



SAFETY GODOWN COMPANY, LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 237)

ANNUAL RESULTS ANNOUNCEMENT – 2003/2004

AUDITED CONSOLIDATED INCOME STATEMENT

For the year ended 31 March 2004

	Notes	2004 HK\$'000	2003 HK\$'000 (Restated)
Turnover	2	82,660	84,950
Other operating income	3	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	4	56,370	53,201
Finance costs	5	(769)	(2,392)
Profit before taxation		55,601	50,809
Taxation	6	(5,535)	(5,189)
Profit for the year		<u>50,066</u>	<u>45,620</u>
Dividends			
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>
Earnings per share - Basic	7	<u>HK\$0.37</u>	<u>HK\$0.34</u>

Notes:-

1. ADOPTION OF REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted, for the first time, the 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.

2. 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 presented below:

For the year ended 31 March 2004

	Godown operations <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Turnover				
External income	27,660	55,000	-	82,660
Inter-segment income	-	5,676	(5,676)	-
Total	<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.				
Segment result	<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				<u>(5,594)</u>
Profit from operations				56,370
Finance costs				<u>(769)</u>

Profit before taxation	55,601
Taxation	(5,535)
Profit for the year	<u>50,066</u>

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)
Turnover				
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.				
Segment result	<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>

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.

3. 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>10,491</u>	<u>2,709</u>

4. 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)
Net rental income	51,427	53,293
Write-back of provision for long service payments	—	3,000
	<u>51,427</u>	<u>53,293</u>

5. FINANCE COSTS

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

6. TAXATION

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i> (restated)
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>

7. 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.

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 on 21 August 2004 to shareholders registered on the register of members on 20 August 2004 of a final dividend for the year 2004 of 6 cents per share, amounting to HK\$8,100,000. 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 letting 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 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.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Ratios and Indexes

3-Year Analysis of Consolidated Income Statements

	2002		2003		2004	
	HKS'000	Percentage of turnover	HKS'000 (Restated)	Percentage of turnover	HKS'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.

Group Turnover and Segment Results

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 success 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 unrealised 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 approximately, 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.

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.

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.

BOOK CLOSURE

The Register of Members of the Company will be closed from 18 August 2004 to 20 August 2004, both days inclusive, during which period no transfer of shares can be registered. In order to qualify for the proposed 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.

PUBLICATION OF DETAILED RESULTS ANNOUNCEMENT ON THE STOCK EXCHANGE'S WEBSITE

A detailed results announcement of the Group containing all the information required by paragraphs 45(1) to 45(3) of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited will be published on the Website of The Stock Exchange of Hong Kong Limited in due course.

By Order of the Board
Lu Sin
Chairman

Hong Kong, 18 June 2004

As at the date of this announcement, 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