

13. Related party transactions

During the period, the Group entered into the following transactions with related parties:

	Six months ended June 30	
	2001	2000
	HK\$'000	HK\$'000
Interest income from associates	–	1,331
Interest expenses paid to Directors	329	305
Management and agency fee paid to a related company	1,831	1,925
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14. Pledge of assets

At June 30, 2001, certain of the Group's land and buildings and investment properties with an aggregate net book value of HK\$407,115,000 (December 31, 2000: HK\$412,430,000) and all assets of a subsidiary of HK\$22,404,000 (December 31, 2000: HK\$24,169,000) have been pledged to secure banking facilities granted to the Group.

15. Contingent liabilities

There is no material change in contingent liabilities since the last annual balance sheet date.

16. Commitments

There were no material capital commitments at June 30, 2001 and December 31, 2000.

INTERIM DIVIDEND

The Directors have resolved not to declare the payment of an interim dividend (2000: nil).

MANAGEMENT DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Results

Group turnover increased to HK\$268,200,000 and by HK\$28,700,000 (+12%) over the same period last year. The major reason for the increase was the inclusion this year, in the results of the Group, the figures for Corich Enterprises Inc. ("Corich"). Corich is the company which controls the interests in the motor vehicle distribution business which primarily represents the "Ferrari" and "Maserati" marques. As reported in the Company's Annual Report 2000, the Group exercised its option to repurchase the shares of Corich that were sold in December 1999, and therefore the business became a 73.6% controlled subsidiary of the Group effective from the beginning of 2001. Other than this, in general most businesses operated at lower levels of turnover than those recorded last year, although there were some exceptions, and these are commented upon in the business reviews.

Gross profits increased by HK\$6,400,000 (+10%) over the same period last year, although gross margin achieved averaged 26.1% which was slightly lower than the 26.5% recorded last year. This was largely as a result in the change in the sales mix of businesses and products, rather than any significant deterioration in individual product group margins.

Total sales and general administration costs were lower than the same period last year, given the cost reduction exercises which have been implemented and which will continue, although the group costs for this year do also include such costs of the motor business, which were excluded last year as being an associated company only, and which amounted to approximately HK\$18,000,000.

It is pleasing to note that the Group was able to report a profit from operations for the period of almost HK\$2,400,000, which compares with the loss recorded in the same period last year, of HK\$8,200,000. There was, however, an overall attributable loss for the six months of HK\$5,100,000 (2000: HK\$5,200,000). Group finance costs were lower than last year as were provisions for taxation. However, the significant reduction in profits arising from associated companies that are not controlled by the Group and which were lower by HK\$7,100,000 on the same period last year, meant that the ultimate group results recorded a small attributable loss similar to the same period last year.

Cash Flow, Liquidity and Financial Resources

In the six months ended June 30, 2001 there was a small net cash outflow of HK\$5,100,000 from operations. Group working capital requirements, including consolidation of the newly re-acquired motor group as a subsidiary, increased by HK\$16,000,000 over the position at the end of the last financial year. There was a HK\$4,700,000 outflow being finance interest paid in the period; a HK\$3,300,000 inflow largely from proceeds of sales of property and equipment; and a HK\$16,400,000 outflow being by net repayments to the banks in respect of the loan debt position.

The Group continues to be financed from a combination of internal cash flows; trade creditor support; and bank borrowings with both long and short-term maturities. The Group has continued to meet all financial obligations and retire its trade and bank liabilities upon due dates, although net cash and bank balances were reduced to HK\$9,600,000.

There continues to be a balance of group net current liabilities which at June 30, 2001 amounted to HK\$104,000,000. The primary reason for this relates to the short term debt of an unsecured loan of HK\$131,000,000 from a supplier with whom the Group has a long-term joint venture partner and trading relationship, which loan falls due for repayment in December 2001. The future financing and repayment arrangements of this unsecured loan are currently under negotiation. Management is confident that a satisfactory agreement can be reached with the supplier and expects to make an announcement on this matter before the repayment becomes due.

Total bank borrowings continued to be reduced in the period by HK\$6,200,000, such that at June 30, 2001 they amounted to HK\$125,400,000 (at December 31, 2000 they were HK\$131,600,000). As a percentage of total assets, bank borrowings at the period end were only 14%. Total net borrowings of the Group also continued to be reduced and at June 30, 2001 were HK\$343,200,000 compared with HK\$350,200,000 at December 31, 2000.