

# Management Discussion and Analysis

## Financial Review

The Group recorded a turnover of HK\$142.4 million during the year ended 31 March 2006. This was 15.1% greater than the figure of HK\$123.7 million achieved in the preceding year. The increase in turnover was primarily driven by the increase in securities trading and investment activities which accounted for 42% (2005: 34.1%) of the total turnover of the year.

The Group's profit before tax for the year amounted to HK\$201 million. This represents an increase of 38.7% over the figure of HK\$144.9 million recorded last year.

## Godown Operation

After a significant growth of 11.9% in turnover last year, the Group's revenue generated from the godown business was virtually unchanged at HK\$30.8 million this year (2005: HK\$30.9 million). During the year, the average occupancy rates for godowns were continuously kept a high level. Operating profit from godown business improved by 2% to HK\$12.5 million (2005: HK\$12.3 million). The stable godown's performance was maintained during the year.

## Property Investment

The turnover of the Group's property rental for the year was HK\$51.8 million (2005: HK\$50.5 million), an increase of 2.6% compared with last year. The increase in rental income was mainly due to the steady occupancy rate and the slight increase in rental rates reported in Lu Plaza this year. At the balance sheet date, the Group recorded an increase in fair value of the investment property of HK\$133.6 million (2005: HK\$90.4 million) based on professional valuation in the income statement. The profit from property investment rose by 42.3% to HK\$177.3 million this year (2005: HK\$124.6 million). Excluding the unrealised profit from the revaluation of investment properties and other non-recurrent expenses or income, profit grew slightly. The segment continues to generate a steady source of income to the Group.

The Group's existing investment properties comprise mainly commercial office, industrial and godown premises. As at 31 March 2006, the carrying value of the investment properties amounted to HK\$1,047 million (31/3/2005: HK\$913.4 million). All the investment properties are located in Hong Kong, details of the investment properties are set out on page 64 of this Report.

## Treasury Investment

Following a strong performance in treasury investment in 2005, the treasury investment continued to performed well and made a significant contribution to the Group's income during the year. Profit from trading securities this year registered at HK\$17.8 million, an increase of profit of 26.6% against last year's profit on trading securities of HK\$14.1 million. The turnover in trading securities investment totalled HK\$59.8 million (2005: HK\$42.2 million).

The investment objective of the Group is to preserve the Group's capital while ensuring a return on capital over a period of time. The Group has formulated and followed disciplined investment guidelines and policies for treasury investments.

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## Treasury Investment (Continued)

Total securities investments held for trading as at the year end was HK\$24.7 million (31/3/2005: HK\$37.2 million), which accounted for less than 2% (31/3/2005: 3.4%) of the total assets of the Group. The investment portfolio of the trading securities primarily comprises of securities listed in Hong Kong. The Group does not engage in futures, options or any derivative trading activities for speculation purpose. Investments in non-trading securities were re-classified as “available-for-sale investments” during the year in accordance with the treatment of the new accounting standard. The value of available-for-sale investments of the Group appreciated by 49.1% this year to HK\$69.2 million (2005: HK\$46.4 million), which includes an unrealised gain of HK\$18.8 million recognised through the investment revaluation reserve. Last year, the Group recorded an unrealised gain in value of HK\$14.6 million representing a growth of 46% per annum. The available-for-sale investments accounted for 5.4% (2005: 4.2%) of the total assets of the Group.

## Financial Resources and Liquidity

At the balance sheet date, the Group held HK\$115.8 million in current assets, an increase of 20.7% over the figure of HK\$95.9 million a year earlier. Cash in hand totalled HK\$75.8 million (31/3/2005: HK\$49.3 million) while securities investment held for trading carried at HK\$24.7 million (31/3/2005: HK\$37.2 million). Total current liabilities of the Group on the same date were HK\$38.5 million (31/3/2005: HK\$60.8 million). Current ratio as at 31 March 2006 was 3.01 times (31/3/2005: 1.58 times) of its current liabilities.

As at 31 March 2006, the Group did not have any bank loan. The Group’s primary source of financing for its operations during the year was the cash flow generated from its operating activities. During the year, net cash generated from operating activities reached HK\$70 million (2005: 34.9 million), and the net cash outflow for financing activities amounted to HK\$39 million (2005: HK\$20.3 million) which mainly represented the net repayment of bank loan of HK\$20 million (2005: HK\$2.5 million) at the beginning of the year and the dividends of HK\$18.9 million (2005: HK\$17.6 million) paid during the year.

As at 31 March 2006, the total equity attributable to shareholders of the Company amounted to HK\$1,136.9 million (31/3/2005: HK\$969.2 million) while the net asset value per share rose by 17.3% to HK\$8.42 (31/3/2005: HK\$7.18).

## Financial Risk and Management

While the Group derives its revenue mainly in HK dollars, cash balances and marketable securities are maintained mainly in HK dollars, the Group’s exposure to fluctuations in foreign currency is minimal. Available-for-sale investments and held-for-trading investments are subject to changes in market prices. The exposure to price changes is managed by closely monitoring the changes in market conditions that may have an impact on the market prices or factors affecting the value of these financial instruments. The Group will continue to adopt a conservative and disciplined approach to financial and investment risk management.

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## 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

At 31 March 2005, the following three outstanding unresolved litigations were brought against the Group. One of these litigations was settled during the year while two were still outstanding at 31 March 2006.

- (a) The litigation that was settled in the current year was brought against the Group relating to certain damage alleged to be caused by defects in certain property previously owned by the Group. The case was settled out of court and the claims were fully paid by the Group.
- (b) One outstanding unresolved litigation was brought against the Group relating to disputable income received by the Group. Subsequent to the balance sheet date, the case was settled out of court, and the claims were fully paid by the Group. The directors are of the opinion that adequate provision has been made in the financial statements.
- (c) Another outstanding unresolved litigation was brought against the Group relating to the loss of storage goods. In April 2005, the Group was adjudged by the Court of First Instance to be liable to the claims. After taking senior counsel's opinion, the Group has appealed against the judgment of the Court of First Instance at the Court of Appeal. Subsequent to the balance sheet date, the Court of Appeal upheld the judgment of the Court of First Instance and the claims were fully paid by the Group. The directors are of the opinion that adequate provision has been made in the financial statements.

## Pledge of Assets

At 31 March 2005, the Company's bank deposit of HK\$20,000,000 had been pledged to secure a bank loan of HK\$20,000,000. At 31 March 2006, the pledge has been released upon repayment of the bank loan.

In addition, the Group's investment properties and property, plant and equipment with carrying values of HK\$898,000,000 (2005: HK\$795,000,000) and HK\$5,523,000 (2005: HK\$5,713,000), respectively, have been pledged to banks to secure general banking facilities of HK\$72,000,000 (2005: HK\$72,000,000) granted to the Group, none of which was utilised at 31 March 2006.