INTERIM DIVIDEND

At a meeting of the board of directors held on 28 December 2000, the directors resolved not to pay an interim dividend to shareholders (1999: Nil).

BUSINESS REVIEW

For the six months ended 30 September 2000, the Group reported a turnover of HK$116 million (1999: HK$143 million). The decrease in turnover was a result of the Group's effort in focusing on its designated core business and phasing out those poor margin operations. This includes electronic household appliance and sale of garment apparels to a particular department store in the United States (the "US"). The Gross Profit and Gross Profit Margin reached HK$17.8 million (1999: HK$17.0 million) and continued its growth trend in hitting a 15.3% vis-à-vis 11.8% for the corresponding period ended 1999 and the 9.3% for the whole year FYE3/2000.

Due, however, to the increase in General and Administrative expenses and the increase in other operating expenses due to certain one-off issues, an operating loss of HK$4.1 million was recorded (1999: HK$138,000 contribution). Had the non-recurrent expenses of the loss on dilution of interests in an associate for HK$1.5 million and the non cash items of depreciation for HK$5.3 million (of which HK$0.96 million is extra for this 1st half) been neglected, the Group is operating at an profitable EBITA of HK$2.7 million. Net loss attributable to shareholders was HK$13.3 million or 0.77 HKcents per share as compared to the loss of HK$12.0 million or 0.89 HKcents per share for the corresponding period in 1999.

Irrespective, the Group has a positive net cash inflow from operating activities of HK$1.1 million.

The reduction in fixed assets is due to the de-consolidation of the Group's paper operation during the period under review following the completion of the distribution in specie of 8,325,700 shares of DF China Technology Inc. ("DFCT") to the Company's shareholders on 30 June 2000 whereby the Group's interest in DFCT was reduced from 77.5% to 32.2% and DFCT ceased to be a subsidiary and became an associate of the Group from that date onward. The assets under DFCT that have been consolidated for the FYE 3/2000 have been reclassified as Investment in an Associate commencing from July 2000. Apart from this, there is no material change in the Group's asset structure.

During this interim period, proceeds from the placing of around 200 million shares amounting to a total of HK$19.5 million (before expenses) has been vested for reduction in bank loan outstanding for ~HK$8.3 million and as additional working capital. Irrespective the reduction in bank loan, gearing (bank loan vs. capital + reserve) stood at 44%, increased slightly from 36% as at 31 March 2000 due to the reduction of the share premium as a result of the distribution in specie of shares of DFCT to the Company's shareholders during this interim period.

The relative imbalance between the Group's asset and liabilities ratio (fixed asset financed by current bank loan) would be tackled this year. It is hoped that the Group can either,

a) dispose the assets at Tai Kok Tsui to repay the bank loan or

b) convert the loan, subject to bank's approval, to a long term nature.

In fact, the Group is proud to say that excluding the bank loans obtained for financing the fixed assets, its operating activities are basically financed internally. Yet, with the anticipated increase in sales to both local and overseas companies, including those big chain stores and the big chain stores call for longer credit term, some sort of external financing would be sought.

Increase in Accounts Receivable by HK$17.5 million is financed by the corresponding increase in Accounts Payable by HK$17 million. The increase in receivable was mainly due to the receivable period extended to customers in the US and the improving business turnover. Yet, the Group would continue its prudent policy in extending credit to only trustworthy customers.

The Group would continue adopting its prudent policy for treasury products –treasury products would enter into only when it can hedge the Group's exposure. In fact, as the Group's main revenue and outflow are all either Hong Kong Dollars (the "HK$") or United States Dollars (the "US$") based, the Group does not enter into any hedging instruments arrangement. With the pegging of the HK$ with the US$, the exposure would not be much. Concern rather is on the interest rate as all the Group's loan is based on floating rate, i.e. based on the HK$ or US$ prime rate. The Group is glad to see the anticipated decrease in interest rate trend – a reduction of 0.5 to 1% during year 2001, interest burden would be lessened and bottom line performance improved.

Listed below is the performance of individual division of the Group,

Logistics Division

The Group's emphasis during the past half year is on the streamlining of the operation, trimming of unnecessary expenses and phasing of low margin business. Hence, turnover is only maintaining at roughly the same level while the losses incurred had been reduced from HK$7.4 million for the 2nd half 1999/2000 to HK$3.8 million for the 1st half 2000/2001.

Despite the phasing out of certain customers due to lowered profit margin, the Group is able to compensate the drop by bringing in new customers. Outlook is conservatively optimistic.

Food & Beverage Division

While the Group is able to maintain a roughly same turnover of the Food & Beverage Division in the 1st half FYE 3/2001 comparing to the 2nd half FYE 3/2000, the Group has been able to reduce the losses from HK$13.9 million to HK$5.6 million for the corresponding period. This has revealed again the Group's active involvement in providing guidance as to the trimming down of general expenses (non-sales related) inherent with the PRC State Enterprises.

- Losses was mainly due to the extra depreciation incurred for HK$0.8 million, the promotion expenses for HK$0.4 million and salary of HK$2.6 million. The management has already taken measures including reducing redundancy to ensure a better utilization of available resources;
- Continuous effort would be placed in establishing the brand name while testing and perfecting brewing and packing skills to perform as a contract brewer;
- Trimming down the overhanging overhead issues associated with State Enterprises through cleaning exercise. Breakeven is anticipated;
- Shenyang factory would start contributing to the bottom line.

Apparel Division

We will continue on exploring the business opportunities with better profit margin apparel customers.

Paper & Related Personal Products

Turnover for the captioned business continues the progressive trend (HK$5.5 million for 1st half FYE 3/2001 vs. HK$1.0 million for 1st half FYE 3/2000), evidencing the effort placed by the Group management in strengthening the revenue thereby to be derived. The HK$2.3 million noted in the interim financial report is that the Paper division has been converted from a subsidiary to an associate commencing July 2000 following the distribution in specie of shares of DFCT to the Company's shareholders. Hence, only the first 3 months' results (April 2000 to June 2000) have been incorporated to the Group's consolidated profit and loss account. The management is extremely confident over the progress of the same and a positive contribution in EBITDA is expected for the division.

– Orders from both overseas and local origin are incoming, representing a growth in revenue;
– Handicap remained the demand for additional working capital to finance the purchasing of raw materials for production and the timely requirement for collecting receivables;
– Additional working capital is also to be sought to complete the 2nd and 3rd phase of the plant so as to effect additional vertical integration for ensuring the quality, delivery and increasing profit margin.

Cyber Division

The new incubation arm of the Group, being part of the DFCT (previously Dransfield China Paper Corporation, NASDAQ: DFCT), has received significant blessing from the hi-tech companies. Instead of blindly entered into the non- revenue generating dot com sector, the Group management has been sticking to the "basic" issues that would bring in actual revenue (rather than burning money). The Group has the idea of bringing these ventures to raise fund in overseas for continuous growth, when opportunities arise.

Prospects

The financial turmoil experienced in the last few years provided a chance for the Group to consolidate its operation. The Group has successfully been transformed to an investment holding company focusing on the following 4 aspects,

a) Logistics and Other Service Operating Division;

b) Food & Beverage Division;

c) Paper Division (indirectly); and

d) Cyber Division (indirectly).

The Group is confident in its outlook despite the loss situation during the 1st half FYE3/2001. This is due to the various non-recurrent expenses incurred during the 1st half FYE2001 and of more importance, the good prospect of each individual division.

a) *As to the Logistics and Other Service Operating Company*

– a flattened revenue and an improved margin due to the trimming of overheads and other expenses;

– the customer acceptance is growing;

– the entry of WTO by the PRC means abundant opportunities for overseas companies to buy/ sell to the PRC. Demand for logistics services would be bound to increase. This is especially so with

1) the premiere location the Group is locating in – Futian, the Free Port Area, close to Shenzhen area and the to be Government site of the Shenzhen government; and

2) the across the border facilities the Group is locating – PRC; Hong Kong; U.K. and alliances in the U.S.; and

3) the complete range of logistics services including modern warehousing, cargo transportation and goods consolidation, electronic reporting and other value-added services to support trade with the PRC.

b) *As to the Dransfield Food & Beverage Holdings Ltd., the Food & Beverage Operating Company*

– the improved operating result of Shenyang Plant, the anticipated 1st profitable year (on operating aspect) since incorporation;

– the building up of brand recognition (John Davey; Cornish Rebellion,; 1793 Stout; 1793 Bitter; Yixing; ...) and increasing style being pushed to the market from time to time;

– export contracts are being explored for Singapore, Taiwan, Japan and Australia for Redruth brands;

– the start penetration into Hong Kong domestic market, apart form the department stores;

– the acknowledged marketing strategy to be adopted; and

– the broadening in customer base attained so far.

c) *As to the DFCT, the Hygienic Paper Operating Company*

– continuing to concentrate on raising the quality of sales by reducing the volume of merchanting activities and increasing the margins;

– secured reliable domestic source of jumbo rolls of tissues through alliance with several Guangdong paper mills would continue reducing raw material costs;

– increasing degree of vertical integration following the test running of the Xinhui, Guangdong for steady supply of quality jumbo rolls papers at a competitive price;

– the recognition of the quality products by both international recognized certification organization (ISO 9001 obtained) and of paramount importance, the ultimate customers even overseas;

– order size is on the picking up;

– strategic alliances been set up with three mills in Guangdong Province to supplement the Group's own tissue converting facilities;

– the recovery would even be more obvious if funds can be raised from external sources in finalizing the paper division at a faster pace. Further vertical integration can be realized once Enzymatic Deinking (biotechnology for environmental keeping) and Paper Pulp Manufacturing operations commence. This is because when completed, the Group's mill will be the only producers of recycled pulp in Guangdong Province and strategic alliances have already been developed for purchasing of pulp papers there produced.

d) *As to Dransfield Cyber Inc., the Cyber Incubation Arm*

– the Visionsoft Inc. (True 3-D image production) and the E-Net Box Inc. (TV set box) that the Group has held shares have passed through the developing phase;

– business outlook is even more promising with the proven successful marketing strategy lately implemented;

– these fundamental e-solution companies being the backbone of the China's lifestyle and fit exactly to the "new" "B2B" (Back to Basic) model.

The management is especially encouraged by the increasing reception of the Group's products in both local and overseas markets.

Following the increase in order books, the production facilities can effect further economy of scale; thereby, lower the production cost and can result in increase in profit margin or market share. This "positive feedback cycle" would continue and generate additional working capital and profit in raising the competitiveness of the Group.

Nonetheless, the Group would continue placing emphasis on streamlining of businesses and internal cost controls.

Looking ahead, the Group has set the following goals,

1) *For the Logistics and Other Service Operating Company*, increasing occupancy and integrating the capabilities of the logistics center to achieve a breakeven occupancy, including the financing expenses;

2) *For the Food & Beverage Division*, building brand recognition and acceptance of Redruth and Yixing beers in their domestic and overseas (both the U.K. and the U.S.) market;

3) *For the Paper Division*, expanding distribution of finished products in Southern China and export markets, and securing capital of US$2-5 million to better utilize the existing facilities and/or to complete the paper mills for producing recycled pulp and jumbo rolls of finished tissue paper; Attaining a higher utilization rate of machines to lower further the production cost; Adding away-from-home products such as jumbo roll tissues (JRT) and hand roll towels (HRT) to the product line;

4) *For the Cyber Division*, continue selling the True 3-D products and the e-net box throughout the PRC and establishing the "revenue" model.

While the management would continue pursuing the above-mentioned goals, the management is confident in the continuous success of the Group.