

Management Discussion and Analysis

Godown Operation

Turnover of godown operation for the year fell substantially by about 25% to HK\$26,958,000 as a result of the planned conversion of part of the godown premises to investment properties and the decline in demand for warehousing space during the economic recession. Despite the fall in turnover, contribution from godown operation registered an increase of HK\$573,000 to HK\$10,780,000, which represents an increase of 5.61% when compared to last year.

Property Rental

Gross rental income from property investment for the year, excluding share of results from inter-group companies, increased by about 10% to HK\$57,992,000 despite the tough leasing market. Contribution from property investment sector increased by HK\$2,482,000 to HK\$45,336,000 this year, which represents an increase of 5.79% against last year.

Notwithstanding the general downward rental pressure, the Group's profit attributable to shareholders for the year maintained at roughly the same level as last year. Profitability and efficiency have also improved as the Group has implemented a series of cost-control measures which have significantly reduced staff costs and operating expenses over the past years.

Financial Resources and Liquidity

The carrying value of investment properties increased by 4.90% to HK\$801,000,000 mainly due to the reclassification of certain godown premises at the carrying value of HK\$35,869,000 as investment properties and the increase in the valuation of investment properties. As at 31 March 2003, all of the Group's investment properties were revalued on an open market value basis by independent property valuers, and an increase in investment property revaluation of HK\$1,531,000 was recorded during the year.

The Group continued to maintain a healthy capital structure. The gearing ratio calculated on the basis of total bank borrowing over total shareholders' fund was kept at a low level of 7.58% (2002: 13.69%). Total liabilities decreased by HK\$39,952,000 to HK\$111,117,000 mainly due to the reduction in bank borrowings. As a result, finance cost has reduced substantially by 53.90% to HK\$2,392,000 this year.

As at 31 March 2003, the Group's total bank balances and pledged bank deposits amounted to HK\$36,361,000. Together with the marketable securities and available banking facilities, the Group has sufficient financial resources to satisfy its commitments and working capital requirements.

Given that the functional currencies of the Group's operations are mainly Hong Kong dollars, the Group's exposure to foreign currency risk is extremely small. In addition, the Group does not engage in any derivatives trading activities for speculation purpose, and it has no significant off-balance sheet or contingent liabilities as at 31 March 2003.

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Pledge of Assets

The Group's bank deposits in the amount of HK\$20,000,000, investment properties with carrying value of HK\$700,000,000 and property, plant and equipment with carrying value of HK\$6,093,000 were pledged to banks to secure bank loan and general banking facilities utilised by the Group.

Staff

As at 31 March 2003, the Group has approximately 82 (2002: 87) staff. Total staff costs for the year under review amounted to HK\$18,983,000 which represents a decrease of 16.85% in staff costs against last year.

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 staff. The Group does not have any share option scheme for staff.

Finally, I would like to take this opportunity to thank my fellow directors and staff at all levels for their contribution and loyal services.

Lu Sin
Chairman

Hong Kong, 4 July 2003