

MANAGEMENT DISCUSSION AND ANALYSIS

Results

For the six months ended 30 September 2004 (the "Period"), the Group recorded a turnover of HK\$9,097,000 (2003: HK\$22,499,000) and a net loss attributable to shareholders of HK\$13,453,000 (2003: profit of HK\$36,438,000).

The overall decline in turnover for the Group resulted directly from the discontinuance of its non-core operations including brewery production and edible oil manufacturing. Nevertheless, growth with the Group's core business of logistics services brought satisfying results, which accounted for approximately 90% of the total turnover for the Group during the first six months of operations.

The net loss of the Period also included a provision made by the Company on its investment in DF China Technology Inc. ("DFCT"), which is a short-term investment, made by previous management. On 25 May 2004, as a result of the failure to comply with certain provisions of Nasdaq Marketplace Rules, the common stock of DFCT was delisted from the Nasdaq Small Cap Market and was then listed on the Over-The-Counter Bulletin Board on the same date. This led to a considerable drop in the share price of DFCT and after making an appropriate provision, Management does not expect to have any further significant loss on the investment. DFCT is now waiting for the result of its application for the relisting of its shares on Nasdaq.

Review of operations

Despite the overall decrease in turnover, the performance of logistics services of the Group has been encouraging and the revenue generated from the operation increased by 28% as compared to that of the previous year.

The prolonged improvement of the economy has accelerated the demand for cross-border bonded warehousing and logistics services, especially in Southern China, and the Group was, therefore, able to record a substantial increase in its logistics revenue. Additionally, in order to secure its currently well-established client network, including multi-national corporations such as P&G and LG, the Group has progressively expanded its marketing team and also enlarged its client base serving a range of customers from PRC, Hong Kong and overseas.

During the Period, Management has taken cost-effective measures to improve its warehouse operation and the utilization level has been improved significantly for its bonded warehouse located in the Shenzhen Free Trade Zone, Futian. Presently, approximately 70% of the Group's logistics services income is derived from the forwarding, delivery and other value added services while warehousing accounted for the remaining 30% of the income. The Group will in future provide more delivery and logistics related services, which are not limited by the occupancy levels of warehouses.

The Group has gradually scaled down its home appliances operation with the aim of deploying more resources into its logistics business. With the merging of the Group's businesses, the home appliances operation is accounted for less than 10% of the Group's turnover and Management is currently considering appropriate action to eliminate the loss from such operation.

On 19 August 2004, the Group entered into two separate agreements to dispose of its shares in Shenzhen SEG Scientific Navigations Company Limited ("Shenzhen SEG"). The net proceeds of the disposal amounted to approximately HK\$39.7 million and Management believes the disposal provided the Group with an ideal opportunity to focus its resources on its core business. As of the balance sheet date, Shenzhen SEG contributed HK\$1,082,000 of the share of profit from associated company to the Group.

New acquisition

As disclosed in the announcement of the Company of 17 December 2004, the Group entered into three agreements to acquire a 60% equity interest in Guangzhou Meiri Logistics Company Limited and Jiangxi DiChain Logistics Company Limited (collectively called "Meiri Logistics") in November 2004. Meiri Logistics is a third-party logistics services provider in the PRC, which offers a total integrated logistics solution and value added services along the whole spectrum of the supply chain. Services provided by Meiri include managing and utilizing logistics facilities, renting warehouses in Regional Distribution Centers ("RDCs") and subcontracting of transportation. Its major customers include Amway, Wal-mart, Panasonic Electronics, Jianlibao, TCL, Yile & etc.

With controlling shareholding interests in Meiri Logistics, Management believes that the Group will be able to strengthen its existing logistics services via vertical integration, enabling it to become a leading total logistics solution provider in the PRC.

Liquidity, financial resources and capital structure

The Group generally finances its operations with internally generated resources and bank facilities granted by principal bankers in the PRC and Hong Kong. As at 30 September 2004, the Group's gearing ratio was 34% (calculated on the basis of the Group's bank borrowings over total assets) which compared with 42% as at 31 March 2004. At the period end date, the Group's total bank borrowings amounted to HK\$96 million, which was secured by certain properties of the Group located in the PRC.

The Group's cash and bank balances as at 30 September 2004 were approximately HK\$43 million as compared to that as of 31 March 2003 of HK\$25 million, being an increase of 71%. The current ratio (calculated on the basis of the Group's current assets over current liabilities) was 0.76 as at 30 September 2004 (31 March 2004: 0.80).

With improving business performance of its logistics operation and given the strong background of its major shareholder, the Group is able to refinance its bank loans on more favorable terms.

The Group conducted its business transactions principally in Renminbi, Hong Kong dollars, or in the local currencies of the operating subsidiaries. The Directors considered that the Group had no significant exposure to foreign exchange fluctuations and believed it was not necessary to hedge any exchange risk. Nevertheless, Management will continue to monitor the foreign exchange exposure position and will take any future prudent measure it deems appropriate.

Employees and remuneration policies

As at 30 September 2004, the number of employees of the Group was 103. The remuneration packages of employees are maintained at competitive levels and include monthly salaries, mandatory provident fund, medical insurance and share option schemes; other employee benefits include meal and traveling allowances and discretionary bonuses.

Prospects

Benefiting from the rapid growth of exports from Southern China region, a strong demand for third party logistics services is expected in the coming years. To capture this opportunity and enhance its presence in the industry, the Group is geared to become a total logistics services provider. To achieve this objective, the Group has taken its first step by acquiring 60% of the equity interest in Meiri Logistics in November 2004. Meiri Logistics is engaged in third party logistics business and operations in the PRC, and provides a total logistics solution and value added services, such as logistics service, third party warehousing and inventory management. Management expects Meiri Logistics will act as a door-to-door and last-mile service provider for the Group's existing customers and the bonded warehouse in Futian will act as an exporting window for Meiri Logistics' customers. Together with the servicing network of Meiri Logistics, the Group is now providing national wide services across the PRC with 12 RDCs situated in logistics strategic locations such as Beijing, Shanghai, Chengdu, Guangzhou, Shenzhen, Tianjin, Changchun, Haerbin and Zhengzhou.

Focused on developing the immense potential of the logistics industry in the PRC, the Group plans to further expand its logistics related operations and strengthen its network in the PRC through mergers and acquisitions, introduction of strategic partners and other forms of joint ventures in the PRC. In future, the Group will also endeavor to improve its profit margin by targeting and serving world class customers who need a full range of logistics services.

Management believes the Group is now well-positioned and is confident that the Group's investment strategy in the logistics industry will bring satisfactory returns to its shareholders in future.