

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATIONS

During the year, we have strengthened and significantly improved our core business in logistics whilst at the same time disposed of loss making or non-core business operations which were affecting our future business development.

PERFORMANCE OF OPERATING DIVISIONS

Bonded warehouse

Management has put much effort to improve the operation in increasing customers, widening and improving efficiency of our logistics and other related services and keeping tighter credit control. The turnover of this operation increased approximately 100% compared to that of the previous year and it has become a profitable operation for the Group. The bonded warehouse in Futian, the PRC, contributed a substantial increase to the Group's revenue during the year. With continued efforts of Management, the Company will increase quality clients for the coming year with an increasing contribution to the Group. During the year Management secured multi-national corporation clients like Procter & Gamble and LG (Korea).

Home appliances sales

This operation is comparatively small scale and sustained a decline of revenue and incurred a small loss due to the outbreak of SARS in the second quarter of 2003. In light of the recent gradual recovery of local economy, Management has deferred a decision as to whether this operation should be discontinued.

Discontinued operations

During the year, the Group has disposed of two subsidiaries, Dransfield Food and Beverage Limited ("DFB") for a consideration of HK\$450,000 and Shenyang Dransfield Industrial Development Ltd ("SDID") for a consideration of HK\$1,500,000.

DFB was principally engaged in the trading of food and beverage products in Hong Kong by vending machines. The disposal was completed in July 2003.

SDID was principally engaged in the production and distribution of edible oil in the PRC. The disposal was completed in March 2004.

Wuxi Dransfield Broadsino Beverage Co., Ltd ("Yixing Brewery")

Yixing Brewery was a jointly controlled entity and, after further acquiring the remaining 40% equity interest in Yixing Brewery in July 2003, Management successfully obtained a substantial amount of compensation from the Yixing government for plant relocation. Management considered that the operation is not the core business of the Group and it was disposed of in March 2004. As a result, the Group's gain arising on disposal was approximately HK\$2 million.

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DF China Technology Inc. ("DFCT")

On 30 April 2003, the Company, together with some other shareholders of DFCT, a corporation at present listed on the OTC Bulletin Board in the US, holding in aggregate in excess of 50% of DFCT's voting rights, resolved to change certain directors on that company's board and Dr. Fan Di was appointed Chairman and Chief Executive Officer of DFCT. The Company then realized part of its investment in DFCT and generated a gain of HK\$16 million.

At 31 March 2004, the Company owned 2.2% in DFCT. Due to restructuring of DFCT in a merger involving the issue of new capital in DFCT on 25 May 2004, the holding of this investment of the Company in DFCT was diluted to approximately 0.4%. Management will realize this remaining holding when the market price of DFCT is appropriate.

Shenzhen SEG Scientific Navigations Company Limited ("SEG Scientific")

On 5 December 2003, a wholly-owned subsidiary of the Company subscribed for 21 million shares in SEG Scientific, representing 35% of the enlarged share capital of SEG Scientific, for a cash consideration of HK\$26.75 million. The subscription was completed in December 2003.

On 4 and 5 February 2004, the wholly-owned subsidiary of the Company further entered into agreements with certain shareholders of SEG Scientific to acquire an additional 17.6% equity interest in SEG Scientific for a consideration of HK\$13.6 million. Completion is subject to the fulfillment of certain conditions of the agreement on or before 31 March 2005, otherwise it will lapse.

SEG Scientific is a joint stock company incorporated in the PRC and is engaged in the manufacturing of automatic vehicle locator of global positioning system in the PRC and the provision of global positioning system vehicle tracking and monitoring services in the Southern China region.

Business development

Looking ahead, we shall continue to focus our efforts in the logistics business to achieve expansion by horizontal expansion, vertical integration and joint venture opportunities.

We anticipate the coming year will provide exciting opportunities for us as supported by the encouraging global economic growth and expect to see a continuing improvement in our logistics business performance. We shall also continue to look for possible co-operations, mergers and acquisitions in the PRC as and when opportunities arise.

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RESULTS

For the year ended 31 March 2004, the company has recorded a turnover of HK\$27.77 million (2003: HK\$36.34 million) and a net profit for the year of HK\$14.26 million (2003: HK\$13.45 million). The decrease in turnover compared with the previous year was due to the discontinued edible oil and vending machine businesses. Return on average capital employed for the year was 4% as compared to 5% for fiscal 2003. Return on average equity for the year is 13% as compared to 17% for fiscal 2003.

The profit was mainly attributable to the realization of part of the Company's investment in DF China Technology Inc. ("DFCT") together with the revaluation, to market value, of the remaining holding in that company.

Revenue

During the year, the Group disposed of two non-core businesses established by Dransfield Holdings Ltd. They were engaged in the production and distribution of edible oil, and the trading of food and beverage products. The remaining continuing operations reported total revenues increased 39% to HK\$17 million (2003: HK\$12 million).

By segment, revenues for the logistics operation increased 100% to HK\$14 million (2003: HK\$7 million) whilst the distribution of household appliances operation decreased 36% to HK\$3 million (2003: HK\$5 million). The utilisation level of the Futian bonded warehouse continued to rise from only 40% in March 2003 to 75% in March 2004. Excluding the revaluation gain of the warehouse reported in the last fiscal year, the logistics operation had a promising increase in operating result from the loss of HK\$3 million in fiscal 2003 to a gain of HK\$1 million in fiscal 2004.

Owing to the outbreak of SARS, the electronic household appliances distribution recorded a reduction in revenue and operating result in fiscal 2004.

Profit for the year

The Group realized part of its investment in DFCT, a legacy of Dransfield Holdings Ltd. Together with the revaluation of the remaining holding in that company to market value at 31 March 2004, it generated a gain of HK\$23 million. On the other hand, the Group also disposed of a jointly controlled entity, another non-core operation engaged in the manufacture of beverage products. Having received local government's compensation for plant relocation, the Group's gain arising on disposal was approximately HK\$2 million.

The net loss on disposal of all non-core operations as stated above totaled HK\$2 million. The Group has no substantial non-core businesses remaining and Management can fully focus on core businesses.

Dividend

The Directors do not recommend the payment of a dividend for the year (2003: Nil).

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FINANCIAL POSITION

Assets

Total assets of the Group at the close of fiscal 2004 amounted to HK\$243 million (2003: HK\$213 million), an increase of 14%. The increase was mainly due to the increase of investments in debt securities with fixed rate of return exceeding bank borrowing rates. Such short-term securities can be easily liquidated any time for acquisitions and business development.

Liabilities

Total liabilities of the Group amounted to HK\$124 million (2003: HK\$100 million), an increase of 24%. It resulted from the increase in bank borrowings for potential acquisitions and working capital.

LIQUIDITY AND FINANCIAL RESOURCES

At 31 March 2004, the Group's bank borrowings totaled HK\$103 million (2003: HK\$77 million), HK\$78 million (2003: HK\$27 million) of which were due within one year. Recently Management has successfully renegotiated a bank loan repayment of HK\$28 million by one more year. This will alleviate short-term cash flow pressure. Taking into account of this HK\$28 million as a long-term loan, adjusted current liabilities at the close of fiscal 2004 amounted to HK\$71 million.

The quick ratio of 1.3 times (2003: 1.2 times) – being current assets minus stock over current liabilities – shows that the Group's liquidity position is healthy. The Group's gearing ratio was 46% (2003: 41%), expressed as a percentage of total bank borrowings to the sum of shareholders' funds, minority interest and bank borrowings.

Cash flows

Cash and cash equivalents at the end of the year amounted to HK\$25 million, a decrease of HK\$11 million (2003: HK\$36 million) over the previous year.

Net cash used in operating activities amounted to HK\$13 million (2003: HK\$28 million), showing that, compared with last fiscal year, Management took effective measures in minimizing cash outflows from operations. Given the improving performance of the logistics business, the completion of eliminating loss-making operations and acquiring profitable business ventures, Management anticipates that net cash inflows will be generated from operating activities in the coming years.

Net cash used in investing activities amounted to HK\$35 million (2003: generated HK\$7 million). The acquisition of the equity interest in SEG Scientific and investments in debt securities were partially financed by the disposal of non-core businesses and the realization of part of the investment in DFCT.

Net cash from financing activities amounted to HK\$37 million (2003: HK\$51 million). The new bank loans raised financed operating and investing activities.

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CONTINGENT LIABILITY

At 31 March 2004, the Company had given guarantees of approximately HK\$99 million (2003: HK\$57 million) to banks in respect of banking facilities granted to a subsidiary. The extent of such facilities utilised by the subsidiary at 31 March 2004 amounted to approximately HK\$99 million (2003: HK\$56 million).

EMPLOYEES

At 31 March 2004, the Group had a total 81 employees, 59 of whom were employed in the Chinese mainland and 22 were employed in Hong Kong. The Group provides competitive remuneration packages to employees commensurate with the level and market trend of pay in the business sector in which the Group operates, including insurance and medical cover, mandatory provident fund schemes and share option schemes. Other employee benefits include meal and traveling allowances and discretionary bonuses.

SHARE OPTION SCHEME

The Company adopted a share option scheme on 21 June 2002, which enables the Company to grant share options to eligible persons as an incentive or reward for their contribution to the Group. The terms of the new share option scheme fully comply with the provisions of Chapter 17 of the Listing Rules. 149,500,000 options had been granted under the option scheme during the year.

INVESTOR RELATIONS

To maintain a continuously open dialogue with shareholders and investment community, Management actively participated on many occasions in communicating with investors, shareholders and analysts through roadshows, conferences and other means. The Company is able to project its business operation and growth prospects to the market for a wide recognition of the market participants of the Company's transparency and accessibility.

STRATEGIES AND PROSPECTS

In light of the fast expanding logistics industry in the PRC and the encouraging performance of our logistics business, we will seek to further improve the utilization of our Futian bonded warehouse and generally expand our logistics operations.

We will also look for possible co-operations, mergers and acquisitions in the Mainland when appropriate opportunities arise and are confident that the Company will further improve performance and returns for our shareholders.