REVIEW OF OPERATIONS

With the successful transformation of its business operations executed in the previous year, the Group had set target for its long-term development plan in global logistics industry. During the year, the Group has deployed resources to further develop its logistics-related businesses, which included the acquisition of Guangzhou DiChain, a third-party logistics services provider with headquarters located in Guangzhou City, PRC.

Bonded warehouse

The prolonged improvement of the economy has positively 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 of nearly 28% in its bonded warehouse 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 customer services team to serve its customers from PRC, Hong Kong and overseas.

During the year, the Management had also taken cost-effective measures to improve its bonded warehouse operation whereby the utilization level has improved significantly. Presently, approximately 70% of the Group's logistics services income is contributed by the forwarding, delivery and other value added services while warehousing accounted for the remaining 30% of the income. In future, the Group will focus to provide more delivery and logistics related services, which are not limited by the occupancy levels of warehouses.

DiChain Logistics Services (Shenzhen) Co Ltd ("DiChain Logistics") is a wholly-owned subsidiary of the Group, is engaged in providing bonded warehouse logistics services. Located in the Futian Bonded Trade Zone, which is one of the fifteen free trade zones in PRC, DiChain Logistics offers fast, convenient, and reliable total logistics management services ranging from storage, transportation, merchandise display, wholesale mart, repair and maintenance services, to repacking and third-party distribution for bonded goods.

With a total investment of HK$135 million, DiChain Logistics owns a bonded warehouse with a gross floor area of 28,125 square meters and a storage capacity of 43,200 cubic meters. The warehouse consists of six chambers of various stacking heights, including the only 15-meter-high vertical pallet-racking, with a 4,600-square meter air-conditioned area and a 15,000-square meters general storage area. The seven-storey building is housed with exhibition and conference facilities, offices, a wholesale mart, service workshops and a repackaging center.

Third-party Logistics

In November 2004, the Group acquired a 60% equity interest in Guangzhou DiChain Logistics Co., Limited ("Guangzhou DiChain") (former known as Guangzhou Meiri Logistics Company Limited) and Jiangxi DiChain Logistics Company Limited ("Jiangxi DiChain"). Since its acquisition in November 2004, Guangzhou DiChain has generated revenue of over HK$15 million, representing 45% of the total revenue of the Group for the year under review.

Established in early 2001, Guangzhou DiChain is a premier third-party logistics services provider in PRC, which offers a total integrated logistics solution with value added services along the whole spectrum of the supply chain. Services provided by Guangzhou DiChain include managing and utilizing logistics facilities, renting warehouses in Regional Distribution Centers and subcontracting of transportation. Guangzhou DiChain is equipped with advanced logistics facilities, state-of-the-art logistics IT software and systems, and a nation-wide service network. Its major customers include Amway, Wal-mart, Panasonic Electronics, Jianlibao, TCL and Yile.

Logistics Networking: Guangzhou DiChain provides all-rounded integrated third-party logistics services, such as warehouse management, provincial distribution and haulage transportation for many well-known multi-national corporations in PRC. It has strategically established nationwide logistics centers in the most fast-growing economic cities in China, including Beijing, Tianjin, Harbin, Changchun, Taiyuan, Cjinan, Shanghai, Nanjing, Guangzhou, Shenzhen, Wuhan, Zhengzhou and Chengdu.

Logistics Resources and Facilities: Guangzhou DiChain has a total of nearly 100,000 square meters of warehouses located all across PRC. These warehouses are all certified with national safety compliance and high industrial standards. Each distribution center is well-equipped with advanced logistics management systems and services like warehouse management, transportation, loading, distribution and settlement have been computerized, which allows online management by staff and browser-based enquiries by customers.

With controlling shareholding interests in Guangzhou DiChain and Jiangxi DiChain, the Group is able to substantially increase its presence in the logistics business in PRC. The Management expects Guangzhou DiChain 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 Guangzhou DiChain's customers. Together with the servicing network of Guangzhou DiChain, the Group is now providing national wide services across PRC and Hong Kong.

Discontinued operation

In March 2005, the Group disposed of its home appliances operation with the aim of devoting more resources into its logistics business. With the merging of the Group's businesses, the home appliances operation was accounted for less than 4% of the Group's turnover in the year prior to the disposal. A segment loss of HK$420,000 was recorded from the home appliances operation.

On 24 December 2004, the Group disposed of all of its shareholdings in Shenzhen SEG Scientific Navigations Company Limited ("Shenzhen SEG"). Upon the completion of the disposal, the Group recorded a loss on disposal of an associate amounted to approximately HK$2.3 million and the Directors believe the disposal provided the Group with an ideal opportunity to focus its resources on its core business. During the year and prior to the disposal, Shenzhen SEG contributed HK$1,826,000 of the share of profit from associated company to the Group.

China Technology Global Corporation ("CTGLF")

Former known as DF China Technology Inc., CTGLF is principally engaged in the design, manufacture and sale of customizable software and hardware systems, which integrate GIS (Geographic Information System), GPS (Global Positioning System), as well as Wireless and Web technologies into a proprietary application platform.

On 25 May 2004, as a result of the failure to comply with certain provisions of Nasdaq Marketplace Rules, the common stock of CTGLF was delisted from the Nasdaq Small Cap Market and was then listed on the Over-The-Counter Bulletin Board on the same date.

On 31 March 2005, CTGLF issued 13,328,624 ordinary new shares at a price of US$0.09 per share to the Company for the settlement of a debt of HK$9,356,693.79 owing by CTGLF to the Company in pursuant to a settlement agreement of 30 March 2005. CTGLF is a connected person of the Company and the settlement constitutes a connected transaction for the Company under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). Details of the transaction are recorded in the circular of the Company dated 29 April 2005.

RESULTS

For the year ended 31 March 2005, the Group recorded a turnover of HK$34,145,000 (2004 : HK$27,769,000) and a net loss attributable to shareholders of HK$18,421,000 (2004: profit of HK$14,262,000). Loss (basic) per share for the year was HK0.36 cents (2004 : earnings (basic) of HK0.31 cents).

The overall increase in turnover for the Group was resulted directly from the continuing improvement of its bonded warehouse operation and the consolidation for the first time of its third-party logistics operation. The increase in turnover was however partially offset by the discontinuance of its non-core operation.

The net loss of the year was mainly resulted from the remaining high administrative expenses and a provision made on litigation.

Revenue

The total revenue of the Group for the year ended 31 March 2005 increased by 23% to HK$34 million. During the year, the Group has disposed of the remaining non-core business and whereby the logistics operation has become the major source of revenue generation by the Group.

The performance of logistics services of the Group has been encouraging and the revenue generated from the logistics operation increased approximately by 140% as compared to that of the previous year. The increase was attributable in part to the higher revenue contribution from its Futian bonded warehouse operation and the consolidation for the first time of revenue generated from its newly acquired investments – Guangzhou DiChain and Jiangxi DiChain. The increase in revenue in these sources was partially offset by a reduction in revenue contributed from its discontinued non-core business – home appliances operation.

Loss for the year

The Group reported a net loss of HK$18,421,000, which resulted mainly from the remaining high corporate expenses. During the year, the Company also made a provision for the compensation of a former director of Dransfield Holdings Limited ("Dransfield"), a wholly-owned subsidiary of the Company, for the special performance of exercising certain option rights on Dransfield.

Dividend

The Directors do not recommend the payment of a dividend for the year (2004: Nil).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Directors consider that financial position of the Group remain strong. Total assets of the Group at the close of fiscal 2005 amounted to HK$243 million (2004: HK$243 million) whereas the net asset was increased by 5% to HK$125 million (2004: HK$119 million).

The Group's cash and bank balances as at balance sheet date were approximately HK$4 million (2004: HK$25 million). The current ratio (calculated on the basis of the Group's current assets over current liabilities) as at 31 March 2005 was 1.02 (2004: 0.80).

The Group generally finances its operations with internally generated resources and bank facilities granted by principal bankers in PRC. As at 31 March 2005, the Group's gearing ratio was 36% (calculated on the basis of the Group's bank borrowings over total assets), which compared with 42% as at 31 March 2004. At year-end date, the Group's total bank borrowings amounted to HK$89 million, which was secured by certain properties of the Group located in PRC.

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.

During the year, 901,533,000 ordinary shares of the Company were issued at a subscription price of HK$0.023 each in pursuant to the exercise of all the warrants of the Company.

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, the Management will continue to monitor the foreign exchange exposure position and will take any future prudent measure it deems appropriate.

CONTINGENT LIABILITY

As at 31 March 2005, approximately HK$85 million (2004: HK$99 million) of guarantee was given by the Company to banks in respect of banking facilities granted to a subsidiary. The extent of such facilities utilized by the subsidiary at 31 March 2005 amounted to approximately HK$85 million (2004: HK$99 million).

ASSETS PLEDGED

Assets with an aggregate carrying value of approximately HK$120 million were pledged with banks as security for loan facilities granted to the Group.

EMPLOYEES

As at 31 March 2005, the number of employees of the Group was 146. 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.

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 share option scheme fully comply with the provisions of Chapter 17 of the Listing Rules. 85,000,000 options had been granted under the scheme during the year.

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 one of the largest National logistics services providers. To achieve this objective, the Group has taken its first step by acquiring 60% of the equity interest in Guangzhou DiChain and Jiangxi DiChain in November 2004.

Focused on developing the huge potential of the logistics industry in PRC and overseas, the Group plans to further expand its logistics related operations and strengthen its network 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.

The Directors believe 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 coming future.