

# Management Discussion and Analysis

## Group Turnover and Segment Results

### *Godown Operations*

Godown operation performed well in 2005. The turnover from godown operation increased significantly by 11.87% to HK\$30,944,000 as a result of revived economy over the course of the financial year. Average occupancy rates for Safety Godown and Chivas Godown stayed high at around 92% and 95% respectively. Benefiting from the revenue growth, the profit margin for the godown operation grew from 44.22% to 47.14%, while the segment results before provision of legal claims rose by 19% compared with the results achieved in last corresponding year. However, with the provision on legal claims this year, the operating profit generated from the godown operation kept at HK\$12,266,000 (2004: HK\$12,230,000).

### *Property investment*

Gross rental income generated from investment property decreased by 8.15% to HK\$50,520,000 (2004: HK\$55,000,000) while its operating profits decreased by 12.94% to HK\$34,192,000 (2004: HK\$39,273,000). The decline is principally attributable to an increase in office vacancy level after expiration of certain tenancies. Overall average occupancy level in investment property dropped this year. Office rents remained steady over the year.

As at 31 March 2005, the carrying value of investment property increased by HK\$90,400,000 (2004: HK\$22,000,000) due to the increase in the valuation of the investment property portfolio following the recovery of the property market in Hong Kong. The increase in valuation was dealt with in the investment property revaluation reserve.

### *Treasury investment*

The Group achieved satisfactory results in treasury investment. The investment objective of the Group is to preserve the Group's capital while ensuring a return on capital over a period of time. During the year, the Group took advantage of the upward trend in Hong Kong stock market, resulting in a profit on treasury investment of HK\$14,061,000 (2004 (restated): HK\$10,354,000) which mainly included a gain on disposal of trading securities of HK\$7,985,000 (2004: HK\$4,731,000) and an unrealised holding gain on trading securities of HK\$4,019,000 (2004: HK\$4,492,000). As at 31 March 2005, the carrying value of the trading securities held by the Group increased by 207% to HK\$37,249,000 (2004: HK\$12,114,000), while the market value of long term securities investment appreciated by 46% to HK\$46,408,000 (2004: HK\$31,781,000).

## Financial Resources and Liquidity

The year on year improvement in the financial position of the Company was seen by its continued improvement in current ratio, gearing ratio and net asset value per share. As shown in the Five Year Financial Summary on page 7, the current ratios over the 5 years period enhanced substantially from the ratio of 0.41:1 in 2001 to 1.57:1 in 2005, and the gearing ratio improved from 16.34% in 2001 to 1.82% in 2005. Net asset value per share calculated based on the revalued net assets of the Group at 31 March 2005 amounted to HK\$7.55 per share which represents an appreciation of 38.53% over the 5 years period.

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As at 31 March 2005, the current ratio of the Group recorded at 1.57:1 (2004: 1.02:1) while the gearing ratio calculated at the ratio of total interest bearing loans to total assets of the Group were maintained at a very low level of 1.82% (2004: 2.47%).

The amount of interest paid during the year dropped to a record low of HK\$242,000 (2004: HK\$769,000) which was attributable to the low level of the Group's bank borrowings and the continued decline in interest rates. As at 31 March 2005, the Group's bank borrowings amounted to HK\$20,000,000 (2004: HK\$23,787,000) while the total bank balances including pledged bank deposits amounted to HK\$49,282,000 (2004: HK\$36,276,000), an increase of 35.85% over the comparative year.

## Dividend Policy

It is the Company's intention to provide shareholders with relatively consistent dividend income over the long term. The Five Year Financial Summary showed that the Company maintained a stable dividend payment over the last 5 years and the dividend payout ratio each year exceeded 25% of the profit attributable to shareholders.

## Contingent Liabilities

The Group's exposure to foreign currency risk is minimal as the functional currencies of the Group's operation are mainly Hong Kong dollars. While the Group's securities investment is exposed to stock market risk, the Group does not engage in any derivatives trading activities for trading or hedging purposes except for scrip dividend warrants received from securities investment. Hence it had no significant off-balance sheet or contingent liabilities as at 31 March 2005 other than three outstanding litigations relating to the following matters at the balance sheet date:—

- (a) Two claims were brought against the Group relating to certain damages alleged to be caused by defects in certain property previously owned by the Group and disputable income received by the Group.
- (b) A claim was brought against the Group for loss of storage goods. Subsequent to the balance sheet date, the Group was adjudged by the Court of First Instance to be liable to the claims. After taking senior counsel's opinion, the Group is now appealing against the judgment at the Court of Appeal.

The Directors are of the opinion that adequate provision has been made in the financial statements and the ultimate liability, if any, will not have a material impact upon the Group's financial position.

## Pledge of Assets

The Group's bank deposits in the amount of HK\$20 million (2004: HK\$20 million), investment properties with carrying value of HK\$795 million (2004: HK\$720 million) and property, plant and equipment with carrying value of approximately HK\$6 million (2004: HK\$6 million) have been pledged to banks to secure general banking facilities of HK\$72 million (2004: HK\$79 million) granted to the Group.