

11. Related party transactions

	Six months ended 30 June	
	2001	2000
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Management fees paid to a major shareholder	500	500
Rental and office expenses paid to a related company	649	395

Management fees are charged by the major shareholder based on the time involvement of the personnel providing services.

The rental paid to a related company was calculated by reference to the open market rates and the area occupied. The office expenses were charged on an actual basis.

12. Post balance sheet event

As announced on 27 August 2001, the Company through its wholly-owned subsidiary acquired the entire issued share capital of Best Treasure Limited from Chinney Investments, Limited for a cash consideration of HK\$9,868,789. The transaction was completed on 3 September 2001.

Chinney Investments, Limited is a substantial shareholder of the Company and currently owns approximately 29% of the issued share capital of the Company. Best Treasure Limited and its subsidiaries are principally engaged in the wholesaling of electrical appliances, engineering contracting business in the air-conditioning industry and provision of maintenance services.

13. Review of interim financial statements

The interim financial statements are unaudited, but have been reviewed by the Audit Committee of the Company.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the year ending 31 December 2001 (2000: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS**Liquidity and financial resources**

The cash resources of the Group were largely applied to reduce bank borrowings. Total interest-bearing debts of the Group reduced from HK\$167 million as at 31 December 2000 to HK\$122 million as at 30 June 2001. Approximately 84% of the debts were due and repayable within one year.

As at 30 June 2001, total cash and bank balances amounted to approximately HK\$71 million. Total committed but undrawn banking facilities of the Group available for general working capital purpose was HK\$145 million.

The shareholders' funds of the Group diminished as a result of the deteriorating business environment and provisions for impairment in value of investments. The gearing ratio of the Group, as measured by the net interest-bearing debts of HK\$51 million over the shareholders' funds of HK\$249 million, was 20% as at 30 June 2001.

Funding and treasury policy

The Group maintains a prudent funding and treasury policy. Surplus funds are maintained in the form of cash deposits with leading banks. Borrowings are mainly denominated in Hong Kong dollars and bear interest at floating rates. Forward contracts of non-speculative nature are entered to hedge the foreign currency trade purchase commitments of the Group.

Pledge of assets

Certain properties, investments in securities and debts due from the investee companies having an aggregate book value of HK\$63.7 million as at 30 June 2001 were pledged to secure borrowings of the Group.

Contingent liabilities

There have been no material changes to the contingent liabilities of the Group since 31 December 2000, the date to which the latest published audited consolidated financial statements of the Group were made up.

Employees and remuneration policies

The Group employed approximately 150 employees in Hong Kong and in other parts of the People's Republic of China as at 30 June 2001. Remuneration is determined by reference to market terms and the qualifications and experience of the staff concerned. Salaries are reviewed annually with discretionary bonuses being paid depending on individual performance. The Group also provides other benefits including medical cover, provident fund, housing allowances and educational subsidies to eligible staff. A share option scheme was adopted by the Company in 1993 to enable the Board to grant share options to selected employees as incentives.