NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 September 2003

1. BASIS OF PREPARATION

The condensed financial statements have been prepared under the historical cost convention as modified for the revaluation of investment properties. The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and the Statement of Standard Accounting Practice ("SSAP") No. 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants ("HKSA").

In preparing the condensed financial statements, the directors have given careful consideration to the future liquidity of the Group in the light of its net current liabilities of HK$179,626,000 as at 30 September 2003. The Group is currently dependent upon the financial support from its ultimate controlling shareholder. The ultimate controlling shareholder has agreed to provide continuing financial support to the Company to enable the Group to meet in full its financial obligations as they fall due. Accordingly, the interim financial report has been prepared on a going concern basis.

2. PRINCIPAL ACCOUNTING POLICIES

The accounting policies adopted are consistent with those followed in the preparation of the audited financial statements of the Group for the year ended 31 March 2003, except that the Company has adopted, for the first time in the current period, SSAP No. 12 (Revised) "Income taxes" ("SSAP 12 (Revised)") issued by the HKSA.

SSAP 12 (Revised) has introduced a new basis of accounting for income taxes (including both current tax and deferred tax) and additional disclosure requirements which have been adopted in the condensed financial statements. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In the previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. The adoption of this standard has had no significant effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment is required.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Other than as described above, the accounting policies adopted in the preparation of the condensed financial statements are consistent with those followed in the preparation of the Group's audited financial statements for the year ended 31 March 2003.

3. TURNOVER AND SEGMENT INFORMATION

An analysis of the Group's turnover and loss before taxation for the period by principal activity is as follows:

	Turnover Six months ended 30 September		**Segment results Six months ended 30 September**	
	2003	*2002*	**2003**	*2002*
	HK$'000	*HK$'000*	**HK$'000**	*HK$'000*
Principal activity				
Sales of goods	**56,266**	62,821	**8,029**	(1,455)
Property investment	**1,972**	3,463	**829**	(392)
Others	**–**	3	**68**	(255)
	58,238	66,287	**8,926**	(2,102)
Unallocated corporate expenses			**(8,388)**	(12,287)
Revaluation deficit recognised in respect of an investment property			**(19,000)**	–
Share of results of associates			**1,164**	–
Finance costs			**(2,349)**	(2,251)
Loss before taxation			**(19,647)**	(16,640)

3. TURNOVER AND SEGMENT INFORMATION *(Continued)*

An analysis of the Group's turnover and loss before taxation for the period by geographical segments is as follows:

	Turnover		**Segment results**	
	Six months ended 30 September		**Six months ended 30 September**	
	2003	*2002*	**2003**	*2002*
	HK$'000	*HK$'000*	**HK$'000**	*HK$'000*
Geographical segment				
People's Republic of China ("Mainland China")	**50,720**	41,227	**7,308**	(2,718)
Hong Kong	**7,518**	10,763	**1,618**	5,253
Taiwan	**–**	14,297	**–**	(4,637)
	58,238	66,287	**8,926**	(2,102)
Unallocated corporate expenses			**(8,388)**	(12,287)
Revaluation deficit recognised in respect of an investment property			**(19,000)**	–
Share of results of associates			**1,164**	–
Finance costs			**(2,349)**	(2,251)
Loss before taxation			**(19,647)**	(16,640)

4. LOSS FROM OPERATIONS

	Six months ended 30 September 2003 HK$'000	2002 HK$'000
Loss from operations has been arrived at after charging:		
Depreciation of property, plant and equipment	**2,777**	4,110
Loss on disposal of properties, plant and equipment	**–**	2,021
and after crediting:		
Gain on disposal of property, plant and equipment	**510**	–
Interest income	**–**	3
Release of negative goodwill arising on purchase of an associate	**337**	–

5. FINANCE COSTS

	Six months ended 30 September 2003 HK$'000	2002 HK$'000
Interest on		
Bank borrowings wholly repayable within five years	**(1,584)**	(1,222)
Other loans wholly repayable within five years	**(765)**	(1,029)
	(2,349)	(2,251)

6. TAXATION

	Six months ended 30 September 2003 HK$'000	2002 HK$'000
The charge comprises:		
The Company and subsidiaries:		
Hong Kong Profits Tax	**(387)**	(40)
Mainland China Enterprise Income Tax	**(512)**	–
	(899)	(40)

6. TAXATION *(Continued)*

No provision for Hong Kong Profits Tax has been made in the current period as the Group's estimated assessable profit for the period was wholly absorbed by the taxation losses brought forward. The change for the current period represents the underprovision of Hong Kong Profits Tax in the prior periods.

Hong Kong Profits Tax was calculated at 16% of the Group's estimated assessable profit for the prior period.

The subsidiaries and associates established in the Mainland China are exempted from paying Mainland China Enterprise Income Tax for the first two profit-making years followed by a 50% reduction in the enterprise income tax rates in the following three years. Mainland China Enterprise Income Tax is provided for with reference to the applicable tax rates prevailing in the respective regions of the Mainland China on the estimated assessable profits of those subsidiaries and associates.

The Group does not incur any significant tax liabilities in any other jurisdiction.

7. LOSS PER SHARE

The calculation of the basic loss per share is based on the net loss for the period of HK$22,468,000 (six months ended 30 September 2002: HK$17,067,000) and on the weighted average number of 1,684,995,132 ordinary shares (six months ended 30 September 2002: 1,464,736,116 ordinary shares) in issue during the period.

No diluted loss per share has been presented for both periods as the exercise of the Company's outstanding share options and the conversion of the mandatory convertible note was anti-dilutive.

8. INVESTMENT PROPERTIES

The investment properties were revalued on the basis of their open market values as at 31 March 2003 by S.H. Ng & Co., Ltd., an independent property valuer. As at 30 September 2003, investment properties in Hong Kong and overseas with an aggregate carrying value of HK$63,000,000 (as at 31 March 2003: HK$82,000,000) and HK$3,928,000 (as at 31 March 2003: HK$3,928,000) respectively were pledged as securities for the Group's bank borrowing facilities.

During the period, the Group purchased a subsidiary, Merry World Associates Limited ("Merry World"), which owned an investment property in Guangzhou, Mainland China (see note 13). This investment property was revalued on the basis of its open market value as at 30 May 2003 amounted to HK$105,000,000 by S.H. Ng & Co., Ltd.

8. INVESTMENT PROPERTIES *(Continued)*

On 29 November 2003, the Group entered into an agreement with an independent third party (the "Disposal Agreement") to dispose of an investment property in Hong Kong with a valuation of HK$82,000,000 as at 31 March 2003 for a consideration of HK$63,000,000. As a result of directors' assessment of the open market value of this investment property, deficit on revaluation of HK$19,000,000 was recognised in the income statement for the six months ended 30 September 2003.

9. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent HK$4,593,000 (six months ended 30 September 2002: HK$134,000) on acquisitions of property, plant and equipment.

10. TRADE AND OTHER RECEIVABLES

	30 September 2003 HK$'000	31 March 2003 *HK$'000*
Trade receivables	**14,392**	10,673
Prepayments and deposits – net	**2,566**	1,966
Other receivables – net	**6,335**	1,094
	23,293	13,733

The Group allows an average credit period of 30 days (31 March 2003: 30 days) to its trade customers on open account credit terms. The aged analysis of the trade receivables at 30 September 2003 is as follows:

	30 September 2003 HK$'000	31 March 2003 *HK$'000*
Current	**8,526**	6,667
One to three months	**271**	956
Over three months	**5,595**	3,050
	14,392	10,673

11. TRADE AND OTHER PAYABLES

	30 September 2003 HK$'000	31 March 2003 *HK$'000*
Trade payables	**27,447**	26,334
Deposits received, other payables and accruals	**85,602**	69,271
	113,049	95,605

The aged analysis of the trade payables at 30 September 2003 is as follows:

	30 September 2003 HK$'000	31 March 2003 *HK$'000*
Current	**7,313**	4,709
One to three months	**70**	2,394
Over three months	**20,064**	19,231
	27,447	26,334

12. SHARE CAPITAL

	Number of shares '000	**Amount HK$'000**
Ordinary shares of HK$0.10 each		
Authorised:		
At 31 March 2003 and 30 September 2003	5,000,000	500,000
Issued and fully paid:		
At 1 April 2003	1,684,405	168,440
Issue of new shares upon exercise of share options	1,250	125
At 30 September 2003	1,685,655	168,565

13. PURCHASE OF A SUBSIDIARY

On 8 April 2003, the Company announced that it had entered into a settlement agreement (the "Settlement Agreement") with China Huatong Distribution and Industry Development Corporation ("China Huatong") and its subsidiaries (collectively referred to as the "Huatong Group") pursuant to which, among other matters, the Company agreed, subject to the satisfaction of certain conditions, to reduce the amount claimed against Huatong Group by HK$105,000,000 under disputed claims, in consideration of China Huatong agreeing to (i) release and procure Huatong Heat Technique Company Limited, a wholly-owned subsidiary of China Huatong to release Ocean-Land Heat Supply Limited, a 75% subsidiary of the Company, from any claims which they may have under a heat supply project; and (ii) procure Huatong Group Holdings Limited ("Hong Kong Huatong"), a wholly owned subsidiary of China Huatong, to transfer its interest in Merry World, a wholly owned subsidiary of Hong Kong Huatong, and assign the shareholder's loan due from Merry World to the Company at a consideration which was determined after arm's length negotiation, free from all encumbrances. The Settlement Agreement was approved by the shareholders of the Company in an Extraordinary General Meeting held on 24 June 2003.

Hong Kong Huatong was the sole beneficial shareholder of Merry World and the sole beneficial owner of the entire unsecured and interest-free shareholder's loan due from Merry World (the "Merry World Debt") which amounted to HK$93,623,000 as at 28 February 2003. The only asset of Merry World is a property in Guangzhou which was revalued on the basis of its open market value at 30 May 2003 amounted to HK$105,000,000 by S.H. Ng & Co., Ltd., an independent property valuer.

The net effect of the acquisition of Merry World amounted to a written back impairment of intangible assets of HK$79,460,000 for the year ended 31 March 2003 which is the aggregate of the net liabilities of Merry World as at 28 February 2003 in amount of HK$14,163,000 and the gain in net tangible assets due to assignment of the Merry World Debt as at 28 February 2003 in amount of HK$93,623,000 to the Group. As at 31 March 2003, the Group treated the net book value of intangible assets being used to exchange for the net tangible assets (less the liabilities) from Merry World.

14. PURCHASE OF AN ASSOCIATE

On 28 January 2002, the Group disposed of its 35% interest in Success Project Investments Ltd., which holds a 52% interest in an investment company that owns Shilu International Shopping Centre in Suzhou, Mainland China, for HK$15,000,000. The Group had an option to repurchase the investment before the end of 2002 (subsequently extended to 17 April 2003) at HK$15,000,000, plus interest at 10% per annum thereon. On 17 April 2003, the Group exercised the option to repurchase the investment at a consideration of HK$16,866,000 and generated a negative goodwill of HK$13,488,000.

15. CONTINGENT LIABILITIES

	30 September 2003 HK$'000	31 March 2003 HK$'000
Litigation	**4,844**	4,844

The litigation represents the maximum contingent liability of the Group estimated by the directors in respect of a claim lodged against a subsidiary of the Company. The directors, based on the advice of the Group's legal advisors, considered that the Group has a good defence against the alleged claim and accordingly did not make any provision for liabilities in respect of the claim for the period.

16. OPERATING LEASE COMMITMENTS

As lessee

The Group had commitments for future minimum lease payments in respect of land and buildings under non-cancellable operating leases which fall due as follows:

	30 September 2003 HK$'000	31 March 2003 HK$'000
Within one year	**1,579**	1,512
In the second to fifth year inclusive	**4,615**	–
	6,194	1,512

As lessor

The Group had contracted with tenants for the following future minimum lease payments in respect of the investment properties:

	30 September 2003 HK$'000	31 March 2003 HK$'000
Within one year	**2,615**	2,900
In the second to fifth year inclusive	**400**	1,489
	3,015	4,389

17. CAPITAL COMMITMENTS

As at 30 September 2003, the Group did not have any outstanding capital commitments.

18. POST BALANCE SHEET EVENT

On 29 November 2003, the Group entered into an agreement with an independent third party to dispose of an investment property in Hong Kong with a valuation of HK$82,000,000 as at 31 March 2003 for a consideration of HK$63,000,000. The disposal constitutes a major transaction of the Company under the Listing Rules and is conditional on approval by the shareholders of the Company at extraordinary general meeting of the Company to be convened for the purpose of, among other matters, approving the Disposal Agreement.

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend.

MANAGEMENT DISCUSSION AND ANALYSIS

Results

For the six months ended 30 September 2003 ('the period'), the interim consolidated loss attributable to shareholders was HK$22,468,000 compared with the loss of HK$17,067,000 for the corresponding period in 2002.

The loss for the period was mainly attributable to an impairment loss of HK$19,000,000 as a result of a disposal agreement entered on 29 November, 2003 to sell one of our investment property to an independent third party. Excluding the effect of property disposal net loss during the period was approximately HK$3,468,000.

The Group recorded a turnover of HK$58,238,000 for the period as compared to HK$66,287,000 for the corresponding period of 2002. The decrease in turnover was due to termination of unprofitable distribution business.

Administrative and other operating expenses decreased significantly during the period under review was contributed to the Group's aggressive implementation of strict financial control and cost cutting program.