Standard Accounting Practice (“SSAPs”) issued by the Hong Kong Society of Accountants which are effective for accounting period commencing on or after 1 January 2002:

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 11 (revised)	:	Foreign currency translation
SSAP 15 (revised)	:	Cash flow statements
SSAP 34	:	Employee benefits

These new or revised SSAPs do not have material impact to the accounting policies and financial results of the Group except that certain comparative figures have been reclassified to conform with the new disclosure requirements.

Notes To The Financial Statements

For the year ended 31 March 2003

1) PRINCIPAL ACCOUNTING POLICIES (Continued)

c) Goodwill

Positive goodwill arising on consolidation represents a payment made by the acquirer in anticipation of future economic benefits.

Positive goodwill arising on consolidation represents the excess of the cost of the acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired. In respect of subsidiaries:–

- for acquisitions before 1 April 2001, positive goodwill is eliminated against reserve and is reduced by impairment loss; and
- for acquisitions on or after 1 April 2001, positive goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life of not more than twenty years. No amortization is required until the relevant asset is available for use. Positive goodwill is stated in the consolidated balance sheet at cost less any accumulated amortisation and any impairment losses.

Negative goodwill arising on acquisitions of subsidiaries represents the excess of the Group's share of the fair value of the identifiable assets and liabilities acquired over the cost of the acquisition. For acquisitions before 1 April 2001, negative goodwill is credited to reserve.

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 impairment loss.

e) Associated companies

An associated company is a company, not being a subsidiary, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated income statement includes the Group's share of the results of associated companies, and the consolidated balance sheet includes the Group's share of net assets of the associated companies less any impairment loss.

Notes To The Financial Statements

For the year ended 31 March 2003

1) PRINCIPAL ACCOUNTING POLICIES (Continued)

f) Fixed assets and depreciation

All fixed assets are stated at cost or valuation less accumulated depreciation or amortization and any impairment losses. Depreciation is calculated to write off the cost or valuation 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 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.

g) Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognized for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognized for the asset in prior years.

Notes To The Financial Statements

For the year ended 31 March 2003

1) PRINCIPAL ACCOUNTING POLICIES (Continued)

g) Impairment of assets (Continued)

A reversal of an impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

h) 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.

i) 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.

j) 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.

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.

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.

The balance sheet of subsidiaries and associated companies expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the income statement is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

Notes To The Financial Statements

For the year ended 31 March 2003

1) PRINCIPAL ACCOUNTING POLICIES *(Continued)*

m) **Deferred tax**

Deferred tax is provided, using the liability method, on all significant timing differences to the extent that it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognized until its realization is assured beyond reasonable doubt.

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. Related parties may be individuals or corporate entities.

p) **Cash equivalents**

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. For the purposes of the consolidated cash flow statement, cash equivalents would also include advances from banks repayable within three months from the date of the advance.

q) **Employee benefits**

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.

Notes To The Financial Statements

For the year ended 31 March 2003

1) PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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

For the year ended 31 March 2003

2) TURNOVER AND OTHER REVENUE

The Company is principally engaged in investment holding. Principal activities of subsidiaries are set out in note 12.

An analysis of turnover and other revenue is as follows:–

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Turnover		
General trading	2,631	–
Sale of computer-aided-design systems and machinery	450	2,238
Rental income	1,043	1,835
	<u>4,124</u>	<u>4,073</u>
Other revenue		
Exchange gain	5	–
Gain on disposal of other investments in securities	–	2,864
Gain on disposal of fixed assets	–	40
Unrealised gain on revaluation of other investments in securities at fair value	–	800
Bank interest income	166	132
Other interest income	593	–
Other income	94	188
Waive of loan from a former director	7,271	–
	<u>8,129</u>	<u>4,024</u>

Notes To The Financial Statements

For the year ended 31 March 2003

3) NET LOSS BEFORE TAXATION

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

	2003 HK\$'000	2002 HK\$'000
Charging:–		
Audit fee		
– audit services	200	200
– other services	228	–
Depreciation	815	1,189
Amortization of deferred development cost	–	926
Loss on disposal of fixed assets	578	173
Loss on disposal of other investments in securities	183	–
Bad debts written off	–	1,120
Operating lease rental for land & buildings	1,961	833
Borrowing costs recognized as expenses	2	96
Interest on convertible notes	1,249	–
Staff costs including directors' emoluments		
– salaries and other benefits	7,490	1,911
– pension contributions	130	36
	7,620	1,947
Cost of inventories	5,795	1,734
Exchange loss	1	92
Loss on disposal and dissolution of subsidiaries	–	612
Crediting:–		
Exchange gain	5	–
Bank interest income	166	132
Other interest income	593	–
Rental income	1,043	1,835
Unrealised gain on revaluation of other investments in securities at fair value	–	800
Other income	94	188
Gain on disposal of other investments in securities	–	2,864
Gain on disposal of fixed assets	–	40
Waiver of loan from a former director	7,271	–

Notes To The Financial Statements

For the year ended 31 March 2003

4) SEGMENT INFORMATION

The Group is principally engaged in property development, property investment, general trading, sale of computer-aided-designed systems and machinery. 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.

Business segments

A summary of business segments is set out as follows:–

For the year ended 31 March 2003

	General trading <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Sale of computer- aided-design- systems and machinery <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Turnover				
Sales to external customers	2,631	1,043	450	4,124
Results				
Segment result	179	622	(2,340)	(1,539)
Unallocated expenses				(9,596)
Loss from operations				(11,135)
Share of loss of an associate				(24)
Finance costs				(1,251)
Net loss attributable to shareholders				(12,410)
ASSETS				
Segment assets	50	4,697	2,683	7,430
Unallocated assets				255,921
Total assets				263,351
LIABILITIES				
Segment liabilities	186	16	33	235
Unallocated liabilities				77,206
Total liabilities				77,441
OTHER INFORMATION				
Depreciation	–	143	–	143
Unallocated depreciation	–	–	–	672
Unallocated capital expenditure	–	–	–	393

Notes To The Financial Statements

For the year ended 31 March 2003

4) SEGMENT INFORMATION (Continued)

Business segments (Continued)

For the year ended 31 March 2002

	Property investment <i>HK\$'000</i>	Sale of computer- aided-design- systems and machinery <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Turnover			
Sales to external customers	<u>1,835</u>	<u>2,238</u>	<u>4,073</u>
Results			
Segment result	<u>1,293</u>	<u>(1,843)</u>	(550)
Unallocated expenses			<u>(5,901)</u>
Loss from operations			(6,451)
Loss on disposal and dissolution 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			<u>160,338</u>
Total assets			<u>199,594</u>
LIABILITIES			
Segment liabilities	356	114	470
Unallocated liabilities			<u>804</u>
Total liabilities			<u>1,274</u>
OTHER INFORMATION			
Depreciation	84	–	84
Unallocated depreciation	–	–	1,106
Unallocated amortization	–	–	926
Unallocated impairment and revaluation	–	–	2,900
Capital expenditure	25,682	–	25,682
Unallocated capital expenditure	–	–	426

Notes To The Financial Statements

For the year ended 31 March 2003

4) SEGMENT INFORMATION (Continued)

Geographical segments

An analysis of the Group's revenue, certain asset and expenditure for geographical location is presented below:–

	Hong Kong		The PRC		Other Far East Asia countries		North America		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover										
Sales to external customers	<u>518</u>	<u>332</u>	<u>3,606</u>	<u>1,765</u>	<u>–</u>	<u>1,974</u>	<u>–</u>	<u>2</u>	<u>4,124</u>	<u>4,073</u>
Segment assets	<u>54,747</u>	<u>165,599</u>	<u>208,604</u>	<u>33,995</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>263,351</u>	<u>199,594</u>
Capital expenditure				25,682					–	25,682
Unallocated capital expenditure									<u>393</u>	<u>426</u>
									<u>393</u>	<u>26,108</u>

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. (2002 – 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:–

	2003 HK\$'000	2002 HK\$'000
Depreciation charges in excess of depreciation allowances	203	192
Accumulate tax loss	<u>5,823</u>	<u>3,808</u>
Net debit balance	<u>6,026</u>	<u>4,000</u>

Notes To The Financial Statements

For the year ended 31 March 2003

6) DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS

- (a) Directors' emoluments disclosed pursuant to Section 161 of the Companies Ordinance are as follows:–

	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Fees	90	–
Other emoluments	3,566	1,538
	<u>3,656</u>	<u>1,538</u>

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

	Number of directors	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
HK\$ Nil – 1,000,000	3	7
2,500,001 – 3,000,000	1	0
	<u>1</u>	<u>0</u>

- (c) Amongst the five highest paid individuals in the Group, three (2002: Four) are directors of the Company whose emoluments are disclosed in note 6(a). The aggregate amounts of emoluments of the remaining two (2002: One) individuals are as follows:–

	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Emoluments	1,534	294
	<u>1,534</u>	<u>294</u>

7) NET LOSS ATTRIBUTABLE TO SHAREHOLDERS

The net loss attributable to shareholders includes a loss of HK\$11,570,952 (2002: HK\$8,986,461) which have been dealt with in the financial statements of the Company.

Notes To The Financial Statements

For the year ended 31 March 2003

8) LOSS PER SHARE

The calculation of loss per share is based on the consolidated losses attributable to the shareholders of HK\$12,409,788 (2002: HK\$7,159,335) and the weighted average number of 1,618,303,500 shares in issue during the year. (2002: 251,284,904)

No diluted loss per share is presented for the year ended 31 March 2003 and 31 March 2002 as exercise of the Company's outstanding share options and conversion of the Company's outstanding convertible notes has an anti-dilutive effect.

9) FIXED ASSETS

The Group	Land and buildings in Hong Kong under medium-term lease <i>HK\$'000</i>	Land and buildings outside Hong Kong <i>HK\$'000</i>	Office equipment, motor vehicle, machinery and furniture & fixture <i>HK\$'000</i>	Leasehold improvement <i>HK\$'000</i>	Computer equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost/valuation						
At 31/3/2002						
At cost	–	31,821	5,411	2,570	4,916	44,718
At valuation	7,350	–	–	–	–	7,350
Provision for diminution in value	(1,500)	–	–	–	–	(1,500)
Additions	–	182	19	–	192	393
Disposals	–	(26,990)	(2,127)	–	–	(29,117)
At 31/3/2003	5,850	5,013	3,303	2,570	5,108	21,844
Accumulated depreciation						
At 31/3/2002	1,185	738	3,945	1,306	4,823	11,997
Charges for the year	143	121	269	193	89	815
Written back	–	(150)	(1,343)	–	–	(1,493)
At 31/3/2003	1,328	709	2,871	1,499	4,912	11,319
Net book value						
At 31/3/2003	4,522	4,304	432	1,071	196	10,525
At 31/3/2002	4,665	31,083	1,466	1,264	93	38,571

Notes To The Financial Statements

For the year ended 31 March 2003

9) FIXED ASSETS (Continued)

On 15 August 2002, the Company entered an agreement with the original contracting party in respect of three properties, Units 1901, 1902 and 1909, Block B, Pengrun Building, 26 Xiaoyun Road, Chaoyang district, Beijing, China. The agreement was effective on 31 August 2002. The original contracting party agreed to repay to the Company the consideration of acquisition of the properties of HK\$25,681,330 before 31 March 2003.

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

	<i>HK\$'000</i>
Under medium-term leases	<u>5,014</u>

10) INTEREST IN ASSOCIATES

	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Share of net assets	<u>7,235</u>	<u>–</u>

Details of the associates at 31 March 2003 are as follows:–

Name of companies	Place of incorporation	Paid up registered capital	Percentage of equity held	Principal activities
Shares held indirectly:–				
Beijing Jin Zun Technology Development Limited	The People's Republic of China	RMB16,000,000	49	Provision of property management and development of computing software
Beijing Jin Zun Property Development Limited	The People's Republic of China	RMB10,000,000	39.2	Development and sale of real properties

Notes To The Financial Statements

For the year ended 31 March 2003

11) GOODWILL ON CONSOLIDATION

	<i>HK\$'000</i>
Addition through acquisition of a subsidiary during the year and carried forward	<u>195,011</u>

12) INTEREST IN SUBSIDIARIES

	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares at cost	240,624	45,623
Amounts due from subsidiaries	76,334	51,962
Amounts due to subsidiaries	(27,452)	–
	<hr/>	<hr/>
Impairment loss	289,506	97,585
	(45,700)	(39,500)
	<hr/>	<hr/>
	<u>243,806</u>	<u>58,085</u>

Amounts due from subsidiaries are interest-free, unsecured and have no fixed term of repayment except for an amount of HK\$25,056,937 (2002: HK\$9,517,375) due from a subsidiary which is interest bearing at 3% per annum (2002: Nil% per annum).

Details of subsidiaries at 31 March 2003 are as follows:–

Name of companies	Country or place of incorporation	Issued and paid up capital	Percentage holding	Principal activities
Shares held by Company 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

Notes To The Financial Statements

For the year ended 31 March 2003

12) INTEREST IN SUBSIDIARIES (Continued)

Name of companies	Country or place of incorporation	Issued and paid up capital	Percentage holding	Principal activities
Artway Development Limited	British Virgin Islands	Ordinary US\$1	100	Investment holding
Eagle Decade Investments Limited	British Virgin Islands	Ordinary US\$1	100	Dormant
Shares held indirectly:				
Citimate (Hong Kong) Limited	Hong Kong	Ordinary HK\$100 Non-voting deferred HK\$1,000,000	100	Dormant
China Eagle Management Limited (Formerly known as Fast Rich Investment Limited)	Hong Kong	Ordinary HK\$10,000	100	Management services
Profit Made Properties Limited	Hong Kong	Ordinary HK\$10,000	100	Dormant
Top Advance Technology Limited	Hong Kong	Ordinary HK\$10,000	100	Dormant
China Eagle Capital Company Limited (Formerly known as Best Power Properties Limited)	Hong Kong	Ordinary HK\$10,000	100	Dormant
Capital Computerized Machinery Manufacturing (Shaoxing) Company Limited	The People's Republic of China	Registered capital HK\$6,286,189	100	Dormant

Notes To The Financial Statements

For the year ended 31 March 2003

12) INTEREST IN SUBSIDIARIES (Continued)

Details of subsidiaries at 31 March 2003 are as follows:-

Name of companies	Country or place of incorporation	Issued and paid up capital	Percentage holding	Principal activities
Shares held indirectly: (Continued)				
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

Notes To The Financial Statements

For the year ended 31 March 2003

13) CURRENT ASSETS

	The Group		The Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Inventories				
– Raw materials	1,310	1,423	–	–
– Work-in-progress	634	634	–	–
– Finished goods	731	3,885	–	–
Other investments in securities	–	3,800	–	–
Other receivables	19,979	–	–	–
Accounts receivable, prepayment and deposits	8,024	1,324	1,039	472
Cash and bank balances	3,902	14,933	762	3,937
Time deposit, unpledged	16,000	135,024	16,000	135,024
	<u>50,580</u>	<u>161,023</u>	<u>17,801</u>	<u>139,433</u>
Other investments in securities listed in Hong Kong at market value	<u>–</u>	<u>3,800</u>	<u>–</u>	<u>–</u>

14) CURRENT LIABILITIES

	The Group		The Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Accounts payable and accrued expenses	1,785	1,274	60	56
Interest payable	656	–	656	–
Convertible notes	75,000	–	75,000	–
	<u>77,441</u>	<u>1,274</u>	<u>75,716</u>	<u>56</u>

Notes To The Financial Statements

For the year ended 31 March 2003

15) SHARE CAPITAL

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Authorised: 20,000,000,000 ordinary shares of HK\$0.1 each (2002: 5,000,000,000 ordinary shares of HK\$0.1 each)	<u>2,000,000</u>	<u>500,000</u>

Pursuant to a special general meeting held on 20 June 2002, authorized share capital of the Company was 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.

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Issued & fully paid:		
At the beginning of the year (1,618,303,500 ordinary shares of HK\$0.1 each)	161,830	18,800
	<u>–</u>	<u>143,030</u>
Issue of shares		
At the end of the year (1,618,303,500 ordinary shares of HK\$0.1 each)	<u>161,830</u>	<u>161,830</u>

16) SHARE PREMIUM

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Balance at the beginning of the year	40,734	27,349
Net premium on issue of ordinary shares	<u>–</u>	<u>13,385</u>
Balance at the end of the year	<u>40,734</u>	<u>40,734</u>

17) AGING ANALYSIS

No aging analysis is performed as there were no trade receivables and trade payables as at the balance sheet date.

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.

Notes To The Financial Statements

For the year ended 31 March 2003

18) CONTRIBUTED SURPLUS (Continued)

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

	The Group		The Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
(Accumulated loss)/retained earnings brought forward	(4,864)	2,295	(45,525)	(36,540)
Net loss for the year	<u>(12,410)</u>	<u>(7,159)</u>	<u>(11,571)</u>	<u>(8,985)</u>
Accumulated loss carried forward	<u><u>(17,274)</u></u>	<u><u>(4,864)</u></u>	<u><u>(57,096)</u></u>	<u><u>(45,525)</u></u>

20) DEFERRED DEVELOPMENT COSTS

	2003	2002
	HK\$'000	HK\$'000
Balance at the beginning of the year	—	926
Amortized during the year	<u>—</u>	<u>(926)</u>
Balance at the end of the year	<u><u>—</u></u>	<u><u>—</u></u>

21) REVALUATION RESERVE

	2003	2002
	HK\$'000	HK\$'000
Surplus arising on revaluation of land and buildings		
Balance at the beginning of the year	—	1,019
Provision for diminution in value	<u>—</u>	<u>(1,019)</u>
Balance at the end of the year	<u><u>—</u></u>	<u><u>—</u></u>

Notes To The Financial Statements

For the year ended 31 March 2003

22) NOTES TO CASH FLOW STATEMENT

a) Reconciliation of operating loss to net cash (used in)/from operating activities

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Loss before taxation	(12,410)	(6,547)
Adjustment for:		
Interest income	(759)	(132)
Interest expenses	1,251	96
Depreciation	815	1,189
Waive of loan from a former director	(7,271)	–
Share of loss of an associate	24	–
Provision for diminution in value	–	3,206
Amortization of deferred development costs	–	926
Net loss on disposals of fixed assets	578	133
Operating loss before changes in working capital	(17,772)	(1,129)
Decrease/(increase) in other investment in securities	3,800	(3,693)
Decrease in inventories	3,267	1,096
(Increase)/decrease in accounts receivable and prepayments	(6,698)	12,720
Increase/(decrease) in accounts payable and accruals	508	(154)
Decrease in amount due to related companies	–	(262)
Decrease in amount due to a former director	–	(1,456)
Cash (used in)/generated from operations	(16,895)	7,122
Interest received	759	132
Interest paid	(595)	(96)
Net cash (used in)/from operating activities	<u>(16,731)</u>	<u>7,158</u>

22) NOTES TO CASH FLOW STATEMENT (Continued)

b) Acquisition of a subsidiary

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 (“Artway”). Artway was incorporated on 8 January 2002 under the law of the British Virgin Islands and holds 49% interest of Beijing Jin Zun Technology Development Limited (北京金尊科技發展有限公司) (“PRC JV”). Other than the aforesaid, Artway had no material assets or liabilities on 10 April 2002.

PRC JV is engaged in the provision of property management and research and development of computing software. The establishment of PRC JV was approved by the Beijing Administrative for Industry and Commerce on 28 February 2002 for a term of 30 years. PRC JV holds an 80% interest of Beijing Jin Zun Property Development Limited (北京金尊房地產開發有限公司) (“PRC Company”). Other than the aforesaid, the PRC JV had no material assets or liabilities on 10 April 2002.

PRC Company is engaged in the development and sale of real properties as well as the management of real properties. PRC Company was incorporated on 1 February 2002 in the PRC for a term of 20 years. On 1 February 2002, PRC Company entered into a contract of acquisition of a site located at Area No. 7, Xi Ba He Bei Lane, Chaoyang District, Beijing, the PRC (the “Property”). PRC Company intends to construct a multi-purpose complex which consists of a residential apartment tower and an office tower as well as retail premises with car parking spaces. The property was valued by VIGERS Hong Kong Limited on the basis that the property will be developed and completed in accordance with the Group’s latest development proposals.

The acquisition agreement was unconditional and completed on 10 April 2002. The consideration for the acquisition amounted to HK\$195,000,000, as to an amount of HK\$120,000,000 had been settled in cash at completion which had taken place after signing of the agreement, as to an amount of HK\$75,000,000 had been settled by the issue of the First Notes on 22 April 2002 and Second Notes on 10 July 2002.

Notes To The Financial Statements

For the year ended 31 March 2003

22) NOTES TO CASH FLOW STATEMENT (Continued)

b) Acquisition of a subsidiary (Continued)

Pursuant to the Valuation Report on Artway Development Limited issued by Vigers Hong Kong Limited, the fair market value of a 100% equity interest of Artway Development Limited as at 10 April 2002 was reasonably stated at HK\$196,000,000 through the application of income approach with technique known as the discounted cash flow method to discount the future economic benefits of the Company into a present value as of the Appraisal Date.

	2003 HK\$'000	2002 HK\$'000
Net (liabilities)/assets acquired:–		
Fixed assets	–	25,682
Interest in an associate	7,259	–
Prepayment	2	–
Cash at bank and on hand	2	–
Accrued expenses	(3)	–
Amount due to a director	(7,271)	–
	<u> </u>	<u> </u>
Net identifiable assets and liabilities	(11)	25,682
Goodwill arising on consolidation	195,011	–
	<u> </u>	<u> </u>
	<u>195,000</u>	<u>25,682</u>
Satisfied by:–		
Cash consideration	120,000	12,000
First convertible note	37,500	–
Second convertible note	37,500	–
Issue of new ordinary shares at HK\$0.38 per consideration share	–	13,682
	<u> </u>	<u> </u>
	<u>195,000</u>	<u>25,682</u>

Notes To The Financial Statements

For the year ended 31 March 2003

22) NOTES TO CASH FLOW STATEMENT (Continued)

b) Acquisition of a subsidiary (Continued)

Analysis of the net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:–

	2003 HK\$'000	2002 HK\$'000
Cash consideration	120,000	12,000
Less: Cash of the subsidiary acquired	(2)	–
	<u>119,998</u>	<u>12,000</u>

23) CONVERTIBLE NOTES

Pursuant to the acquisition agreement dated 10 April 2002, First and Second convertible Notes (issued on 22 April 2002 and 10 July 2002 respectively) amounting to HK\$75,000,000 were issued to Link Zone International Limited as the balance of total consideration of HK\$195,000,000.

These Notes were issued up to an aggregate principal amount of HK\$75,000,000 due 2004, convertible into shares of the Company at the option of the holders. The Notes were in registered form in the denomination of HK\$500,000 each or integral multiples thereof.

The Notes bear interest from the date of their issue at the rate of 2% per annum. Such interest is payable semi-annually in arrears.

24) COMMITMENTS AND CONTINGENT LIABILITIES

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

Notes To The Financial Statements

For the year ended 31 March 2003

25) DISPOSAL AND DISSOLUTION OF SUBSIDIARIES

	2003	2002
	HK\$'000	HK\$'000
Net assets disposed of:		
Fixed assets	–	5,242
Current assets	–	3,151
Liabilities and accumulated loss taken up		
by purchasers or loan waived	–	(7,001)
(Loss)/gains on disposals	–	(612)
	<u>–</u>	<u>–</u>
Sales proceeds	<u>–</u>	<u>780</u>

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 (USD100,000) 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 were former directors of Capital Automation (BVI) Limited) on the disposal of Capital Automation Information System Inc. which had net liabilities of HK\$1,060,113.30 at 31 March 2001. The consideration was HK\$7.8 (USD1) for the shares.

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

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

	2003	2002
	HK\$'000	HK\$'000
Turnover	–	–
Contribution to operating loss for the year	–	(42)
	<u>–</u>	<u>–</u>

Notes To The Financial Statements

For the year ended 31 March 2003

26) 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 2003, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:–

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	–	2,339
In the second to fifth years, inclusive	–	585
	<u>–</u>	<u>2,924</u>
	<u><u>–</u></u>	<u><u>2,924</u></u>

(b) As lessee

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

At 31 March 2003, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	The Group		The Company	
	2003	2002	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	675	1,447	255	895
In the second to fifth years, inclusive	–	1,280	–	199
	<u>675</u>	<u>2,727</u>	<u>255</u>	<u>1,094</u>
	<u><u>675</u></u>	<u><u>2,727</u></u>	<u><u>255</u></u>	<u><u>1,094</u></u>

Notes To The Financial Statements

For the year ended 31 March 2003

27) POST BALANCE SHEET EVENT

On 3 September 2002, China Eagle Capital Company Limited, an indirect subsidiary, entered into a conditional agreement with independent third parties regarding the transfer of 95% of issued share capital of Gold City Securities Limited and Gold City Futures Limited. The transactions were completed on 23 May 2003 and 20 May 2003 at considerations of HK\$14,516,418 and HK\$8,210,965 respectively.

On 9 April 2003, Capital Realty Development Company Limited, an indirect subsidiary, disposed certain of its land and building situated in PRC with carrying amount of HK\$3,530,376 for a consideration of RMB4,500,000 to an independent third party.

On 26 June 2003, the Company had made a placing arrangement with Ricofull Securities Limited as Placing Agent to place 323,000,000 Placing Shares to 10 Placees at a price of HK\$0.12 per Placing Share. The gross proceeds from the Placing was HK\$38,760,000 and the net proceeds from the Placing was HK\$37,984,800. The placing was completed on 15 July 2003.

Pursuant to a meeting of the board of directors on 17 July 2003, the board approved the conversion of HK\$51,000,000 convertible notes, comprising full amount of the First Notes and partial amount of the Second Notes of amounts HK\$37,500,000 and HK\$13,500,000 respectively. The conversion price was HK\$0.12 per share.

28) CHANGE OF COMPANY NAME

Pursuant to a special general meeting held on 20 June 2002, the Company's name was changed from "Capital Automation Holdings Limited" (京華自動化集團有限公司) to "China Eagle Group Company Limited" (中國鵬潤集團有限公司).

29) 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.