

# Chairman's Statement

## Profit for the Year

The Group's audited consolidated net profit after taxation for the year ended 31 March 2002 amounted to HK\$45,239,000 which represents an increase of 1.4 % over the amount of HK\$44,613,000 for the previous year. Earnings per share were HK\$0.34 (2001: HK\$0.33).

## Dividends

The Directors recommend the payment of a final dividend of 6 cents per share in respect of 2002. Together with the interim dividend of 5 cents per share already paid, the total distribution for the year ended 31 March 2002 will be 11 cents per share. The total distribution for the previous year was 12 cents per share.

## Business Review

In the year under review, the godown industry experienced a difficult year in consequence of the global economic downturn and weak consumer spending.

Although turnover in the godown operation contracted modestly in the first half of the year, it was still able to match that of the corresponding period of the previous year. In the second half of the year, the business environment for the godown sector failed to improve and was then hard hit by the events of 11 September. The result was a further weakening of consumer confidence and demand, the general slowing in inventory turnover, the decline in import and export trade volumes, and the sharp inventory corrections on the part of major customers. Accordingly, turnover in the godown operation reduced drastically.

More satisfactory has been the performance on investment property as a result of the high occupancy rate maintained in Lu Plaza during the year under review. With the adoption of cost control measures across the board and the reduction in finance cost due to the lower interest rate, the Group continued to achieve a relatively stable profit for the year ended 31 March 2002.

## Business Outlook

Several negative factors continue to affect the global economic outlook. The situation in the Middle East remains turbulent, while consumer confidence has not yet completely recovered. These conditions will slow down the pace of economic recovery. Although Hong Kong has suffered serious deflation and the obstinately high unemployment rate refuses to show any obvious signs of improvement, the cargo, tourist and retail industries have evidently grown. This demonstrates that the overall business environment has improved slightly. Indeed, the godown business of the Group started to stabilise in the first quarter of this financial year. Given its effective measures in tightening cost control and in enhancing competitiveness, as well as its ability in maintaining high occupancy rate in the investment property, the Group remains positive and cautiously optimistic about maintaining its business prospects in the year to come.

## Management Discussion and Analysis

### *Financial Review*

The Group recorded a turnover of HK\$88.7 million for the year ended 31 March 2002, representing a decrease of 13.2% as compared to the previous financial year. Despite the decrease in turnover, the Group reported an increase in profit attributable to shareholders by 1.4% to HK\$45.2 million as compared to the prior year.

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## *Segment Information*

The Group is principally engaged in two business segments: mainly godown operation and property investment. Turnover in godown operation dropped by 37% as a result of the decline in import and export trades during the economic recession. However, rental income generated from property investment reported a slight increase. Occupancy rate in Lu Plaza increased to 93%. During the year, the Group has leased out part of the warehouse space and accordingly a portion of the godown premises, having a net asset value of HK\$11.3 million, was transferred to investment properties.

## *Financial Resources and Liquidity*

It is the Group's policy to maintain a healthy capital structure. As at 31 March 2002, current assets amounted to approximately HK\$67 million, of which approximately HK\$46 million were bank balances and pledged bank deposits. Current liabilities of approximately HK\$127.7 million comprised of bank borrowings in the amount of HK\$88 million.

During the year, the Group repaid bank borrowings of approximately HK\$45 million. This, together with the consecutive cut in interest rates, resulted in a substantial drop in finance cost by 50.5% to HK\$5.2 million. Profit from operations covered 10.09 times the finance costs (2001: 5.85 times).

As at 31 March 2002, shareholders' funds of the Group amounted to approximately HK\$788.9 million (2001: HK\$736.1 million). The gearing ratio calculated on the basis of total bank borrowings over total shareholders' funds as at 31 March 2002 was 13.69% (2001: 20.77%). The Group is in a strong financial position.

The Group's exposure to foreign currency risk is negligible, given that the functional currencies of the Group's operations are mainly Hong Kong dollars. The Group has not taken any speculative positions in derivatives, and it has no off-balance sheet or contingent liabilities other than the guarantees given in lieu of utility deposits.

## *Dividend Policy*

It is the Group's intention to provide shareholders with relatively consistent dividend income over the long term. The dividend payout ratio (including the proposed dividend for the year 2002) was approximately 32.8% of the profit attributable to shareholders (2001: 36.3%).

## *Operating Expenses*

Throughout the year under review, the Group exercised a prudent financial management approach and took proactive steps to better manage the operating costs. As a result, the total operating expenses (including staff costs) of the Group for this year decreased by 12% to HK\$44.4 million as compared to HK\$50.6 million last year.

## *Employee Relations*

The Group recognises the importance of training to its staff. In addition to on-the-job training, the Group provides internal training and external training for its staff.

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As at 31 March 2002, the Group had 87 (2001: 98) employees. Total staff costs for the year under review, excluding directors' remuneration, amounted to approximately HK\$18.6 million, a decrease of 7.15% as compared with that as at 31 March 2001. The dedication and hard work of the Group's staff during the year is greatly appreciated and recognised.

The Group's remuneration policies are in line with the prevailing market practices and are determined on the basis of the performance and experience of individual employees. The Group also provides mandatory provident funds and medical scheme for its employees. The Group does not have any share option scheme for employees.

## *Pledge of Assets*

The Company's bank deposits of HK\$30 million (2001: HK\$35 million) were pledged to secure a short-term bank loan of HK\$30 million (2001: HK\$30 million).

In addition, the Group's investment properties and property, plant and equipment, with an aggregate book value of HK\$744 million (2001: HK\$720 million) and HK\$6.3 million (2001: HK\$13 million) respectively were mortgaged or pledged to secure banking facilities of HK\$139 million (2001: HK\$152 million) granted to the Group.

**Lu Sin**  
*Chairman*

Hong Kong, 12 July 2002