

# Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Safety Godown Company, Limited (“the Company”) will be held at 19/F., Lu Plaza, 2 Wing Yip Street, Kwun Tong, Kowloon on Friday, 20 August 2004 at 12:00 noon for the following purposes:

1. To receive and adopt the Audited Consolidated Financial Statements and the Reports of the Directors and of the Auditors for the year ended 31 March 2004.
2. To declare a final dividend for the year 2004.
3. To re-elect the following Directors and to authorise the Directors to fix their remuneration:–
  - (a) Mr. Lui Chi Lung as Executive Director
  - (b) Mr. Gan Khai Choon as Independent Non-executive Director
  - (c) Mr. Lam Ming Leung as Independent Non-executive Director
4. To re-appoint Auditors and to authorise the Directors to fix their remuneration.

As special business, to consider and, if thought fit, pass the following ordinary resolutions:

## ORDINARY RESOLUTIONS

5. “THAT
  - (a) subject to paragraph (c) of this Resolution, the exercise by the Directors during the Relevant Period (as hereinafter defined) of all powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options (including warrants, bonds, debentures, notes and other securities which carry rights to subscribe for or are convertible into shares of the Company) which would or might require the exercise of such power be and is hereby generally and unconditionally approved;
  - (b) the approval in paragraph (a) of this Resolution shall authorise the Directors during the Relevant Period to make and grant offers, agreements and options (including warrants, bonds, debentures, notes and other securities which carry rights to subscribe for or are convertible into shares of the Company) which would or might require the exercise of such power after the end of the Relevant Period;
  - (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors pursuant to the approval in paragraph (a) of this Resolution, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined); or (ii) an issue of shares in the Company under any option scheme or similar arrangement for the time being adopted for the grant or issue to the grantees as specified in such scheme or similar arrangement of shares or rights to acquire shares of the Company; or (iii) an issue of shares in the Company upon the exercise of subscription or conversion rights under the terms of any existing warrants, bonds, debentures, notes and other securities of the Company which carry rights to subscribe for or are convertible into shares of

# Notice of Annual General Meeting

the Company; or (iv) an issue of shares in the Company as scrip dividends pursuant to the Articles of Association of the Company from time to time, shall not exceed 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of this Resolution and the said approval shall be limited accordingly; and

(d) for the purpose of this Resolution,

“Relevant Period” means the period from the passing of this Resolution until whichever is the earlier of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Companies Ordinance to be held; and
- (iii) the date on which the authority set out in this Resolution is revoked or varied by an ordinary resolution of the shareholders in general meeting; and

“Rights Issue” means an offer of shares of the Company or issue of option, warrants or other securities giving the right to subscribe for shares of the Company, open for a period fixed by the Directors to holders of shares whose names appear on the register of members of the Company (and, where appropriate, to holders of other securities of the Company entitled to the offer) on a fixed record date in proportion to their then holdings of such shares of the Company (or, where appropriate, such other securities) (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory applicable to the Company).”

6. “THAT:

- (a) subject to paragraph (b) of this Resolution, the exercise by the Directors during the Relevant Period (as hereinafter defined) of all powers of the Company to repurchase shares of the Company on The Stock Exchange of Hong Kong Limited (“the Stock Exchange”) or on any other stock exchange on which the shares of the Company may be listed and recognised by the Securities and Futures Commission and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on the Stock Exchange or of any other stock exchange as amended from time to time, be and is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of shares of the Company which the Company is authorised to be repurchased by the Company pursuant to the approval in paragraph (a) of this Resolution shall not exceed 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of this Resolution, and authority pursuant to paragraph (a) of this Resolution shall be limited accordingly; and

# Notice of Annual General Meeting

- (c) for the purpose of this Resolution,

“Relevant Period” means the period from the passing of this Resolution until whichever is the earlier of:

- (i) the conclusion of the next annual general meeting of the Company; or
  - (ii) the expiration of the period within which the next annual general meeting of the Company is required by law to be held; and
  - (iii) the date on which the authority set out in this Resolution is revoked or varied by an ordinary resolution of the shareholders in general meeting.”
7. “THAT conditional upon the passing of Ordinary Resolution Nos. 5 and 6 set out in the notice convening this meeting, the general mandate granted to the Directors to exercise the powers of the Company to allot shares pursuant to Ordinary Resolution No. 5 set out in the notice convening this meeting be and is hereby extended by the addition thereto of an amount representing the aggregate nominal amount of the share capital of the Company repurchased by the Company under the authority granted pursuant to Ordinary Resolution No. 6 set out in the notice convening this meeting, provided that such extended amount shall not exceed 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of this Resolution.”

As special business, to consider and, if thought fit, pass the following special resolution:

## **SPECIAL RESOLUTION**

8. “THAT the Articles of Association of the Company be and are hereby amended in the following manner:–

- (1) Article 1

- (a) by deleting the letter “s” in the definition “The Ordinances”.
- (b) by adding the following new definitions immediately after the definition of “Month”:–

“associate” shall have the meaning ascribed to it under the Listing Rules.

“clearing house” means a recognized clearing house within the meaning of section 37(1) of the Securities and Futures Ordinance (Chapter 571, Laws of Hong Kong) or a clearing house recognized by the laws of the jurisdiction in which the shares of the Company are listed or quoted with the permission of the Company on a stock exchange in such jurisdiction.

“electronic communication” means a communication sent by electronic transmission in any form through any medium.

“Entitled Person” means an “entitled person” as defined under the Ordinance.

# Notice of Annual General Meeting

“the Listing Rules” means the Rules Governing the Listing of Securities on the Stock Exchange and any amendments thereto for the time being in force.

“relevant financial documents” means the “relevant financial documents” as defined under the Ordinance.

“the Stock Exchange” means The Stock Exchange of Hong Kong Limited.

“summary financial report” means the “summary financial report” as defined under the Ordinance.

- (c) by deleting the interpretation of “In writing” and “written” in its entirety and substituting therefor the following new interpretation:–

“In writing” and “written” include written or printed or printed by lithography or printed by photography or typewritten or produced by any other modes of representing words or figures in a visible form or, to the extent permitted by, and in accordance with the Ordinance and other applicable laws, rules and regulations, any visible substitute for writing (including an electronic communication), or partly in one visible form and partly in another visible form.

- (d) by adding the following paragraph as the last paragraph of Article 1:–

References to a document being executed include references to it being executed under hand or under seal or, to the extent permitted by, and in accordance with the Ordinance and other applicable laws, rules and regulations, by electronic signature or by any other method. References to a document, to the extent permitted by, and in accordance with the Ordinance and other applicable laws, rules and regulations, include references to any information in visible form whether having physical substance or not.

- (2) Article 7A

by deleting the words “The Stock Exchange of Hong Kong Limited” in the second last line and substituting therefor the words “the Stock Exchange”.

- (3) Article 10

(a) by deleting the words “without payment” immediately after the word “entitled” in the first line of Article 10.

(b) by deleting the words “without payment” immediately after the word “thereof” in the seventh line of Article 10 and substituting therefor the words “upon payment of an amount not exceeding the maximum fee prescribed by the Listing Rules”.

(c) by inserting the words “be issued under the seal of the Company and” after the word “shall” in ninth line of Article 10.

# Notice of Annual General Meeting

(4) Article 12

by adding the words “to the satisfaction of the Company beyond reasonable doubt” after the word “evidence” in line 6 of Article 12, and by deleting the word “Renewal” in the corresponding marginal notes and substituting therefor the word “Replacement”.

(5) Article 18

by adding the words “Provided however that such payment in advance of calls does not entitle the holder of the share to participate in respect thereof in a dividend subsequently declared.” after the word “Directors.” in the last sentence of Article 18.

(6) new Article 24A

by adding the following new heading, Articles and marginal notes immediately after the existing Article 24:–

## **Untraceable Members**

- 24A. (1) As regards untraceable members, without prejudice to the rights of the Company under paragraph (2) of this Article, the Company may cease sending cheques for dividend entitlements or dividend warrants by post if such cheques or warrants have been left uncashed on two consecutive occasions. However, the Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants after the first occasion on which such a cheque or warrant is returned undelivered. Power to cease sending cheques to untraceable members
- (2) The Company shall have the power to sell, in such manner as the Board thinks fit, any shares of a Member who is untraceable, but no such sale shall be made unless:
- (a) at least three dividends in respect of the shares in question have become payable during the relevant period and no dividends during that period has been claimed; and
  - (b) so far as it is aware at the end of the relevant period, the Company has not at any time during the relevant period had any indication of the existence of the Member who is the holder of such shares or of a person entitled to such shares by death, bankruptcy or operation of law; and
  - (c) on the expiry of the relevant period, the Company has given notice to the Stock Exchange, and has caused advertisement in the newspapers to be published, of its intention to sell such shares.



# Notice of Annual General Meeting

For the purpose of this Article, “relevant period” means the period commencing twelve years before the date of publication of the advertisement referred to in paragraph (c) of this Article and ending at the expiry of the period referred to in that paragraph.

- (3) To give effect to any such sale, the Board may authorize some person to transfer the said shares, and an instrument of transfer signed or otherwise executed by or on behalf of such person shall be as effective as if it had been executed by the registered holder or the person entitled by transmission to such shares, and the purchaser shall not be bound to see to the application of the purchase money nor shall his title to the shares be affected by any irregularity or invalidity in the proceedings relating to the sale. The net proceeds of the sale will belong to the Company and the Company shall not be required to account for any money earned from the net proceeds which may be employed in the business of the Company or as it thinks fit. Any sale under this Article shall be valid and effective notwithstanding that the Member holding the shares sold is dead, bankrupt or otherwise under any legal disability or incapacity.

## (7) Article 37

by adding the following paragraph at the end of the existing Article 37:–

“Provided that where the Company issues shares which do not carry voting rights, the words “non-voting” must appear in the designation of such shares, and where the equity capital includes shares with different voting rights, the designation of each class of shares, other than those with the most favorable voting rights, must include the words “restricted voting” or “limited voting”.

## (8) Article 57

- (a) by deleting the words “but a poll may be demanded” in the second and third lines of the existing Article 57 and substituting therefor the words “ unless a poll is taken as may from time to time be required under the Listing Rules or any other applicable laws, rules or regulations or unless a poll is demanded”.
- (b) by inserting the words “a poll is so taken as required under the Listing Rules or any other applicable laws, rules or regulations or unless” after the word “Unless” at the beginning of the second paragraph of the existing Article 57.

# Notice of Annual General Meeting

## (9) new Articles 67A and 67B

by adding the following new Articles and marginal notes immediately after the existing Article 67:–

- 67A. (a) Any corporation which is a Member of the Company may by resolution of its directors or other governing body authorise such person as it thinks fit to act as its representative at any meeting of the Company or of any class of Members of the Company, and the person so authorised shall be entitled to exercise the same powers on behalf of the corporation which he represents as that corporation could exercise if it were an individual Member of the Company. Corporation acting by representative at meetings
- (b) If a recognized clearing house (or its nominee(s)) is a Member of the Company, it may authorise such person or persons as it thinks fit to act as its representative (or representatives) at any general meeting or any separate meeting of any class of Members of the Company provided that, if more than one person is so authorised, the authorisation must specify the number and class of Shares in respect of which each such person is so authorised. The person so authorised will be entitled to exercise the same rights and powers on behalf of the recognized clearing house as the clearing house (or its nominee(s)) could exercise as if such person were an individual shareholder of the Company (including the right to vote individually on a show of hands).
- 67B. Where the Company has knowledge that a Member is, under any applicable laws and the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such Member in contravention of such requirement or restriction shall not be counted. Voting in contravention to Listing Rules

## (10) Article 74

- (a) by deleting the existing Article 74(B) in its entirety and substituting therefor the following new paragraphs:–
- (B) A Director shall not vote (nor be counted in the quorum) on any resolution of the Board approving any contract, arrangement or proposal in which he or any of his associate(s), to the knowledge of such Director is or are materially interested, but this prohibition shall not apply to any of the following matters namely:–
- (i) any contract or arrangement for the giving by the Company of any security or indemnity to the Director or his associate(s) in respect of money lent or

# Notice of Annual General Meeting

obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;

- (ii) any contract or arrangement for the giving by the Company of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/ themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;
  - (iii) any contract, arrangement or proposal concerning an offer of the shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the Director or his associate(s) is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
  - (iv) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company;
  - (v) any contract, arrangement or proposal concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or shareholder or in which the Director and/ or his associate(s) is/are beneficially interested in shares of that company, provided that the Director and any of his associates are not in aggregate beneficially interested in five per cent. or more of the issued shares or voting rights of any class of shares of such company (or of any third company through which his interest or that of his associates is derived);
  - (vi) any proposal or arrangement concerning the benefit of employees of the Company or its subsidiaries including the adoption, modification or operation of a pension fund or retirement, death or disability benefits scheme which relates both to the directors, his associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or his associate(s) any privilege not generally accorded to the employees to whom such scheme or fund relates; and
  - (vii) any proposal or arrangement concerning the adoption, modifications or operation of any share scheme involving the issue or grant of options over shares or other securities by the Company to, or for the benefit of the employees of the Company or any of its subsidiaries under which the Director or his associate(s) may benefit.
- (C) A company shall be deemed to be a company in which a Director and/or his associate(s) own(s) five per cent. or more if and so long as (but only if and so long as) he and/or his associate(s) is/are (either directly or indirectly) the holder(s) of or beneficially interested in five per cent. or more of any class of the equity share capital



# Notice of Annual General Meeting

of such company (or of any third company through which his interest or that of any of his associates is derived) or of the voting rights available to members of such company. For the purpose of this paragraph there shall be disregarded any shares held by a Director or his associate(s) as bare or custodian trustee and in which he or any of them has no beneficial interest, any shares comprised in a trust in which the interest of the Director or his associate(s) is/are in reversion or remainder if and so long as some other person is entitled to receive the income thereof, and any shares comprised in an authorised unit trust scheme in which the Director or his associate(s) is/are interested only as a unit holder and any shares which carry no voting right at general meetings and very restrictive dividend and return of capital right.

- (D) Where a company in which a Director and/or his associate(s) hold(s) five per cent. or more is materially interested in a transaction, then that Director and/or his associate(s) shall also be deemed materially interested in such transaction.
  - (b) by re-lettering the existing sub-paragraph headings of Article 74 (C) and (D) to Article 74 (E) and (F) respectively.
  - (c) by deleting the existing Article 74 (E) in its entirety and substituting therefor the following new paragraph:–
    - (G) If any question shall arise at any meeting of the Board as to the materiality of the interest of a Director (other than the Chairman of the meeting) or his associate(s) or as to the entitlement of any Director (other than such Chairman) to vote or be counted in the quorum and such question is not resolved by his voluntarily agreeing to abstain from voting or not to be counted in the quorum, such question shall be referred to the Chairman of the meeting and his ruling in relation to such other Director shall be final and conclusive except in a case where the nature or extent of the interest of the Director and/or his associate(s) concerned as known to such Director has not been fairly disclosed to the Board. If any question as aforesaid shall arise in respect of the Chairman of the meeting such question shall be decided by a resolution of the Board (for which purpose the Chairman shall be counted in the quorum but shall not vote on the matter) and such resolution shall be final and conclusive except in a case where the nature or extent of the interest of the Chairman as known to such Chairman has not been fairly disclosed to the Board.
  - (d) by re-lettering the existing sub-paragraph headings of Article 74 (F) and (G) to Article 74 (H) and (I) respectively.
- (11) Article 82A
- by deleting the existing Article 82A in its entirety and substituting therefor the following new Article:–
- 82A. No person, other than a retiring Director, shall, unless recommended by the Directors for election, be eligible for election to the office of Director at any General Meeting, unless notice in writing of the intention to propose that person for election as a Director and notice

# Notice of Annual General Meeting

in writing by that person of his willingness to be elected shall have been given to the Company provided that the minimum length of the period, during which such notices are given, shall be at least seven days. The period for lodgment of such notices shall commence no earlier than the day after the despatch of the notice of the general meeting appointed for such election and end no later than seven days prior to the date of such general meeting.

## (12) Articles 111, 112 and 113

by deleting the existing Articles 111, 112 and 113 in their entirety and substituting therefor the following new Articles:—

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|--|---|
| <p>111. The Board shall from time to time in accordance with the provisions of the Ordinance cause to be prepared and laid before the Company at its Annual General Meeting the relevant financial documents.</p>  | <p>Relevant financial document</p>                              |
| <p>112. Subject to Article 113, the Company shall in accordance with the Ordinance and other applicable laws, rules and regulations, deliver or send to every Entitled Person a copy of the relevant financial documents of the Company or a copy of the summary financial report in place of a copy of the relevant financial documents from which the report is derived, not less than twenty-one days before the date of the General Meeting of the Company concerned (or such other time as is permitted under the Ordinance and other applicable laws, rules and regulations). Provided that this Article shall not require a copy of these documents to be sent to more than one of the joint holders of any Shares or debentures or to any Member of, or any holder of debentures, who is not entitled to receive notices of Annual General Meetings of the Company and whose address the Company is unaware, but any Member or holder of debentures of the Company to whom a copy of these documents has not been sent, shall be entitled to receive a copy of these documents free of charge on application at the Office of the Company.</p> | <p>Relevant financial document and summary financial report</p> |
| <p>113. Where any Entitled Person has, in accordance with the Ordinance and other applicable laws, rules and regulations, agreed or is deemed to have agreed to his having access to the relevant financial documents and/or the summary financial report on the Company's computer network as mentioned in Article 116(v) or, to the extent permitted by, and in accordance with the Ordinance and other applicable laws, rules and regulations, in any other manner (including any other form of electronic communication) instead of being sent the documents or report, as the case may be (an "assenting person"), the publication or making available</p>  | <p>Entitled Person</p>  |

# Notice of Annual General Meeting

by the Company, in accordance with the Ordinance and other applicable laws, rules and regulations, on the Company's computer network referred to above of the relevant financial documents and/or the summary financial report throughout the period beginning not less than twenty-one days before the date of the general meeting of the Company concerned and ending on such date in accordance with the Ordinance and other applicable laws, rules and regulations (or such other period or time as is permitted under the Ordinance and other applicable laws, rules and regulations) or in such other manner, shall be treated as having sent a copy of the relevant financial documents or a copy of the summary financial report to an assenting person in satisfaction of the Company's obligations under paragraph Article 112.

(13) Articles 115, 115A, 115B, 116 and 117

by deleting the existing Articles 115, 115A, 115B, 116 and 117 in their entirety and substituting therefor the following new Articles:–

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|---|--|
| <p>115. Every Entitled Person shall register with the Company an address either in Hong Kong or elsewhere to which notices can be sent and if any Member shall fail so to do, notice may be given to such Member by sending the same in any of the manners hereinafter mentioned to his last known place of business or residence, or if there be none, by posting the same for one day at the Office of the Company or by posting the same on the website of the Company or any other electronic means. In the case of joint holders of a share, all notices shall be given to that one of the joint holders whose name stands first in the Register of Members and notice so given shall be sufficient notice to all the joint holders.</p> | <p>Address of shareholders and service of notices to joint holders</p> |
| <p>116. Any notice or document (including any "corporate communication" as defined in the Listing Rules), whether or not to be given or issued under the Ordinance and other applicable laws, rules and regulations or these presents from the Company, may be served or delivered by the Company upon any Entitled Person:–</p> <p>(i) personally;</p> <p>(ii) by sending it through the post in a prepaid envelope or wrapper addressed to such person at his registered place of address;</p>  | <p>Service of notices</p>  |

# Notice of Annual General Meeting

- (iii) by advertisement in English in at least one English language newspaper and in Chinese in at least one Chinese language newspaper being in each case a newspaper published and circulating generally in Hong Kong and specified or permitted for this purpose by the Ordinance and other applicable laws, rules and regulations, and for such period as the Board shall think fit to the extent permitted by, and in accordance with the Ordinance and other applicable laws, rules and regulations;
- (iv) by sending or transmitting it as an electronic communication to such person at any telex or facsimile transmission number or electronic number or electronic address or computer network or website supplied by him to the Company for the giving of notice or document from the Company to him to the extent permitted by, and in accordance with the Ordinance and other applicable laws, rules and regulations;
- (v) by publishing it on the Company's computer network and giving to such person a notice in accordance with the Ordinance and other applicable laws, rules and regulations stating that the notice or other document is available there (a "notice of publication") to the extent permitted by, and in accordance with the Ordinance and other applicable laws, rules and regulations. The notice of publication may be given to such person by any of the means set out in paragraphs (i) to (iv) or (vi) of this Article; or
- (vi) by sending or otherwise making available to such person through such means to the extent permitted by, and in accordance with, the Ordinance and other applicable laws, rules and regulations.

117. (A) Any notice or other document (including any "corporate communication" as defined in the Listing Rules) given or issued by or on behalf of the Company:—

When notice deemed to be served

- (i) if served or delivered in person, shall be deemed to have been served or delivered at the time of personal service or delivery, and in proving such service or delivery, a certificate in writing signed by the Secretary (or other officer of the Company or such other person appointed by the Board) that the notice or document was so served or delivered shall be conclusive evidence thereof;

# Notice of Annual General Meeting

- (ii) if served or delivered by post, shall be deemed to have been served or delivered on the day following that on which the envelope or wrapper containing the same is put into a post box, and in proving such service or delivery, it shall be sufficient to prove that the envelope or wrapper containing the notice or document was properly prepaid, addressed and put into such post box. A certificate in writing signed by the Secretary (or such other officer of the Company or such other person appointed by the Board) that the envelope or wrapper containing the notice or other document was so prepaid, addressed and put into such post box shall be conclusive evidence thereof;
  - (iii) if sent or transmitted as an electronic communication in accordance with Article 116(iv) or through such means in accordance with Article 116(vi), shall be deemed to have been served or delivered at the time of the relevant despatch or transmission. A notice or document published in the Company's computer network in accordance with Article 116(v), shall be deemed to have been served or delivered on the day following that on which a notice of publication is sent to the Entitled Person. In proving such service or delivery, a certificate in writing signed by the Secretary (or such other officer of the Company or such other person appointed by the Board) as to the fact and time of such service, delivery, despatch, transmission or publication shall be conclusive evidence provided that no notification that the electronic communication has not reached its recipient has been received by the sender, except that any failure in transmission beyond the sender's control shall not invalidate the effectiveness of the notice or document being served; and
  - (iv) if served by advertisement in newspaper in accordance with Article 116(iii), shall be deemed to have been served on the day on which such notice or document is first published.
- (B) Subject to the Ordinance and other applicable laws, rules and regulations, any notice or document (including but not limited to the documents referred to in Articles 111 to 113 and any "corporate communication" as defined in the Listing Rules) may be given by the Company in the
- Choice of languages



# Notice of Annual General Meeting

English language only, in the Chinese language only or in both. Where a person has in accordance with the Ordinance and other applicable laws, rules and regulations consented to receive notices and documents (including but not limited to the documents referred to in Articles 111 to 113 and any “corporate communication” as defined in the Listing Rules) from the Company in the English language only or the Chinese language only but not both, it shall be sufficient for the Company to serve on or deliver to him any such notice or document in such language only in accordance with these presents unless and until there is a notice of revocation or amendment of such consent given or deemed to have been given by such person to the Company in accordance with the Ordinance and other applicable laws, rules and regulations which shall have effect in respect of any notice or document to be served on or delivered to such person subsequent to the giving of such notice of revocation or amendment.

(14) new Articles 124 and 125

by adding the following new heading, Articles and marginal notes immediately after the existing Article 123:–

## **Indemnity**

124. Every Director, manager, Secretary or other officer and every Auditor of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities (including any such liability as is mentioned in Section 165(2) of the Ordinance) which he may sustain or incur in or about the execution of the duties of his office or otherwise in relation thereto, and no Director, manager, Secretary or other officer or Auditor shall be liable for any loss, damage or misfortune which may happen to or be incurred by the Company in the execution of the duties of his office or in relation thereto. But this Article shall only have effect in so far as its provisions are not avoided by the said Section. This indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any of the said persons. Indemnity
125. The Company shall have power to purchase and maintain for any Director or other officer of the Company, or Auditors of the Company:– Liability insurance
- (a) insurance against any liability to the Company, a related company or any other party in respect of any negligence,

# Notice of Annual General Meeting

default, breach of duty or breach of trust (save for fraud) of which he may be guilty in relation to the Company or a related company; and

- (b) insurance against any liability incurred by him in defending any proceedings, whether civil or criminal, taken against him for any negligence, default, breach of duty or breach of trust (including fraud) of which he may be guilty in relation to the Company or a related company.

For the purpose of this Article, “related company” means any company which is the Company’s subsidiary or holding company or a subsidiary of the Company’s holding company.

9. To transact any other ordinary business.

By order of the Board  
**Wong Leung Wai**  
*Secretary*

Hong Kong, 2 July 2004

## NOTES:

- (1) A Member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and, on a poll, vote in his stead. A proxy need not also be a Member. The instrument appointing a proxy must be deposited at the registered office of the Company at 19/F., Lu Plaza, 2 Wing Yip Street, Kwun Tong, Kowloon, Hong Kong not less than 48 hours before the time appointed for holding the meeting.
- (2) The Register of Members will be closed from Wednesday, 18 August 2004 to Friday, 20 August 2004, both days inclusive, during which period no transfer of shares can be registered. In order to qualify for the final dividend, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company’s Share Registrars, Standard Registrars Limited, G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, for registration not later than 4:00 p.m. on Tuesday, 17 August 2004.
- (3) Subject to approval by the shareholders at a general meeting of the Company, the final dividend will be paid on 21 August 2004 to every shareholder registered as a member on the Register of Members at the close of business on 20 August 2004.

As at the date of this Notice, the Board of Directors of the Company consists of:

Lu Sin	Chairman and Managing Director
Lui Chi Lung	Executive Director
Lu Yong Lee	Non-executive Director
Gan Khai Choon	Independent Non-executive Director
Lee Ka Sze, Carmelo	Independent Non-executive Director
Lam Ming Leung	Independent Non-executive Director

# Corporate Information

## Board of Directors

Lu Sin

*Chairman & Managing Director*

Lui Chi Lung

*Executive Director*

Lu Yong Lee \*

Gan Khai Choon #

Lee Ka Sze, Carmelo #

Lam Ming Leung #

\* Non-executive directors

# Independent non-executive directors

## Secretary

Wong Leung Wai

## Bankers

The Hongkong and Shanghai Banking Corporation Limited

Bank of China (Hong Kong) Limited

UFJ Bank Limited

## Solicitors

Woo, Kwan, Lee & Lo

## Auditors

Deloitte Touche Tohmatsu

## Registered Office

19th Floor, Lu Plaza

2 Wing Yip Street

Kwun Tong

Kowloon

Hong Kong

## Registrars and Transfer Office

Standard Registrars Limited

G/F., Bank of East Asia Harbour View Centre,

56 Gloucester Road, Wanchai,

Hong Kong

# Biographical Information of Directors

## Executive Directors

**Mr. Lu Sin**, aged 85, the founder of the Group and the Chairman and Managing Director of the Company, is also the Chairman and Managing Director of Kian Nan Financial Limited, the Co-founder of Kian Nan Trading Co Limited. He has over 45 years experience in public godown operation, property development, textile industry and international trading. Mr. Lu is a Director and member of the Membership Committee of The University of Hong Kong Foundation for Educational Development and Research and is a Director of the Wuhan University, the Honorary President of Fujian Hong Kong Economic Development Association Limited and the Honorary President of Fujian Association of Enterprises with Foreign Investment. He was appointed an Advisor on Hong Kong Affairs to the Government of the People's Republic of China and a member of the Selection Committee for the First Government of the Hong Kong Special Administrative Region and was a member of the University Court of The University of Hong Kong. Mr. Lu is also an Honorary Professor of the Post-graduate School of the Chinese Academy of Social Science and an Honorary Fellow of The University of Hong Kong.

**Mr. Lui Chi Lung**, aged 52, has been an Executive Director of the Company since 1990. He is also a director of Kian Nan Financial Limited, Mr. Lui has over 30 years experience in public godown operation and textile industry. He is the son of the Chairman, Mr. Lu Sin.

## Non-executive Director

**Mr. Lu Yong Lee**, aged 65, has been a Director of the Company since 1989. He is also a Director of SEA Holdings Limited (a company listed in The Stock Exchange of Hong Kong Limited) and Kian Nan Financial Limited. Mr. Lu has over 35 years experience in property development and international trading.

## Independent Non-executive Directors

**Mr. Gan Khai Choon**, aged 58, has been a Director of the Company since 1990. He is also a director of City e-Solutions Limited (formerly known as CDL Hotels International Limited, a company listed in The Stock Exchange of Hong Kong Limited) and Managing Director of Hong Leong International (Hong Kong) Limited. Mr. Gan has extensive experience in finance, property development, hotel management and international trading.

**Mr. Lee Ka Sze, Carmelo**, aged 44, has been a Director of the Company since 2000. Mr. Lee is a partner of Woo, Kwan, Lee & Lo. He received his Bachelor of Laws degree and the Postgraduate Certificate in Laws from The University of Hong Kong. Mr. Lee is also an Independent Non-Executive Director of several listed public companies in Hong Kong, namely China Everbright International Limited, China Pharmaceutical Group Limited, Pak Fah Yeow International Limited, Termbray Industries International (Holdings) Limited, Tern Properties Co. Limited, Yugang International Limited, Yunnan Enterprises Holdings Limited, Y.T. Realty Group Limited, The Cross-Harbour (Holdings) Limited and Hopewell Holdings Limited.

**Mr. Lam Ming Leung**, aged 52, has been a Director of the Company since 1 January 2004. Mr. Lam was a director and general manager of The National Commercial Bank Limited, Hong Kong Branch.

# Chairman's Statement

## Profit for the Year

The Group reported profit attributable to shareholders of HK\$50,066,000 for the year ended 31 March 2004, an increase of 9.75% in earnings compared to profit attributable to shareholders of HK\$45,620,000 in last year.

## Dividends

The Directors recommend the payment of a final dividend of 6 cents per share for the year 2004, amounting to HK\$8,100,000, to shareholders whose names appear on the register of members on 20 August 2004. Together with the interim dividend of 5 cents per share already paid, the total distribution for the year ended 31 March 2004 will be 11 cents per share. Total distribution for the previous year was 9 cents per share.

## Business Review

During the first half of the year, the global economy and business activities were frustrated by the outbreak of SARS and the U.S. war in Iraq. Demand for godown space dropped and the flow of goods slackened. Fortunately, the godown business was relatively less affected than the other industries. As things came under control in the second half of the year, together with the supporting policies put forward by the central government, such as Closer Economic Partnership Arrangement ("CEPA") and the individual travellers' scheme that facilitated gradual recovery in various industries, a smooth flow of goods was resumed and the overall godown business remained stable and even saw a slight improvement compared with the preceding year. The turnover in godown business for this year was slightly increased by 3% to HK\$27,660,000.

The Group's major investment property, Lu Plaza, maintained a relatively steady leasing rate last year. However, the rental income still diminished slightly by 5% this year in spite of the reviving economy as some of the new and renewed contracts were signed during or after the SARS period with lower rentals, and new commercial buildings completed in Eastern Kowloon resulted in a rapid and huge increase in the supply of office premises and fiercer competition in the rental market.

This year, as the stock market has picked up substantially after SARS, the Group has achieved gains of about HK\$9,223,000 on securities investment, making the profit for this year of HK\$50,066,000, an increase of approximately 10% over the previous year.

## Outlook

Despite the effects brought by unfavourable factors such as the persistent high oil price, turmoil in the Middle East, the upward trend cycle of interest rates, macroeconomic adjustments in Mainland China, etc., which may undermine the short-term economic growth, the godown business is expected to maintain a steady growth following the upcoming of the Athens Olympic Games and the above unfavourable factors being gradually subsided. It is anticipated that with the continued growth of economy, the demand for office



# Chairman's Statement

premises will improve and the supply of office premises in Eastern Kowloon will gradually be taken up. The rental rate of Lu Plaza is expected to stabilise in the coming year, and slightly pick up in the second half of next year as vacant units are filled and new supply decreases.

In addition to its traditional godown business, the Group also established Safety Logistics Services Limited in April of this year to provide a more comprehensive and modernised logistic services to our customers. The initial investment is set to be HK\$5 million, the Company will adopt a proactive and prudent approach in promoting this new investment project.

**Lu Sin**

*Chairman*

Hong Kong, 18 June 2004

# 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.

# Management Discussion and Analysis

## 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.

# Management Discussion and Analysis

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

# Management Discussion and Analysis

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



# Directors' Report

The directors present their annual report and the audited financial statements of the Company for the year ended 31 March 2004.

## Principal Activities

The Company is engaged in investment holding, securities investment and trading, and the operation of public godowns. The principal activities of its subsidiaries are set out in note 28 to the financial statements.

## Results and Appropriations

The results of the Group for the year are set out in the consolidated income statement on page 29.

An interim dividend of 5 cents per share, amounting to HK\$6,750,000, was paid to shareholders during the year. The directors now recommend the payment of a final dividend of 6 cents per share, amounting to HK\$8,100,000, to the shareholders whose names appear on the register of members on 20 August 2004.

## Investment Properties, Property, Plant and Equipment

The Group's investment properties were revalued at 31 March 2004, resulting in a net revaluation increase amounting to HK\$22,000,000 which has been credited to investment property revaluation reserve.

Details of these and other movements in investment properties of the Group and property, plant and equipment of the Group and the Company during the year are set out in notes 13 and 14 to the financial statements, respectively.

## Directors

The directors of the Company during the year and up to the date of this report were:

### *Executive directors*

Mr. Lu Sin (*Chairman & Managing Director*)

Mr. Lui Chi Lung

### *Non-executive directors*

Mr. Lu Yong Lee

Mr. Wong Ker Lee (passed away on 1 May 2004)

### *Independent non-executive directors*

Mr. Gan Khai Choon

Mr. Lee Ka Sze, Carmelo

Mr. Lam Ming Leung (appointed on 1 January 2004)

In accordance with Article 75 of the Company's Articles of Association, Mr. Lam Ming Leung shall retire at the forthcoming annual general meeting and, being eligible, offer himself for re-election.

In accordance with Articles 78 and 79 of the Company's Articles of Association, Mr. Gan Khai Choon and Mr. Lui Chi Lung shall retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

# Directors' Report

## Directors (Continued)

No director of the Company proposing for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

The term of office for each non-executive and independent non-executive director is the period up to his retirement by rotation in accordance with the Company's Articles of Association.

## Directors' Interests in Securities

At 31 March 2004, the interests of the directors and their associates in the shares of the Company as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (Chapter 371 of the Laws of Hong Kong) ("SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Name of Director	Number of ordinary shares of the Company held			Total	Percentage of issued share capital of the Company
	Personal interests	Family interests	Corporate interests		
Mr. Lu Sin	4,400,000	2,589,500	59,553,445 <i>(Note)</i>	66,542,945	49%
Mr. Lui Chi Lung	947,884	–	–	947,884	1%
Mr. Wong Ker Lee	1,812,000	–	–	1,812,000	1%
Mr. Lam Ming Leung	10,000	–	–	10,000	–

*Note:* Mr. Lu Sin was deemed to be interested in 59,553,445 shares of the Company by virtue of his shareholdings in Lusin and Company Limited and Earngold Limited. Lusin and Company Limited and Earngold Limited owned 2,000,000 shares and 10,350,000 shares, respectively, of the Company. Lusin and Company Limited owned more than one-third of the issued ordinary share capital of Kian Nan Financial Limited which in turn owned 47,203,445 shares of the Company.

Other than as disclosed above, none of the directors nor their associates had any interests or short positions in any shares or underlying shares of the Company or its associated corporations as defined in Part XV of the SFO at 31 March 2004.

## Directors' Rights to Acquire Shares or Debentures

At no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## Directors' Interests in Contracts of Significance

Other than as disclosed in note 27 to the financial statements, no contract of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

# Directors' Report

## Substantial Shareholders

At 31 March 2004, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO showed that, other than the interests of certain directors disclosed under the section headed "Directors' interests in securities" above, the following shareholders had notified the Company of their relevant interests in the issued share capital of the Company:

Name of substantial shareholder	Number of ordinary shares held		Percentage of issued share capital of the Company
	Direct interest	Indirect interest	
Eaver Company Limited	2,007,628	47,203,445 (Note)	36%
Kian Nan Financial Limited	47,203,445	–	35%
Fu Nan Enterprises Company Limited	11,999,661	–	9%

*Note:* Eaver Company Limited was deemed to be interested in 47,203,445 shares of the Company by virtue of its shareholding in Kian Nan Financial Limited.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company at 31 March 2004.

## Major Customers and Suppliers

Aggregate sales attributable to the Group's five largest customers were less than 30% of total turnover.

In addition, the nature of the activities of the Group is such that no major supplier contributed significantly to the Group's purchases.

## Purchase, Sale or Redemption of Shares

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares during the year.

## Distributable Reserves

At 31 March 2004, the Company's reserves available for distribution amounted to HK\$345,727,000.

## Donations

During the year, the Group made charitable and other donations amounting to HK\$100,000.

## Auditors

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

**Lu Sin**  
*Chairman*

Hong Kong, 18 June 2004

# Auditors' Report



TO THE MEMBERS OF SAFETY GODOWN COMPANY, LIMITED  
*(incorporated in Hong Kong with limited liability)*

We have audited the financial statements on pages 29 to 53 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

## Respective Responsibilities of Directors and Auditors

The Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with section 141 of the Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## Basis of Opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

## Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 March 2004 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*

Hong Kong, 18 June 2004

# Consolidated Income Statement

For the year ended 31 March 2004

	Notes	2004 HK\$'000	2003 HK\$'000 (restated)
Turnover	4	82,660	84,950
Other operating income	5	11,819	4,330
Staff costs		(19,491)	(18,983)
Depreciation and amortisation		(3,842)	(4,118)
Other operating expenses		(14,776)	(12,978)
Profit from operations	6	56,370	53,201
Finance costs	7	(769)	(2,392)
Profit before taxation		55,601	50,809
Taxation	10	(5,535)	(5,189)
Profit for the year		<u>50,066</u>	<u>45,620</u>
Dividends	11	<u>14,850</u>	<u>12,150</u>
Earnings per share – Basic	12	<u>HK\$0.37</u>	<u>HK\$0.34</u>



# Balance Sheets

At 31 March 2004

	Notes	THE GROUP		THE COMPANY	
		2004 HK\$'000	2003 HK\$'000 (restated)	2004 HK\$'000	2003 HK\$'000
<b>NON-CURRENT ASSETS</b>					
Investment properties	13	823,000	801,000	–	–
Property, plant and equipment	14	47,425	49,335	137	189
Investments in subsidiaries	15	–	–	657,603	663,158
Investments in securities	16	31,781	13,019	31,781	13,019
		<u>902,206</u>	<u>863,354</u>	<u>689,521</u>	<u>676,366</u>
<b>CURRENT ASSETS</b>					
Trade and other receivables	17	10,678	10,404	3,211	3,391
Investments in securities	16	12,114	12,041	12,078	12,041
Tax recoverable		121	863	–	715
Pledged bank deposits		20,000	20,000	20,000	20,000
Bank balances and cash		16,276	16,361	216	178
		<u>59,189</u>	<u>59,669</u>	<u>35,505</u>	<u>36,325</u>
<b>CURRENT LIABILITIES</b>					
Other payables		30,882	36,039	7,576	9,705
Amounts due to subsidiaries		–	–	25,875	15,076
Tax payable		3,201	403	1,800	–
Bank borrowings	18	23,787	61,553	20,520	21,665
		<u>57,870</u>	<u>97,995</u>	<u>55,771</u>	<u>46,446</u>
<b>NET CURRENT ASSETS (LIABILITIES)</b>					
		<u>1,319</u>	<u>(38,326)</u>	<u>(20,266)</u>	<u>(10,121)</u>
		<u><b>903,525</b></u>	<u><b>825,028</b></u>	<u><b>669,255</b></u>	<u><b>666,245</b></u>

# Balance Sheets

At 31 March 2004

	Notes	THE GROUP		THE COMPANY	
		2004 HK\$'000	2003 HK\$'000 (restated)	2004 HK\$'000	2003 HK\$'000
<b>CAPITAL AND RESERVES</b>					
Share capital	19	135,000	135,000	135,000	135,000
Reserves	20	751,081	673,753	527,931	514,917
		<u>886,081</u>	<u>808,753</u>	<u>662,931</u>	<u>649,917</u>
<b>NON-CURRENT LIABILITIES</b>					
Deferred tax liabilities	21	12,150	10,692	–	–
Provision for long service payments	22	5,294	5,583	4,140	4,323
Loan from a subsidiary	23	–	–	2,184	12,005
		<u>17,444</u>	<u>16,275</u>	<u>6,324</u>	<u>16,328</u>
		<u>903,525</u>	<u>825,028</u>	<u>669,255</u>	<u>666,245</u>

The financial statements on pages 29 to 53 were approved and authorised for issue by the Board of Directors on 18 June 2004 and are signed on its behalf by:

Lu Sin  
Director

Lui Chi Lung  
Director

# Consolidated Statement of Changes in Equity

For the year ended 31 March 2004

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Investment property revaluation reserve <i>HK\$'000</i>	Investment revaluation reserve <i>HK\$'000</i>	Translation reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2002							
– as originally stated	135,000	43,216	173,018	(23,084)	42	460,736	788,928
– prior year adjustment (Note 2)	–	–	–	–	–	(4,024)	(4,024)
– as restated	135,000	43,216	173,018	(23,084)	42	456,712	784,904
Revaluation increase (decrease) not recognised in the consolidated income statement	–	–	1,531	(9,802)	–	–	(8,271)
Profit for the year	–	–	–	–	–	45,620	45,620
Dividends paid	–	–	–	–	–	(13,500)	(13,500)
At 31 March 2003	135,000	43,216	174,549	(32,886)	42	488,832	808,753
Revaluation increase not recognised in the consolidated income statement	–	–	22,000	18,762	–	–	40,762
Profit for the year	–	–	–	–	–	50,066	50,066
Dividends paid	–	–	–	–	–	(13,500)	(13,500)
At 31 March 2004	<u>135,000</u>	<u>43,216</u>	<u>196,549</u>	<u>(14,124)</u>	<u>42</u>	<u>525,398</u>	<u>886,081</u>

# Consolidated Cash Flow Statement

For the year ended 31 March 2004

	2004 HK\$'000	2003 HK\$'000
<b>Operating activities</b>		
Profit from operations	56,370	53,201
Adjustments for:		
Interest income	(242)	(679)
Dividend income	(996)	(1,877)
Unrealised holding gain on listed trading securities	(4,492)	(153)
Gain on disposal of listed trading securities	(4,731)	–
Write-back of provision for long service payments	–	(3,000)
Gain on disposal of property, plant and equipment	(30)	–
Depreciation and amortisation	3,842	4,118
Impairment loss on property, plant and equipment	–	300
Loss on disposal of unlisted other securities	–	35
	<hr/>	<hr/>
Operating cash flows before movements in working capital	49,721	51,945
Increase in trade and other receivables	(274)	(2,205)
(Decrease) increase in other payables	(5,157)	5,226
Decrease in provision for long service payments	(289)	(84)
	<hr/>	<hr/>
Cash generated from operations	44,001	54,882
Interest received	242	679
Hong Kong Profits Tax paid	(1,436)	(890)
Hong Kong Profits Tax refunded	899	2,179
	<hr/>	<hr/>
<b>Net cash generated from operating activities</b>	<b>43,706</b>	<b>56,850</b>
	<hr/>	<hr/>
<b>Investing activities</b>		
Proceeds from disposal of listed trading securities	19,988	–
Dividend received from listed investments in securities	996	1,877
Proceeds from disposal of property, plant and equipment	30	–
Purchase of listed trading securities	(10,838)	(2,765)
Purchase of property, plant and equipment	(1,932)	(3,085)
Decrease in pledged bank deposits	–	10,000
	<hr/>	<hr/>
<b>Net cash generated from investing activities</b>	<b>8,244</b>	<b>6,027</b>
	<hr/>	<hr/>

# Consolidated Cash Flow Statement

For the year ended 31 March 2004

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
<b>Financing activities</b>		
Repayments of bank loans	(289,000)	(46,000)
Dividends paid	(13,500)	(13,500)
Interest paid	(769)	(2,544)
New bank loans raised	253,500	–
	<hr/>	<hr/>
<b>Net cash used in financing activities</b>	<b>(49,769)</b>	<b>(62,044)</b>
	<hr/>	<hr/>
<b>Net increase in cash and cash equivalents</b>	<b>2,181</b>	833
	<hr/>	<hr/>
<b>Cash and cash equivalents brought forward</b>	<b>12,808</b>	11,975
	<hr/>	<hr/>
<b>Cash and cash equivalents carried forward</b>	<b>14,989</b>	12,808
	<hr/> <hr/>	<hr/> <hr/>
<b>Analysis of the balances of cash and cash equivalents</b>		
Bank balances and cash	16,276	16,361
Bank overdrafts	(1,287)	(3,553)
	<hr/>	<hr/>
	<b>14,989</b>	12,808
	<hr/> <hr/>	<hr/> <hr/>



# Notes to the Financial Statements

For the year ended 31 March 2004

## 1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited.

The Company is engaged in investment holding, securities investment and trading, and the operation of public godowns. The principal activities of its subsidiaries are set out in note 28.

## 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

The Hong Kong Financial Reporting Standards are inclusive of Statements of Standard Accounting Practice ("SSAP"s) and Interpretations approved by the Hong Kong Society of Accountants. In the current year, the Group has adopted, for the first time, SSAP 12 (Revised) "Income taxes".

The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. Comparative amounts have been restated accordingly.

As a result of this change in accounting policy, the Group's retained profits at 1 April 2002 has been decreased by HK\$4,024,000 and the Group's profit for the year ended 31 March 2003 has been increased by HK\$871,000. The effect on the results for the current year is not significant.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for revaluation of investment properties and investments in securities, and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

### *Basis of consolidation*

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 March each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

# Notes to the Financial Statements

For the year ended 31 March 2004

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### *Investments in subsidiaries*

Investments in subsidiaries are included in the Company's balance sheet at cost, less any identified impairment loss.

### *Revenue recognition*

Godown operating income is recognised on an accrual basis when the godown facilities are utilised and services are rendered.

Rental income from properties under operating leases is recognised on a straight line basis over the term of the relevant lease.

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

### *Investment properties*

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on independent professional valuation at the balance sheet date. Any revaluation increase or decrease arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a deficit, in which case the excess of the deficit over the balance on the investment property revaluation reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequently arises, this surplus is credited to the income statement to the extent of the deficit previously charged.

On the disposal of investment properties, the balance on the investment property revaluation reserve attributable to that property is transferred to the income statement.

No depreciation is provided on investment properties except where the unexpired term of the relevant lease is 20 years or less.

# Notes to the Financial Statements

For the year ended 31 March 2004

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### *Property, plant and equipment*

Property, plant and equipment are stated at cost less depreciation, amortisation and any identified impairment loss.

Depreciation and amortisation are provided to write off the cost of the assets over their estimated useful lives, using the straight line method, as follows:

Godown premises in Hong Kong	
Land	Over the unexpired term of the lease
Buildings	Shorter of the useful life of the buildings and the unexpired term of the land lease
Office premises and car parks in the Mainland	
China under medium-term land use right	2% per annum
Leasehold improvements, furniture, fixtures and equipment	25% per annum
Motor vehicles	25% per annum

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

### *Investments in securities*

Investments in securities are recognised on a trade date basis and are initially measured at cost.

All securities other than held-to-maturity debt securities are measured at subsequent reporting dates at fair value.

Where securities are held for trading purposes, unrealised gains or losses are included in the net profit or loss for the period. For other securities, unrealised gains and losses are dealt with in equity, until the securities are disposed of or are determined to be impaired, at which time the cumulative gain or loss is included in net profit or loss for the period.

### *Impairment*

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

# Notes to the Financial Statements

For the year ended 31 March 2004

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### *Foreign currencies*

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Gains and losses arising on exchange are included in net profit or loss for the period.

On consolidation, the assets and liabilities of the subsidiaries operating outside Hong Kong are translated at the exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to translation reserve. Such translation differences are recognised as income or expenses in the period in which the subsidiary is disposed of.

### *Taxation*

Taxation represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years, and it further excludes items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

### *Retirement benefit costs*

Payments to defined contribution retirement benefit plan are charged as an expense as they fall due.

# Notes to the Financial Statements

For the year ended 31 March 2004

## 4. SEGMENT INFORMATION

### *Business segments*

For management purposes, the Group is currently organised into two operating divisions – godown operations and property investment. These divisions are the basis on which the Group reports its primary segment information.

Segment information about these businesses is prescribed below.

### **For the year ended 31 March 2004**

	<b>Godown operations HK\$'000</b>	<b>Property investment HK\$'000</b>	<b>Eliminations HK\$'000</b>	<b>Consolidated HK\$'000</b>
<b>Turnover</b>				
External income	27,660	55,000	–	82,660
Inter-segment income	–	5,676	(5,676)	–
<b>Total</b>	<u>27,660</u>	<u>60,676</u>	<u>(5,676)</u>	<u>82,660</u>
Inter-segment income is charged at prevailing market rates.				
<b>Segment result</b>	<u>12,230</u>	<u>39,273</u>	<u>–</u>	51,503
Bank interest income				242
Dividend income from listed investments				996
Unrealised holding gain on listed trading securities				4,492
Gain on disposal of listed trading securities				4,731
Unallocated corporate expenses				(5,594)
Profit from operations				56,370
Finance costs				(769)
Profit before taxation				55,601
Taxation				(5,535)
Profit for the year				<u>50,066</u>



# Notes to the Financial Statements

For the year ended 31 March 2004

## 4. SEGMENT INFORMATION (Continued)

	Godown operations <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Consolidated <i>HK\$'000</i> <i>(restated)</i>
<b>Assets</b>			
Segment assets	44,208	836,892	881,100
Unallocated corporate assets			<u>80,295</u>
Consolidated total assets			<u><u>961,395</u></u>
<b>Liabilities</b>			
Segment liabilities	13,517	22,165	35,682
Unallocated corporate liabilities			<u>39,632</u>
Consolidated total liabilities			<u><u>75,314</u></u>
	Godown operations <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<b>Other information</b>			
Capital expenditure	1,560	372	1,932
Depreciation and amortisation	3,124	718	3,842
Gain on disposal of property, plant and equipment	30	–	30

# Notes to the Financial Statements

For the year ended 31 March 2004

## 4. SEGMENT INFORMATION (Continued)

For the year ended 31 March 2003

	Godown operations <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i> (restated)
<b>Turnover</b>				
External income	26,958	57,992	–	84,950
Inter-segment income	–	5,676	(5,676)	–
Total	<u>26,958</u>	<u>63,668</u>	<u>(5,676)</u>	<u>84,950</u>

Inter-segment income is charged at prevailing market rates.

<b>Segment result</b>	<u>10,627</u>	<u>45,336</u>	<u>–</u>	55,963
Bank interest income				679
Dividend income from listed investments				1,877
Unrealised holding gain on listed trading securities				153
Unallocated corporate expenses				(5,471)
Profit from operations				53,201
Finance costs				(2,392)
Profit before taxation				50,809
Taxation				(5,189)
Profit for the year				<u>45,620</u>

	Godown operations <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Consolidated <i>HK\$'000</i> (restated)
<b>Assets</b>			
Segment assets	52,002	808,737	860,739
Unallocated corporate assets			62,284
Consolidated total assets			<u>923,023</u>
<b>Liabilities</b>			
Segment liabilities	16,739	24,944	41,683
Unallocated corporate liabilities			72,587
Consolidated total liabilities			<u>114,270</u>

# Notes to the Financial Statements

For the year ended 31 March 2004

## 4. SEGMENT INFORMATION (Continued)

	Godown operations <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<b>Other information</b>			
Capital expenditure	1,617	1,468	3,085
Depreciation and amortisation	3,667	451	4,118
Impairment loss on property, plant and equipment	300	–	300

### *Geographical segments*

More than 90% of the Group's turnover, profit from operations, assets and liabilities were derived from and located in Hong Kong and, therefore, no geographical segments are presented.

## 5. OTHER OPERATING INCOME

Included in other operating income is as follows:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Bank interest income	242	679
Dividend income from listed investments	996	1,877
Unrealised holding gain on listed trading securities	4,492	153
Gain on disposal of listed trading securities	4,731	–
Gain on disposal of property, plant and equipment	30	–
	<u>          </u>	<u>          </u>

## 6. PROFIT FROM OPERATIONS

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
--	-------------------------	-------------------------

Profit from operations has been arrived at after charging:

Auditors' remuneration	450	450
Loss on disposal of unlisted other securities	–	35
Impairment loss on property, plant and equipment	–	300
Provision for legal claim and professional costs	4,806	200

and after crediting:

Gross rental income from investment properties	55,000	57,992
Less: outgoings	(3,573)	(4,699)
	<u>          </u>	<u>          </u>
Net rental income	51,427	53,293
Write-back of provision for long service payments	–	3,000
	<u>          </u>	<u>          </u>

# Notes to the Financial Statements

For the year ended 31 March 2004

## 7. FINANCE COSTS

	2004 HK\$'000	2003 HK\$'000
Interest on borrowings wholly repayable within five years:		
Bank	724	2,268
Others	45	124
	<u>769</u>	<u>2,392</u>

## 8. DIRECTORS' EMOLUMENTS

	2004 HK\$'000	2003 HK\$'000
Directors' fees:		
Executive	60	45
Non-executive	40	40
Independent non-executive	145	140
Other emoluments – Executive directors:		
Salaries and other emoluments	3,289	8,489
Retirement benefits scheme contributions	24	24
Total emoluments	<u>3,558</u>	<u>8,738</u>

The emoluments of directors were within the following bands:

	Number of directors	
	2004	2003
Nil to HK\$1,000,000	5	4
HK\$1,000,001 to HK\$1,500,000	1	1
HK\$2,000,001 to HK\$2,500,000	1	–
HK\$7,000,001 to HK\$7,500,000	–	1
	<u>–</u>	<u>1</u>

## 9. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, two (2003: two) were executive directors of the Company whose emoluments are included in note 8 above. The emoluments of the remaining three (2003: three) individuals were as follows:

	2004 HK\$'000	2003 HK\$'000
Salaries and other benefits	1,622	1,776
Retirement benefits scheme contributions	34	36
	<u>1,656</u>	<u>1,812</u>

The aggregate emoluments for each of the above-mentioned three (2003: three) employees during the year were within the HK\$1,000,000 band.

# Notes to the Financial Statements

For the year ended 31 March 2004

## 10. TAXATION

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i> <i>(restated)</i>
The charge comprises:		
Hong Kong Profits Tax		
Current year	4,526	1,965
Overprovision in prior years	(449)	(105)
	<u>4,077</u>	<u>1,860</u>
Deferred taxation	1,458	3,329
	<u>5,535</u>	<u>5,189</u>

The taxation charge for the year can be reconciled to the profit before taxation per the consolidated income statement as follows:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Profit before taxation	<u>55,601</u>	<u>50,809</u>
Tax at the domestic income tax rate of 17.5% (2003: 16%)	9,730	8,129
Tax effect of expenses not deductible for tax purpose	293	556
Tax effect of income not taxable for tax purpose	(211)	(389)
Tax effect of revaluation increase on investment properties restricted to capital allowances previously claimed	–	2,808
Tax effect of deductible temporary differences not recognised	512	292
Tax effect of tax losses not recognised	1	153
Tax effect of utilisation of deductible temporary differences previously not recognised	(3,194)	(3,441)
Tax effect of utilisation of tax losses previously not recognised	(2,464)	(2,685)
Effect of different tax rates of a subsidiary operating in other jurisdictions	(8)	(55)
Increase in opening deferred tax liabilities resulting from an increase in tax rate	1,002	–
Overprovision in prior years	(449)	(105)
Others	323	(74)
Taxation charge for the year	<u>5,535</u>	<u>5,189</u>

Details of the deferred tax liabilities are set out in note 21.



# Notes to the Financial Statements

For the year ended 31 March 2004

## 11. DIVIDENDS

	2004 HK\$'000	2003 HK\$'000
Interim dividend, paid – 5 cents (2003: 4 cents) per ordinary share	6,750	5,400
Final dividend, proposed – 6 cents (2003: 5 cents) per ordinary share	8,100	6,750
	<u>14,850</u>	<u>12,150</u>

A final dividend of 6 cents per share, amounting to HK\$8,100,000, for the year has been proposed by the directors and is subject to the approval by shareholders in the annual general meeting.

## 12. EARNINGS PER SHARE – BASIC

The calculation of earnings per share is based on the profit for the year of HK\$50,066,000 (2003: HK\$45,620,000) and on 135,000,000 shares in issue throughout the two years.

## 13. INVESTMENT PROPERTIES

	THE GROUP HK\$'000
VALUATION	
At 1 April 2003	801,000
Revaluation increase	22,000
At 31 March 2004	<u>823,000</u>

The investment properties are rented out under operating leases. They were revalued at 31 March 2004 on an open market value basis by Messrs. Jones Lang LaSalle Limited and A A Property Services Limited, Chartered Surveyors. The revaluation increase amounting to HK\$22,000,000 has been credited to investment property revaluation reserve.

The carrying amount of investment properties comprises properties on land in Hong Kong as follows:

	2004 HK\$'000	2003 HK\$'000
Long leases	103,000	101,000
Medium-term leases	720,000	700,000
	<u>823,000</u>	<u>801,000</u>

# Notes to the Financial Statements

For the year ended 31 March 2004

## 14. PROPERTY, PLANT AND EQUIPMENT

	Godown premises in Hong Kong held under long leases <i>HK\$'000</i>	Godown premises in Hong Kong held under medium- term leases <i>HK\$'000</i>	Office premises and carparks in Mainland China held under medium-term land use right <i>HK\$'000</i>	Leasehold improvements, furniture, fixtures and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>THE GROUP</b>						
<b>COST</b>						
At 1 April 2003	74,498	32,975	1,668	19,408	3,392	131,941
Additions	–	–	–	569	1,363	1,932
Disposal	–	–	–	–	(2,219)	(2,219)
At 31 March 2004	<u>74,498</u>	<u>32,975</u>	<u>1,668</u>	<u>19,977</u>	<u>2,536</u>	<u>131,654</u>
<b>DEPRECIATION, AMORTISATION AND IMPAIRMENT</b>						
At 1 April 2003	35,855	25,854	717	17,009	3,171	82,606
Provided for the year	2,345	214	53	932	298	3,842
Eliminated on disposal	–	–	–	–	(2,219)	(2,219)
At 31 March 2004	<u>38,200</u>	<u>26,068</u>	<u>770</u>	<u>17,941</u>	<u>1,250</u>	<u>84,229</u>
<b>NET BOOK VALUES</b>						
At 31 March 2004	<u>36,298</u>	<u>6,907</u>	<u>898</u>	<u>2,036</u>	<u>1,286</u>	<u>47,425</u>
At 31 March 2003	<u>38,643</u>	<u>7,121</u>	<u>951</u>	<u>2,399</u>	<u>221</u>	<u>49,335</u>

# Notes to the Financial Statements

For the year ended 31 March 2004

## 14. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Furniture, fixtures and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>THE COMPANY</b>			
<b>COST</b>			
At 1 April 2003	6,948	2,477	9,425
Additions	66	–	66
Disposal	–	(2,219)	(2,219)
	<hr/>	<hr/>	<hr/>
At 31 March 2004	7,014	258	7,272
<b>DEPRECIATION</b>			
At 1 April 2003	6,759	2,477	9,236
Provided for the year	118	–	118
Eliminated on disposal	–	(2,219)	(2,219)
	<hr/>	<hr/>	<hr/>
At 31 March 2004	6,877	258	7,135
<b>NET BOOK VALUES</b>			
At 31 March 2004	<u>137</u>	<u>–</u>	<u>137</u>
At 31 March 2003	<u>189</u>	<u>–</u>	<u>189</u>

## 15. INVESTMENTS IN SUBSIDIARIES

	<b>THE COMPANY</b>	
	<b>2004</b>	2003
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Unlisted shares, at cost	<b>31,780</b>	31,780
Loans to subsidiaries	<b>786,455</b>	792,010
	<hr/>	<hr/>
Impairment loss recognised	<b>818,235</b>	823,790
	<b>(160,632)</b>	(160,632)
	<hr/>	<hr/>
	<b><u>657,603</u></b>	<u>663,158</u>

Except for the loans of approximately HK\$759,058,000 (2003: HK\$764,772,000) and HK\$3,705,000 (2003: HK\$3,774,000) which bear interest at 0.25% (2003: 0.25%) per annum and prime rate (2003: prime rate), respectively, the loans to subsidiaries are unsecured, interest free and have no fixed terms of repayment. The Company will not demand for repayment of the loans within the next twelve months from the balance sheet date. Accordingly, the loans are shown as non-current.

Details of the subsidiaries at 31 March 2004 are set out in note 28.

# Notes to the Financial Statements

For the year ended 31 March 2004

## 16. INVESTMENTS IN SECURITIES

	Trading securities		Other securities		Total	
	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>THE GROUP</b>						
Equity securities:						
Listed in Hong Kong, at market value	<u>12,114</u>	<u>12,041</u>	<u>31,781</u>	<u>13,019</u>	<u>43,895</u>	<u>25,060</u>
Carrying amount analysed for reporting purposes as:						
Non-current	–	–	31,781	13,019	31,781	13,019
Current	<u>12,114</u>	<u>12,041</u>	<u>–</u>	<u>–</u>	<u>12,114</u>	<u>12,041</u>
	<u>12,114</u>	<u>12,041</u>	<u>31,781</u>	<u>13,019</u>	<u>43,895</u>	<u>25,060</u>
<b>THE COMPANY</b>						
Equity securities:						
Listed in Hong Kong, at market value	<u>12,078</u>	<u>12,041</u>	<u>31,781</u>	<u>13,019</u>	<u>43,859</u>	<u>25,060</u>
Carrying amount analysed for reporting purposes as:						
Non-current	–	–	31,781	13,019	31,781	13,019
Current	<u>12,078</u>	<u>12,041</u>	<u>–</u>	<u>–</u>	<u>12,078</u>	<u>12,041</u>
	<u>12,078</u>	<u>12,041</u>	<u>31,781</u>	<u>13,019</u>	<u>43,859</u>	<u>25,060</u>

## 17. TRADE AND OTHER RECEIVABLES

The Group has a policy of allowing credit period of 60 days to its trade customers.

An aged analysis of trade customers of the Group and the Company are as follows:

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Trade receivables				
Within 60 days	4,521	4,208	2,603	2,479
61-90 days	133	261	85	136
Over 90 days	154	589	45	144
	<u>4,808</u>	<u>5,058</u>	<u>2,733</u>	<u>2,759</u>
Other receivables	<u>5,870</u>	<u>5,346</u>	<u>478</u>	<u>632</u>
	<u>10,678</u>	<u>10,404</u>	<u>3,211</u>	<u>3,391</u>

# Notes to the Financial Statements

For the year ended 31 March 2004

## 18. BANK BORROWINGS

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Bank loans	22,500	58,000	20,000	20,000
Bank overdrafts	1,287	3,553	520	1,665
	<u>23,787</u>	<u>61,553</u>	<u>20,520</u>	<u>21,665</u>
Analysed as:				
Secured	23,267	59,888	20,000	20,000
Unsecured	520	1,665	520	1,665
	<u>23,787</u>	<u>61,553</u>	<u>20,520</u>	<u>21,665</u>

All bank borrowings are due for repayment within one year.

## 19. SHARE CAPITAL

	2004 & 2003 Number of shares	2004 & 2003 HK\$'000
Authorised:		
Ordinary shares of HK\$1 each	<u>200,000,000</u>	<u>200,000</u>
Issued and fully paid:		
Ordinary shares of HK\$1 each	<u>135,000,000</u>	<u>135,000</u>

## 20. RESERVES

	Share premium HK\$'000	Investment revaluation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
<b>THE COMPANY</b>				
At 1 April 2002	43,216	(11,085)	494,355	526,486
Revaluation decrease not recognised in income statement	–	(9,802)	–	(9,802)
Profit for the year	–	–	11,733	11,733
Dividends paid	–	–	(13,500)	(13,500)
At 31 March 2003	43,216	(20,887)	492,588	514,917
Revaluation increase not recognised in income statement	–	18,762	–	18,762
Profit for the year	–	–	7,752	7,752
Dividends paid	–	–	(13,500)	(13,500)
At 31 March 2004	<u>43,216</u>	<u>(2,125)</u>	<u>486,840</u>	<u>527,931</u>

# Notes to the Financial Statements

For the year ended 31 March 2004

## 20. RESERVES (Continued)

At the balance sheet date, the Company's reserves available for distribution to shareholders amounted to approximately HK\$345,727,000 (2003: HK\$351,475,000) which is analysed as follows:

	2004 HK\$'000	2003 HK\$'000
The Company's retained profits as stated above	486,840	492,588
Less: Profit on transfer of property to a subsidiary	(141,113)	(141,113)
	<u>345,727</u>	<u>351,475</u>

## 21. DEFERRED TAXATION

The following are the major deferred tax liabilities recognised by the Group and movements thereon during the current and prior years:

	Accelerated tax depreciation HK\$'000	Tax losses HK\$'000	Total HK\$'000
At 1 April 2002			
– as originally stated	3,339	–	3,339
– prior period adjustment on adoption of SSAP 12 (Revised)	4,024	–	4,024
– as restated	7,363	–	7,363
Charge to income statement	3,329	–	3,329
At 31 March 2003	10,692	–	10,692
Charge (credit) to income statement	2,756	(2,300)	456
Effect of change in tax rate	1,002	–	1,002
At 31 March 2004	<u>14,450</u>	<u>(2,300)</u>	<u>12,150</u>

At 31 March 2004, the Group has unused tax losses of HK\$57,123,000 (2003: HK\$70,318,000) available for offset against future profits. A deferred tax asset has been recognised in respect of such tax losses of HK\$12,900,000 (2003: Nil). In addition, the Group has deductible temporary differences of HK\$3,194,000 (2003: HK\$16,200,000). No deferred tax asset has been recognised in respect of the remaining tax losses of HK\$44,223,000 (2003: HK\$70,318,000) and the deductible temporary differences due to the unpredictability of future profit streams.

The Company did not have any significant unprovided deferred taxation arising during the year or at the balance sheet date.



# Notes to the Financial Statements

For the year ended 31 March 2004

## 22. PROVISION FOR LONG SERVICE PAYMENTS

The Group does not have any formal retirement scheme before participating in the Mandatory Provident Fund Scheme, but makes provision for long service payments on an annual basis. The directors are of the opinion that the provision at the balance sheet date is sufficient to cover the Group's probable obligations. The level of such provision will be reviewed on an annual basis and adjusted as appropriate.

Movements in the provision for long service payments during the year are as follows:

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Balance brought forward	5,583	8,667	4,323	5,222
Additional provision	29	206	–	–
Utilisation during the year	(318)	(290)	(183)	(99)
Write back of overprovision	–	(3,000)	–	(800)
Balance carried forward	<u>5,294</u>	<u>5,583</u>	<u>4,140</u>	<u>4,323</u>

In addition to the provision for long service payments, the Group has contributed to Mandatory Provident Fund Scheme for employees commencing from 1 December 2000 and the amount paid for the year is HK\$593,000 (2003: HK\$536,000).

## 23. LOAN FROM A SUBSIDIARY

The amount is unsecured, interest free and has no fixed terms of repayment. Repayment of the amount will not be demanded within the next twelve months from the balance sheet date. Accordingly, the amount is shown as non-current.

## 24. CAPITAL COMMITMENTS

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the financial statements	<u>–</u>	<u>195</u>

At the balance sheet date, the Company did not have any significant capital commitment.

# Notes to the Financial Statements

For the year ended 31 March 2004

## 25. PLEDGE OF ASSETS

The Company's bank deposit of HK\$20,000,000 (2003: HK\$20,000,000) has been pledged to secure a bank loan of HK\$20,000,000 (2003: HK\$20,000,000).

In addition, the Group's investment properties and property, plant and equipment with carrying values of HK\$720,000,000 (2003: HK\$700,000,000) and HK\$5,903,000 (2003: HK\$6,093,000), respectively, have been pledged to banks to secure general banking facilities of HK\$79,000,000 (2003: HK\$119,000,000) granted to the Group.

## 26. OPERATING LEASE ARRANGEMENTS

*The Group as lessor:*

Property rental income earned during the year was HK\$55,000,000 (2003: HK\$57,992,000). The properties held have committed tenants for a term ranging from six months to three years.

At the balance sheet date, the Group had contracted with tenants for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Within one year	41,288	41,328
In the second to fifth year inclusive	17,374	27,635
	<u>58,662</u>	<u>68,963</u>

At the balance sheet date, the Company did not have any significant operating lease commitment.

## 27. RELATED PARTY TRANSACTIONS

During the year, the Group received a reimbursement of expenses amounting to HK\$240,000 (2003: HK\$240,000) from a company in which a director of the Company has a beneficial interest. The reimbursement represents a share of expenses incurred in respect of the occupation of office premises and general administrative services provided to the related company, and is determined by reference to the prevailing market rates and the estimated costs incurred by the Group.

# Notes to the Financial Statements

For the year ended 31 March 2004

## 28. PARTICULARS OF SUBSIDIARIES

Particulars of subsidiaries as at 31 March 2004 are as follows:

Name of company	Place of incorporation/ registration	Paid up capital	Proportion of nominal value of issued capital/ registered capital held by the Company		Principal activities
			Directly	Indirectly	
Chi Kee Investment Company Limited	Hong Kong	HK\$500,000 Ordinary shares	100%	–	Property investment
Chivas Godown Company Limited	Hong Kong	HK\$10,000,000 Ordinary shares	100%	–	Holding and operating godown and property investment
East Asia (Fujian) Property Development Co. Ltd.	Mainland China	US\$1,619,394 Registered capital	–	100%	Property holding
Fu Hing Property Limited	British Virgin Islands	US\$1 Ordinary share	–	100%	Inactive
Gaylake Limited	Hong Kong	HK\$1,000 Ordinary shares	100%	–	Property investment and holding godown
Genlink Development Limited	Hong Kong	HK\$2 Ordinary shares	100%	–	Property holding
Good Ready Investment Limited	Hong Kong	HK\$2 Ordinary shares	100%	–	Property investment
On Luen Development Company Limited	Hong Kong	HK\$100,000 Ordinary shares	100%	–	Property investment
Rich China Development Limited	Hong Kong	HK\$2 Ordinary shares	100%	–	Securities trading
Safety Godown (China) Development Company Limited	Hong Kong	HK\$2 Ordinary shares	100%	–	Investment holding
Telerich Investment Limited	Hong Kong	HK\$2 Ordinary shares	100%	–	Inactive

East Asia (Fujian) Property Development Co. Ltd. is a wholly foreign owned enterprise.

All the subsidiaries have no debt securities subsisting at the end of the year or at any time during the year.

# Financial Summary

	For the year ended 31 March				
	2000 HK\$'000	2001 HK\$'000	2002 HK\$'000	2003 HK\$'000 (restated)	2004 HK\$'000
<b>RESULTS</b>					
Turnover	<u>95,790</u>	<u>102,276</u>	<u>88,739</u>	<u>84,950</u>	<u>82,660</u>
Profit before taxation	37,697	50,831	47,160	50,809	55,601
Taxation	<u>(6,118)</u>	<u>(6,218)</u>	<u>(1,921)</u>	<u>(5,189)</u>	<u>(5,535)</u>
Profit before minority interests	31,579	44,613	45,239	45,620	50,066
Minority interests	<u>(985)</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Profit for the year	<u>30,594</u>	<u>44,613</u>	<u>45,239</u>	<u>45,620</u>	<u>50,066</u>
	At 31 March				
	2000 HK\$'000	2001 HK\$'000	2002 HK\$'000	2003 HK\$'000 (restated)	2004 HK\$'000
<b>ASSETS AND LIABILITIES</b>					
Total assets	931,825	935,455	939,997	923,023	961,395
Total liabilities	<u>(203,244)</u>	<u>(199,330)</u>	<u>(151,069)</u>	<u>(114,270)</u>	<u>(75,314)</u>
Shareholders' funds	<u>728,581</u>	<u>736,125</u>	<u>788,928</u>	<u>808,753</u>	<u>886,081</u>

Note: The above financial summary prior to 2002 has not been adjusted to take into account the effect on adoption of SSAP 12 (Revised) "Income taxes" as the directors consider that it is not practicable to do so.

## Particulars of Major Properties

Particulars of properties which are held by the Group at 31 March 2004 are as follows:

(a) Industrial/godown premises in Hong Kong:

Location	Lease term	Effective interest held	Approximate floor area attributable to the Group sq.ft.	Type
The whole of Safety Godown (except 1/F, 2/F, 4/F and 5/F) 132-140 Kwok Shui Road, Kwai Chung, New Territories, Hong Kong	Medium-term lease	100%	271,578	Industrial/godown premises
The whole of Chivas Godown (except container parking space No.8, 1/F, 5/F, 6/F, 7/F and part of 4/F) 60 Ka Yip Street, Chai Wan, Hong Kong	Long lease	100%	210,000	Godown premises
Block No.D2 (including flat-roof appurtenance) 5th Floor at No.6 Wing Yip Street, Kwun Tong, Kowloon, Hong Kong	Medium-term lease	100%	2,810	Industrial premises

## Particulars of Major Properties

(b) Investment properties in Hong Kong:

Location	Lease term	Effective interest held	Approximate floor area attributable to the Group <i>sq.ft.</i>	Type
2 Wing Yip Street, Kwun Tong, Kowloon, Hong Kong	Medium-term lease	100%	430,000	Industrial/office
Flat roof on the third floor, five container spaces on the Ground Floor at 56 Ka Yip Street, Chai Wan, Hong Kong	Long lease	100%	6,800	Flat roof/car parking spaces
1/F, 2/F, 4/F and 5/F of Safety Godown 132-140 Kwok Shui Road, Kwai Chung, New Territories, Hong Kong	Medium-term lease	100%	149,422	Industrial/godown premises
Container parking space No.8, 1/F, 5/F, 6/F, 7/F and part of 4/F of Chivas Godown 60 Ka Yip Street, Chai Wan, Hong Kong	Long lease	100%	225,000	Godown premises

(c) Office premises and carpark in the Mainland China under medium-term land use right:

Location	Lease term	Effective interest held	Approximate floor area attributable to the Group <i>sq.ft.</i>	Type
Unit A on the 21st Floor and a carpark on the Ground Floor, International Building, Wusi Road, Fuzhou, Fujian Province, the People's Republic of China	Long lease	100%	4,100 (not including the carpark)	Commercial