



**MANAGEMENT**

**DISCUSSION AND ANALYSIS**



## FINANCIAL RESULTS

Dransfield Holdings Limited (“DHL”) recorded a loss of HK\$129.292 million for the fiscal year ended 31 March 2002 compared with HK\$131.521 million for the year ended 31 March 2001.

The recorded loss is a result of the bad economic situation of recent years, the lack of injection of new working capital and the need to dispose of the non-revenue generating enterprises of the Group. The substantial net loss accrued this fiscal year was due to the number of major provisions and disposal/dilution of the Group’s interest in certain other assets as below:

	2002	2001
	HK\$’000	HK\$’000
Unrealised loss on investments in securities	20,208	–
Loss on disposal of investment properties	12,823	–
Impairment loss on property, plant and equipment	35,954	48,520
Loss on disposal of property, plant and equipment	5,555	239
Loss on disposal/dilution of interest in an associate	10,143	1,539
Allowances for amount due from an investee	7,644	–

## BUSINESS REVIEW

### *Food & Beverage*

For the year ended 31 March 2002, our Yixing Brewery continued to suffer an operating loss of HK\$1.6 million (2001: HK\$16.1 million). As previously mentioned, it is very difficult for small breweries such as Yixing to compete on its own.

The Management is considering options of either merging the existing facilities with a larger brewery or injection of additional funds into an expansion program which will enhance and upgrade the capacity and annual production of the brewery to 50,000 tons. In view of the fact that the Yixing Brewery is located in the center of Yixing City, there is basically no room for further expansion; therefore, the only alternative will be to move out to a more appropriate location. According to a feasibility report, the total investment of this project is estimated to be around RMB 25 million. The Management is currently working very closely with our joint venture partner and, in the meantime, sufficient provision has been made in the financial statements against our investment in Yixing.

The edible oil venture in Shenyang is continuing to tighten its cost control. The total headcount has now been trimmed down to 33. As stated before, although this joint venture is the only edible oil refinery in Shenyang, the management does not expect that a single edible oil refinery can produce significant returns. Once again, we are working very closely with our joint venture partner as we strongly believe that this investment will allow us to maintain access to the northern provinces for our trading and logistics businesses. We have made sufficient provision in our financial statements against our investment in this joint venture.

### BUSINESS REVIEW *(continued)*

#### **Redruth Brewery**

On 12 April 2002, an agreement was entered into between Dransfield Food & Beverage Holdings Limited (“DFBH”), the Company’s wholly owned subsidiary, and Sino Land Limited (the “Redruth Purchaser”). DFBH agreed to sell to the Redruth Purchaser the entire issued share capital of both Dransfield (UK) Limited and Redruth Brewery (1742) Limited (“Redruth”) on a going concern basis for a consideration of HK\$1. As at the date of the agreement, Redruth has accumulated to a total loss of HK\$54.22 million and was indebted to DFBH for the sum of GBP3,189,000. (HK\$35,871,000); DFBH has undertaken to assign this debt, upon completion of the agreement, to the Redruth Purchaser.

On 25 April 2002, a provisional agreement was entered into between DFBH and the Redruth Purchaser in respect of the sale of the property occupied by Redruth for a consideration of HK\$2 million. Completion of the sale of this UK property is conditional upon, in particular, the Redruth Purchaser being responsible to procure the release of the guarantee of GBP250,000 (HK\$3 million) issued by DFBH to the UK Customs Office.

#### **DF China Technology Inc. (Nasdaq: DFCT)**

On 30 October 2001, an agreement was entered into between the Company and Union Time Limited, an independent third party, for the disposal of the Company’s remaining 29.76% interest in DFCT at a price of RMB10 million. The Company received only RMB 3.34 million from the purchaser and has therefore only disposed of 9.91% of our interest in DFCT. Regrettably, the disposal of the remaining balance 19.67% interest in DFCT, which was scheduled to be completed on 18 January 2002, had fallen through. Upon careful review of the current financial position of the group and the potential expenses to be incurred on the litigation, the board of directors decided not to instigate litigation proceedings against the purchaser. We now still hold 19.67% interest in DFCT and we do not have any immediate plans to dispose of the remaining interest. However, we shall re-consider the disposal should suitable opportunities arise. Once more, sufficient provision has been made against this remaining interest.

#### **Futian Logistic Centre**

This operation has continually been disrupted by working capital problems. Legal proceedings were instituted against the group by two major creditors: The Bank of East Asia, Limited and a contractor for the Company’s failure to settle contract fees in full. Agreements have been reached in early 2002 to re-schedule the repayment of debts. The logistics operation is now back to normal and turnover has doubled compared to that of late 2001. As the turnover of the logistics centre currently represents only 15% of its total capacity, we anticipate considerable growth and development in the coming years.

#### **Major events during year:**

1. 7 April 2001 – disposal of the 50.01% equity interest in the Apparel Company for a consideration of HK\$1,230,000.
2. 30 October 2001 – disposal of 9.91% of equity interest in DFCT at RMB3.34 million.

### BUSINESS REVIEW *(continued)*

3. 8 January 2002 – Dransfield entered into a subscription agreement with DiChain Systems Limited (“DSL”) and Farsight Holdings Limited (“FHL”) (For details, please refer to the announcement dated 23 January 2002 and circular dated 28 June 2002).
4. 19 February 2002 – the property located at Tai Kok Tsui was sold to the independent third party by The Bank of East Asia, Limited, the mortgagee of the property, at a consideration of HK\$49 million.
5. 6 March 2002 – Dransfield entered into a debt restructuring agreement with The Bank of East Asia, Limited.
6. 22 March 2002 – a subsidiary of Dransfield completed its disposal of a property located at Fung Kong Tsuen, Yuen Long, New Territories for a cash consideration of approximately HK\$3.3 million to an independent third party.
7. 12 April 2002 – see paragraph headed Redruth Brewery.

Faced with a challenging and difficult economic environment, DHL decided to take several key measures. By putting in place a newly appointed team of management on the board the Group hoped to consolidate its core business and re-assess its strategies. A controlling shareholder change to DSL will further establish the Group’s new enterprise - a stronghold especially in the area of logistics and warehouse activities. Lastly, the divestiture of additional assets will assist the Group to achieve its debt reduction target. The following actions were taken:

#### ***Positive Management Changeover in the Board of Directors***

In order to participate in new developments, additional directors, a new Chairman and a new Acting CEO were appointed at the Company’s Annual General Meeting held on 29 September 2001.

These crucial management changes proved elemental in the Group’s attempt to consolidate its core businesses. The changes were aimed to assist the Group to better execute its medium to long-term strategy and goals.

#### ***Subscription Agreement***

As mentioned previously, Dransfield entered into a Subscription Agreement with DSL and FHL on 8 January 2002.

As flagship of the China Merchants Group, DSL brings with it expertise in the field of Information Technology and e-Logistics. Not only is DSL a leading provider of software application systems for logistics operations and supply chain management in the PRC, it is also one of the first companies in the PRC to combine GIS (geographical information system), GPS (global positioning system), WAP (wireless application protocols) and Internet technology into an all-round integrated solution. This all-inclusive platform is able to provide total solutions including (i) management information systems (MIS) for various administrations and regulatory institutions, (ii) operation systems (OS) for third party logistics providers, container terminals, logistics centers, cargo agencies, passenger transportation and cargo trucking companies and (iii) supply chain management solutions (SCM) for manufacturers. Furthermore, related hardware, systems integration services and consulting services are also provided to meet the requirements of clients proving to be an advantageous asset for the future development of the Company in the area of logistics and warehouse management.

### FUTURE DIRECTION

Having realigned the direction of the company, the Group intends to work closely with the expertise of DSL in the warehousing business, logistics operation, and supply chain management. With an approximately 24,000 square meters logistics center located in Futian, Shenzhen, PRC, the Group intends to cultivate and develop its core business in the area of logistics and warehouse activities.

Especially in line with the region's development as a logistics hub of South China, DHL is poised with its unique assets and strategic location to further its strength as a logistic center. Currently operating at only 15% of its capacity, there is enormous potential for development and expansion in the Group's logistics capabilities.

Looking ahead, the Group is well equipped and prepared to take on new challenges. DHL is determined to focus on its financial restructuring and development of its logistics activities to best leverage the current advantages of the newly formed alliance. DSL industry know-how, unique strengths, and its vast connections within the Greater China Region will serve to propel the Group to uncharted territories. The core capabilities of DHL will allow us to capture the vast opportunities created by the robust trade in the region and their need of a superior and efficient logistics centre.