

Management Discussion and Analysis

Financial Ratios and Indexes

3-Year Analysis of Consolidated Income Statements

	2002		2003		2004	
	HK\$'000	Percentage of turnover	HK\$'000 (Restated)	Percentage of turnover	HK\$'000	Percentage of turnover
Godown operations	36,127	40.7%	26,958	31.7%	27,660	33.5%
Rental income from property investment	52,612	59.3%	57,992	68.3%	55,000	66.5%
Turnover	88,739	100.0%	84,950	100.0%	82,660	100.0%
Other operating income	6,009	6.8%	4,177	4.9%	2,596	3.1%
Gain on listed trading securities	2,059	2.3%	153	0.2%	9,223	11.2%
Staff costs	(22,830)	25.7%	(18,983)	22.3%	(19,491)	23.6%
Depreciation and amortisation	(6,143)	6.9%	(4,118)	4.8%	(3,842)	4.6%
Other operating expenses	(15,485)	17.5%	(12,978)	15.3%	(14,776)	17.9%
Profit from operations	52,349	59.0%	53,201	62.6%	56,370	68.2%
Finance costs	(5,189)	5.8%	(2,392)	2.8%	(769)	0.9%
Profit before taxation	47,160	53.2%	50,809	59.8%	55,601	67.3%
Taxation	(1,921)	2.2%	(5,189)	6.1%	(5,535)	6.7%
Profit for the year	45,239	51.0%	45,620	53.7%	50,066	60.6%

Taking a closer look at the turnover of the past 3 years, there was a slightly declining tendency which was mainly due to the decrease in godown revenue as Hong Kong underwent economic restructuring with its re-export industry being affected by competition from neighbouring cities. In order to adapt to the trend and to mitigate the effects of the decreased godown revenue, the Group leased part of its godown on long-term tenancies to increase its property rental income. As for cost control, the above analysis shows different expenses as a percentage of turnover in 2002: staff costs – 25.7%, depreciation and amortisation – 6.9%, other operating expenses – 17.5%, total operating expenses – 50.1%. The total operating expenses as a percentage of turnover in 2004 notably reduced: staff costs – 23.6%, depreciation and amortisation – 4.6%, other operating expenses – 17.9%, total operating expenses – 46.1%. In other words, the slash in expenses is greater than the decrease in turnover. On the other hand, finance costs dropped from HK\$5,189,000 in 2002 to the current level of less than HK\$1 million due to reduced loans and continuous downward adjustments in interest rates. As a result, the Group's net profit as a percentage of turnover increased from 51% in 2002 to 61% in 2004.

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Group Turnover and Segment Result

The Group's profit from operations before finance costs and taxation was HK\$56,370,000, an increase of HK\$3,169,000 or 5.96% from that reported in the year 2003. The increase in profit from operations was mainly attributable to the increase in contribution in godown business, the succeed in controlling operating and administration expenses and the good performance made in securities investment.

Total turnover in the Group's core business for the year ended 31 March 2004 was HK\$82,660,000, which represents a slight reduction of 2.69% against the level in the prior year. The economic turnaround in the second half of the year under review brought an increase in demand for godown space which resulted in a slight growth of 2.6% in revenue generated from godown business, while operating profits contributed from godown business improved by 15.08% to HK\$12,230,000. However, this growth was partly offset by the adverse results in property investment which experienced a decline of 5.16% in turnover and 13.37% in gross profit respectively as a result of the general reduction in property rental after the outbreak of SARS in 2003.

Securities Investments

The market value of the long term securities investment portfolio maintained by the Group surged 144% from a market value of HK\$13,019,000 as at 31 March 2003 to HK\$31,781,000 as at 31 March 2004, an increase in unrealised gain of HK\$18,762,000. The unrealised gain on the long term investments is not recognised in the consolidated income statement but is dealt with in the investment revaluation reserves until the securities are sold.

During the year, total revenue generated from trading securities amounted to HK\$9,223,000 which includes realised gain of HK\$4,731,000 and unrealized gain of HK\$4,492,000. The investments portfolio primarily comprised of securities listed in Hong Kong.

Bank Borrowings and Finance Costs

As at 31 March 2004, total bank borrowings fell by 61.36% to HK\$23,787,000 (Financial year 2002/03 recorded a decrease of 43%). Internal cash resources were utilised for the repayment of bank loans during the year. As a result, total finance costs over the year dropped significantly by 67.85% to HK\$769,000 (Financial year 2002/03 marked a decrease in finance costs of 54%). The reduction in bank borrowings and finance costs year on year continued to strengthen our financial position. Gearing ratio of the Group, calculated at the ratio of total interest bearing loans to total assets of the Group, fell from 6.67% as at 31 March 2003 to 2.47% as at the year end.

Financial Resources and Liquidity

The Group's financial position and liquidity remained strong. Cash generated from operations during the year amounted to HK\$44 million, and net cash inflow from investing activities maintained at HK\$8,244,000. Total current liabilities decreased by 40.95% to HK\$57,870,000 as at 31 March 2004, and the current ratio improved from 0.61:1 to 1.02:1 this year. The liquidity of the Group is stronger than prior years.

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As at 31 March 2004, the Group's total bank balances and pledged bank deposits amounted to HK\$36,276,000. Together with the marketable securities and available banking facilities, the Group has sufficient financial resources to satisfy working capital requirement.

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 2004.

Pledge of Assets

The Group's bank deposits in the amount of HK\$20 million, investment properties with carrying value of HK\$720 million and property, plant and equipment with carrying value of approximately HK\$6 million have been pledged to banks to secure bank loan and general banking facilities utilised by the Group.

Corporate Governance

The Group regularly reviews its mode of governance and daily management in order to keep the standards abreast of time and to enhance transparency and efficiency. Over the past years, the Group has been improving its internal control procedure and approval system, such as implementing a new procurement system and stringent control on benefit expenses, which have shown certain results.

The Group has formulated its corporate governance rules with reference to the Code of Best Practice and Code on Corporate Governance Practices issued by The Stock Exchange of Hong Kong Limited, and such rules were passed by the Board of Directors in April 2004. It is believed that implementation of these rules, which mainly cover shareholders' rights and obligations, functions of the Board, internal control and risk management, and reporting procedures, etc., will further streamline the corporate governance and management of the Group.

The Company has set up an Audit Committee and a Remuneration and Nomination Committee under the Board of Directors. The Audit Committee is responsible for reviewing the Group's financial statements to ensure that they are complete, accurate and fair. It will also review and assess the nature and scope of the Group's internal and external auditing, as well as the effectiveness of its internal control system. The task of the Remuneration and Nomination Committee is to assess and determine the remuneration for the directors and chief executives of the Company and to nominate candidates on appointment of new directors.

Throughout the accounting year, the Company was in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, except that the non-executive directors of the Company were not appointed for a specific term but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's Articles of Association.

Audit Committee

The Audit Committee provides an important link between the Board and the Company's auditors in matters coming within the scope of the group audit. The Audit Committee met regularly with the management and the external auditors to consider and review the Group's financial statements and the effectiveness of the

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internal control systems. The Committee reviewed the unaudited interim accounts and audited annual results of the Group for the year ended 31 March 2004 before recommending them to the Board for approval.

Employees

There are currently 82 employees in total. The Group always cares about the work and daily life of its employees. In addition to assessment of remuneration and bonuses, it also provides staff with medical benefits and offers training for self-improvement in order to boost teamwork performance and create a caring environment for its staff.

Social Services

The Group always attaches great importance to social and community participation. It has actively participated in environmental campaigns organised by the Friends of the Earth (HK), held a Blood Donation Day jointly with the Hong Kong Red Cross, as well as sponsored cultural and arts organisations, communities and school activities, etc. As a result, the Company was awarded the “Caring Company Logo 2003/04” by The Hong Kong Council of Social Service in January 2004.

Condolence on death of Mr. Wong Ker Lee

The Board of Directors of Safety Godown Company, Limited regrets to announce that Mr. Wong Ker Lee, a non-executive director of the Company, passed away on 1 May 2004. Mr. Wong Ker Lee was a member of the Standing Committee of the Chinese People’s Political Consultative Committee, and was consultant of All-China Federation of Returned Overseas Chinese. He was honoured the Grand Bauhinia Medal by the Government of the Hong Kong Special Administrative Region in the first award presentation.

Mr. Wong Ker Lee was the founder of Tai Cheng International (Holdings) Limited and Winco Paper Products Company Limited. He had been acting as director of the Company since 1972 for over 30 years. His unreserved devotions to the Board had made tremendous contribution to the business development of the Company.

The Board would like to thank late Mr. Wong Ker Lee for his invaluable contribution to the Group during the past and expresses the deepest condolences on his death.

Appointment of Director

Mr. Lam Ming Leung was appointed as independent non-executive director of the Company on 1 January 2004. Mr. Lam was a director and general manager of The National Commercial Bank Limited, Hong Kong Branch. We believe the joining of Mr. Lam to our Group will help foster the business development of the Group.

Lu Sin

Chairman

Hong Kong, 18 June 2004