

MANAGEMENT DISCUSSION AND ANALYSIS

Reconciliation of losses as represented in the interim report and the audited interim report

The Company stated in the announcement of the Company dated 6th February 2002 that PricewaterhouseCoopers ("PWC"), the Company's auditors, have been asked to perform a full audit of the interim accounts for the period ended 30th September 2001 in view of the significant adjustments made in the interim accounts. However, PWC resigned as auditors of the Company and its group of companies on 29th August 2002 and the Company has appointed Moore Stephens as auditors of the Company on the same day. The Board announces the results of the audited interim accounts for the period ended 30th September 2001.

For the six months ended 30th September 2001, the interim audited consolidated loss attributable to shareholders was HK\$1,123 million compared with the loss of HK\$220 million in the unaudited interim accounts announced on 6th February 2002. The factors responsible for the significant additional loss of HK\$903 million were as follows:

	HK\$ million
(1) Impairment provision for Heat Supply Project	429
(2) Provision for CNCC Acquisition	233
(3) Provision for Accounts Receivable (Sharp Class)	231
(4) Other provisions	10
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Total	903
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Heat Supply Project

The Group acquired interests in the project from Trade Sense International Limited in March 1998 for HK\$520 million, of which HK\$320 million was paid in cash and HK\$200 million was satisfied by the issue of 100,000,000 new shares in the Company at an issue price of HK\$2 each ("Heat Supply Project"). The acquisition was implemented by the Group (through a 75% subsidiary) entering into an exclusive agreement ("Technical Support Agreement") with Huatong Heat Energy Technique Co., Ltd. ("Huatong Heat") for the provision of technical services relating to the supply, installation and management of heating systems of Huatong Heat in the "People's Republic of China ("PRC"). In return,

Huatong Heat would pay the Group an annual fee calculated on the basis of HK\$5 per square metre multiplied by the total areas of heating systems to be installed by Huatong Heat plus a 55% of its net profit after tax for a period of 20 years. China Huatong Distribution & Industry Development Corporation ("China Huatong"), the holding company of Huatong Heat, also guaranteed in favour of the Group the payment of the minimum income generated by the Heat Supply Project for a period of 4 years commencing from the year ended 31st March 1999. The guaranteed minimum income of HK\$40 million for the year ended 31st March 2002 has yet to be received by the Group.

Huatong Heat alleges that Ocean-Land Heat has not honoured its obligations to provide technical services etc. under the Technical Support Agreement and hence, is not entitled to any payment or share of profits under the same agreement.

In addition, the Company has received a letter dated 6th August 2002 from China Huatong that it has not paid any "guaranteed income" to the Group and is not capable to honour its commitment under the guarantee letters.

Thus the principal asset acquired by the Group under the Heat Supply Project is effectively an intangible asset, which represents the fair value of future distributions. The Group has received HK\$118 million from Huatong Group Holdings Limited and Proficient Company Limited, being the guaranteed minimum income for the years ended 31st March 1999 to 2001. With the non-payment of guaranteed minimum income of HK\$40 million for the year ended 31st March 2002 by Huatong Heat or the guarantor, and the allegation by Huatong Heat that the Group has not honoured its obligations under the Technical Support Agreement, the Group decided to make additional provision of HK\$429 million in respect of this investment to reduce the carrying value to zero. The Group having no management control over the operation of the Heat Supply Project, the Board also noted that upon receiving the guaranteed minimum income of HK\$118 million, the Group made payments totalling HK\$114 million within a few days through its group companies to third parties which have no business transaction with the Group. Deloitte Touche Tohmatsu has been appointed by the Board to investigate into the Heat Supply Project on 22nd July, 2002. The Board will take the necessary step to recover the loss incurred by the Group arising from this transaction.

CNCC Acquisition

The earnest money of HK\$200 million was paid in cash to Sharp Class International Limited, the collection agent directed by China National Container Corporation ("CNCC"), a PRC state-owned corporation, in March 2000. The memorandum of understanding (the "MOU") for the CNCC Acquisition was entered between the Company and CNCC on 28th February 2000 for the sale and purchase of 75% interest in Shanghai Pudong CNCC Logistics Development Limited ("CNCC Acquisition"). The Company had entered into a letter of intent ("Letter of Intent") with CNCC on 24th August 2000 for the formation of a joint venture for the development and operation of a logistics services network in the PRC. The Board approved, confirmed and ratified the MOU, the Letter of Intent and the payment of HK\$200 million in cash in March 2000 on 28th August 2000. The formal sale and purchase agreement in relation to the CNCC Acquisition was entered into on 19th February 2001 ("S & P Agreement"). The cost of the CNCC Acquisition was HK\$350 million of which HK\$200 million was paid in cash and the balance of HK\$150 million was to be made by issuing 300,000,000 shares of the Company at HK\$0.50 per share. There were six extensions for the completion of the S & P Agreement from 2nd May 2001 to 31st March 2002. The CNCC Acquisition was terminated on 2nd April 2002 when the conditions precedent could not be fulfilled.

The Board also noted that an advance of HK\$13,000,000 to Epoch Development Holdings Limited in relation to the CNCC Acquisition was made on 3rd May 2001 but was unable to locate the documents in support of this payment. In addition, expenses of HK\$5,620,000 related to the CNCC Acquisition were capitalized and interest income of HK\$14,000,000 accrued on the earnest money of HK\$200,000,000 for the period from April 2000 to March 2001 was recorded as profits for the year ended 31st March 2001. According to the S & P Agreement, if the same is to be terminated because of the non-fulfillment of the conditions precedent, the Group has the right to seek a refund of the whole amount of earnest money of HK\$200,000,000 together with interest accruing at 7% per annum. Since the S & P Agreement was only terminated on 2nd April 2002, the Board fails to recognise the rationale in accruing the interest income of HK\$14,000,000 on the earnest money in the annual accounts ended 31st March 2001. Hence, the Board decided to make a provision of HK\$232,620,000 for these items in the interim accounts for the period ended 30th September 2001.

According to the credit search on CNCC, CNCC applied for bankruptcy in 1998 and the approval from the relevant authorities in PRC has yet to be obtained. The Board has yet to understand the rationale in advancing HK\$200,000,000 as earnest money to CNCC and accepting CNCC as a guarantor of the S & P agreement in view of the financial difficulties of CNCC.

Deloitte & Touche Corporate Finance Limited ("DTCF") submitted its limited review report dated 5th August 2002 on the CNCC Acquisition to the Company for review. The Company has instructed legal advisers to institute the legal proceedings to seek the refund of the earnest money of HK\$200,000,000 and the advance of HK\$13,000,000.

The Company has on 1st August 2002 received a letter from CNCC stating that, inter alia, it has not received the earnest money of HK\$200 million allegedly paid by the Group in March 2000 or authorised any person to receive such sum from the Group.

Accounts Receivable

The Group had outstanding accounts receivable totalling HK\$358,445,000 ("Accounts Receivable") due from Sharp Class International Limited ("Sharp Class"), a company incorporated in the British Virgin Islands. The documentation surrounding the transactions is insufficient and the beneficial owner of Sharp Class is also unclear. The debtor has not repaid any sum or responded to demands for repayment. In view of the lack of satisfactory documents and adequate securities to substantiate the loan of HK\$358,445,000, the Board decided to make a full provision of HK\$358,445,000 in the interim accounts for the period ended 30th September 2001 (of which HK\$127.8 million was provided for in the unaudited interim accounts for the six months ended 30th September 2001 based on certain representation from a director that the sum was advanced for the purpose of a trading partner of the Group which was later found to be unsubstantiated).

DTCF submitted its limited review report dated 5th August 2002 to the Company on the Accounts Receivable for review. The Company commenced legal actions on 7th September 2002 against Sharp Class and Mr. Lo Chu Kong, the then director, and chief executive officer of China-eDN.com Limited (a 70% subsidiary of the Company which made the payment to Sharp Class) to recover the amount of HK\$308,444,772. Further legal action will taken against the relevant parties for the recovery of HK\$50 million due from Sharp Class.