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安全貨倉有限公司

SAFETY GODOWN COMPANY, LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 237)

ANNUAL RESULTS ANNOUNCEMENT FOR 2018/2019

The Board of Directors of Safety Godown Company, Limited (the “Company”) is pleased to announce that the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 March 2019 are as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2019

	<i>Notes</i>	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Revenue	3	<u>142,275</u>	<u>123,515</u>
Income from godown operations		24,411	22,195
Income from property investment		93,947	85,257
Interest income		16,866	4,990
Dividend income		7,051	11,073
Other gains and losses		(19,280)	12,478
Exchange (loss) gain, net		(4,537)	289
Gain on disposal of property, plant and equipment		7	–
Loss on disposal of subsidiaries		–	(1,510)
Increase in fair value of investment properties		227,873	412,146
Staff costs		(15,493)	(12,821)
Depreciation of property, plant and equipment		(16,283)	(9,409)
Other expenses		<u>(23,755)</u>	<u>(26,123)</u>
Profit before taxation	5	290,807	498,565
Taxation	6	<u>(11,765)</u>	<u>(27,352)</u>
Profit for the year attributable to owners of the Company		<u>279,042</u>	<u>471,213</u>

	<i>Note</i>	2019 HK\$'000	2018 <i>HK\$'000</i>
Other comprehensive income for the year			
<i>Item that will not be reclassified to profit or loss:</i>			
Revaluation surplus on transfer of owner-occupied properties to investment properties		<u>110,121</u>	<u>78,092</u>
		<u>110,121</u>	<u>78,092</u>
 Total comprehensive income for the year attributable to owners of the Company		 <u>389,163</u>	 <u>549,305</u>
 Earnings per share – Basic	 8	 <u><u>HK\$2.07</u></u>	 <u><u>HK\$3.49</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 MARCH 2019

	<i>Note</i>	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Non-current assets			
Investment properties		3,635,100	3,398,200
Property, plant and equipment		188,980	85,807
Debt instrument at amortised cost		23,244	–
Held-to-maturity investment		–	23,241
		<u>3,847,324</u>	<u>3,507,248</u>
Current assets			
Investments held for trading		292,744	384,219
Trade and other receivables	9	22,775	28,606
Tax recoverable		–	1,390
Bank deposits		757,584	311,904
Other deposits		84,150	285,280
Bank balances and cash		17,541	181,170
		<u>1,174,794</u>	<u>1,192,569</u>
Current liabilities			
Other payables		32,249	24,153
Tax payable		20,335	17,328
		<u>52,584</u>	<u>41,481</u>
Net current assets		<u>1,122,210</u>	<u>1,151,088</u>
		<u>4,969,534</u>	<u>4,658,336</u>
Capital and reserves			
Share capital		178,216	178,216
Reserves		4,708,893	4,395,330
Equity attributable to owners of the Company		<u>4,887,109</u>	<u>4,573,546</u>
Non-current liabilities			
Long-term tenants' deposits received		15,662	20,428
Deferred tax liabilities		66,185	63,950
Provision for long service payments		578	412
		<u>82,425</u>	<u>84,790</u>
		<u>4,969,534</u>	<u>4,658,336</u>

NOTES:

1. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and by the Hong Kong Companies Ordinance (“CO”).

The consolidated financial statements have been prepared on the historical cost basis except for investment properties and certain financial instruments that are measured at fair values at the end of each reporting period.

The financial information relating to the years ended 31 March 2019 and 2018 included in this preliminary announcement of annual results 2019 do not constitute the Company’s statutory annual consolidated financial statements for those years but is derived from those consolidated financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the CO is as follows.

The Company has delivered the financial statements for the year ended 31 March 2018 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the CO and will deliver the financial statements for the year ended 31 March 2019 in due course.

The Company’s auditor has reported on the financial statements of the Group for both years. The auditor’s reports were unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its reports; and did not contain a statement under sections 406(2), 407(2) or (3) of the CO.

2. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs

New and Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to HKFRSs issued by HKICPA for the first time in the current year:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

Except as described below, the application of the new and amendments to HKFRSs in the current year has had no material impact on the Group’s financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

HKFRS 15 “Revenue from Contracts with Customers”

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 “Revenue”, HKAS 11 “Construction Contracts” and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 April 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1 April 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 and the related interpretations.

The Group recognises revenue from the following major sources:

- godown operations
- property investment
- treasury investment

Information about the Group’s performance obligations and the accounting policies resulting from application of HKFRS 15 are disclosed in notes to the Group’s consolidated financial statements.

Summary of effects arising from initial application of HKFRS 15

The application of HKFRS 15 has no significant impact on the timing and amounts of revenue recognised in the current year and retained profits at 1 April 2018.

HKFRS 9 “Financial Instruments”

In the current year, the Group has applied HKFRS 9 “Financial Instruments” and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for i) the classification and measurement of financial assets and financial liabilities and ii) expected credit losses (“ECL”) for financial assets.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 April 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 April 2018. The difference between carrying amounts as at 31 March 2018 and the carrying amounts as at 1 April 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 “Financial Instruments: Recognition and Measurement”.

Accounting policies resulting from application of HKFRS 9 are disclosed in note to the Group’s consolidated financial statements.

Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement (including impairment) of financial assets and financial liabilities and other items subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, 1 April 2018.

	Held- to-maturity investment HK\$'000	Debt instrument at amortised cost HK\$'000
Closing balance at 31 March 2018		
– HKAS 39	23,241	–
Effect arising from initial application of HKFRS 9:		
Reclassification		
From held-to-maturity investment (<i>Note a</i>)	<u>(23,241)</u>	<u>23,241</u>
At 1 April 2018	<u>–</u>	<u>23,241</u>

Notes:

(a) Held-to-maturity investment to debt instrument at amortised cost

Listed bond previously classified as held-to-maturity investment is reclassified and measured at amortised cost upon application of HKFRS 9. The Group intends to hold the assets to maturity to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding. There was no difference between the previous carrying amount and the revised carrying amount at 1 April 2018.

(b) Investments held for trading

The Group has reassessed its investments in equity securities classified as held for trading under HKAS 39 as if the Group had purchased these investments at the date of initial application. Based on the facts and circumstances as at the date of initial application, HK\$384,219,000 of the Group's investments were held for trading and continued to be measured at fair value through profit or loss.

(c) Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for trade receivables. Except for those which had been determined as credit impaired under HKAS 39, trade receivables have been assessed collectively using a provision matrix grouped based on past due analysis.

ECL for other financial assets at amortised cost, including bank deposits, other deposits, bank balances, other receivables and debt instrument at amortised cost, are assessed on 12-month ECL basis as there had been no significant increase in credit risk since initial recognition.

The directors of the Company reviewed and assessed the Group’s existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. No impairment allowance was recognised at 1 April 2018 as the amount involved is insignificant.

Amendments to HKAS 40 Transfers of Investment Property

The amendments clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by evidence that a change in use has occurred. The amendments further clarify that situations other than the ones listed in HKAS 40 may evidence a change in use, and that a change in use is possible for properties under construction (i.e. a change in use is not limited to completed properties).

At the date of initial application, the Group assessed the classification of certain properties based on conditions existing at that date. There is no impact to the classification at 1 April 2018.

New and amendments to HKFRS in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs and an interpretation that have been issued but are not yet effective:

HKFRS 16	Leases ¹
HKFRS 17	Insurance Contracts ³
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments ¹
Amendments to HKFRS 3	Definition of a Business ⁴
Amendments to HKFRS 9	Prepayment Features with Negative Compensation ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ²
Amendments to HKAS 1 and HKAS 8	Definition of Material ⁵
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement ¹
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures ¹
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle ¹

¹ Effective for annual periods beginning on or after 1 January 2019

² Effective for annual periods beginning on or after a date to be determined

³ Effective for annual periods beginning on or after 1 January 2021

⁴ Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

⁵ Effective for annual periods beginning on or after 1 January 2020

Except for the new HKFRS mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

HKFRS 16 “Leases”

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 “Leases” and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents operating lease payments as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and interest portion which will be both presented as financing cash flows by the Group.

Other than certain requirements which are also applicable to lessor, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

In addition, the Group currently considers the refundable short-term tenants' deposits received of HK\$18,154,000 (included in other payables) and long-term tenants' deposits received of HK\$15,662,000 as obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits received would be considered as advance lease payments.

The application of new requirements may result in changes in measurement, presentation and disclosures as indicated above.

3. REVENUE

The amount represents the following revenue recognised during the year:

	2019	2018
	HK\$'000	HK\$'000
Income from godown operations (<i>note a</i>)	24,411	22,195
Income from property investment	93,947	85,257
Dividend income from listed investments	7,051	11,073
Bank interest income	16,189	4,308
Other interest income	677	682
	142,275	123,515

Notes:

(a) Total income from godown operations

	2019	2018
	HK\$'000	HK\$'000
Inward and outward coolie income	2,538	2,581
Transportation income and other income	552	442
Storage rental income	21,321	19,172
	<hr/>	<hr/>
Total income from godown operations	24,411	22,195
	<hr/> <hr/>	<hr/> <hr/>

(b) Disaggregation of the Group's revenue from contracts with customers and geographical market

	2019	2018
	HK\$'000	HK\$'000
Types of goods or services (time of revenue recognition):		
Inward and outward coolie income (recognised at a point in time)	2,538	2,581
Transportation income and other income (recognised at a point in time)	552	442
	<hr/>	<hr/>
	3,090	3,023
	<hr/> <hr/>	<hr/> <hr/>
Geographical market:		
Hong Kong	3,090	3,023
	<hr/> <hr/>	<hr/> <hr/>

4. SEGMENT INFORMATION

Information analysed on the basis of the operation of the Group's businesses, including godown operations, property investment and treasury investment, is reported to the chief operating decision maker, being the executive director of the Company, for the purposes of resources allocation and performance assessment of each operating segment. The Group's operating and reportable segments under HKFRS 8 "Operating Segments" are therefore as follows:

Godown operations	– Operation of godowns
Property investment	– Leasing of investment properties
Treasury investment	– Securities trading and investment

Segment information about these operating and reportable segments is presented below:

For the year ended 31 March 2019

	Godown operations HK\$'000	Property investment HK\$'000	Treasury investment HK\$'000	Consolidated HK\$'000
Segment revenue	<u>24,411</u>	<u>93,947</u>	<u>23,917</u>	<u>142,275</u>
Segment profit (loss)	<u>8,526</u>	<u>66,218</u>	<u>(4,039)</u>	70,705
Increase in fair value of investment properties				227,873
Central administrative costs				<u>(7,771)</u>
Profit before taxation				<u>290,807</u>
	Godown operations HK\$'000	Property investment HK\$'000	Treasury investment HK\$'000	Consolidated HK\$'000
Assets				
Segment assets	175,720	3,665,746	1,160,852	5,002,318
Bank balances and cash				17,541
Unallocated other assets				<u>2,259</u>
Consolidated total assets				<u>5,022,118</u>
Liabilities				
Segment liabilities	2,580	37,149	171	39,900
Tax payable				20,335
Deferred tax liabilities				66,185
Unallocated other liabilities				<u>8,589</u>
Consolidated total liabilities				<u>135,009</u>
	Godown operations HK\$'000	Property investment HK\$'000	Treasury investment HK\$'000	Consolidated total HK\$'000
Other information				
Amounts included in the measure of segment profit or loss or segment assets:				
Capital expenditure	242	5,093	–	5,335
Depreciation of property, plant and equipment	13,310	2,973	–	16,283
Fair value loss on investments held for trading	<u>–</u>	<u>–</u>	<u>19,783</u>	<u>19,783</u>

For the year ended 31 March 2018

	Godown operations <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Treasury investment <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Segment revenue	<u>22,195</u>	<u>85,257</u>	<u>16,063</u>	<u>123,515</u>
Segment profit	<u>10,754</u>	<u>58,761</u>	<u>23,534</u>	93,049
Increase in fair value of investment properties				412,146
Central administrative costs				<u>(6,630)</u>
Profit before taxation				<u>498,565</u>

	Godown operations <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Treasury investment <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Assets				
Segment assets	72,523	3,425,592	1,006,966	4,505,081
Bank balances and cash				181,170
Tax recoverable				1,390
Unallocated other assets				<u>12,176</u>
Consolidated total assets				<u>4,699,817</u>
Liabilities				
Segment liabilities	1,744	35,615	48	37,407
Tax payable				17,328
Deferred tax liabilities				63,950
Unallocated other liabilities				<u>7,586</u>
Consolidated total liabilities				<u>126,271</u>

	Godown operations <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Treasury investment <i>HK\$'000</i>	Consolidated total <i>HK\$'000</i>
Other information				
Amounts included in the measure of segment profit or loss or segment assets:				
Capital expenditure	1,499	27,971	–	29,470
Depreciation of property, plant and equipment	7,260	2,149	–	9,409
Fair value gain on derivative financial instrument	–	–	(110)	(110)
Fair value gain on investments held for trading	<u>–</u>	<u>–</u>	<u>(12,063)</u>	<u>(12,063)</u>

Segment profit represents the profit earned by each segment without allocation of increase in fair value of investment properties, other administrative costs, which include directors' fees, other expenses that are not directly related to the core businesses and income tax expenses. This is the measure reported to the chief operating decision maker for the purposes of resources allocation and performance assessment.

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to operating segments other than the Group's corporate assets and bank balances; and
- all liabilities are allocated to operating segments other than the Group's corporate liabilities, tax payable and deferred tax liabilities.

Information about major customers

The aggregate revenue attributable to the Group's five largest customers accounted for 26% (2018: 25%) of the Group's total revenue. The revenue attributable to the largest customer (included in both godown operations and property investment segments) in the current year amounted to HK\$12,634,000 (2018: HK\$9,794,000) which accounted for 9% (2018: 8%) of the Group's total revenue, and the revenue attributed to each of the remaining four customers are less than 9% (2018: 8%) of the Group's total revenue.

Revenue from major services and investments

Analysis of the Group's revenue from its major services and investments are set out in note 3.

All the business operations and major non-current assets of the Group for both years are located and derived from Hong Kong.

5. PROFIT BEFORE TAXATION

	2019 HK\$'000	2018 HK\$'000
Profit before taxation has been arrived at after charging (crediting):		
Auditor's remuneration		
– audit service	1,000	925
– non-audit services	358	384
Depreciation	16,283	9,409
Exchange loss (gain), net	4,537	(289)
Gross rental income from investment properties	(93,947)	(85,257)
Less: direct operating expenses for investment properties that generated rental income during the year	8,253	10,884
direct operating expenses for investment properties that did not generate rental income during the year	635	–
Net rental income	(85,059)	(74,373)
Dividend income from listed investments		
– investments held for trading	(7,051)	(11,073)
Bank interest income	(16,189)	(4,308)
Interest income from debt instrument at amortised cost/held-to-maturity investment	(677)	(682)
Fair value gain on derivative financial instrument (note)	–	(110)
Fair value loss (gain) on investments held for trading (note)	19,783	(12,063)

Note: Amount included in other gains and losses.

6. TAXATION

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
The charge comprises:		
Hong Kong Profits Tax		
Current year	9,715	23,662
Overprovision in prior years	<u>(185)</u>	<u>(611)</u>
	9,530	23,051
Deferred taxation		
Current year	<u>2,235</u>	<u>4,301</u>
	<u>11,765</u>	<u>27,352</u>

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the “Bill”) which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%.

The directors of the Company considered the amount involved upon implementation of the two-tiered profits tax rates regime as insignificant to the consolidated financial statements. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

7. DIVIDENDS

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Interim dividend paid in respect of 2019 – HK28 cents (2018: HK28 cents) per ordinary share	37,800	37,800
Final dividend paid in respect of 2018 – HK28 cents (2017: HK12 cents) per ordinary share	37,800	16,200
Special dividend paid in respect of 2018 – HK\$Nil (2017: HK88 cents) per ordinary share	<u>–</u>	<u>118,800</u>
	<u>75,600</u>	<u>172,800</u>

A final dividend of HK12 cents per share, amounting to HK\$16,200,000 and a special dividend of HK88 cents per share, amounting to HK\$118,800,000 for the year have been proposed by the directors and are subject to the approval by shareholders in the forthcoming annual general meeting.

8. EARNINGS PER SHARE – BASIC

The calculation of basic earnings per share is based on the profit for the year attributable to owners of the Company of HK\$279,042,000 (2018: HK\$471,213,000) and on 135,000,000 (2018: 135,000,000) shares in issue throughout both years.

No diluted earnings per share has been presented as there were no potential ordinary shares in issue in both years.

9. TRADE AND OTHER RECEIVABLES

The following is an ageing analysis of trade receivables of the Group presented based on the billing date:

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Within 60 days	5,821	4,689
61-90 days	71	105
Over 90 days	7	–
	<hr/> 5,899	<hr/> 4,794
Other receivables	5,020	3,022
Prepayments and deposits	11,856	20,790
	<hr/> 22,775 <hr/>	<hr/> 28,606 <hr/>

The Group has a policy of allowing credit period of 60 days to its customers in respect of godown operations and 30 days for tenants.

DIVIDENDS

The Board of Directors has resolved to recommend a final dividend of HK12 cents (2018: HK28 cents) per share, amounting to HK\$16,200,000 and a special dividend of HK88 cents (2018: HK\$Nil) per share, amounting to HK\$118,800,000 for the year ended 31 March 2019, to shareholders whose names appear on the register of members of the Company on 29 August 2019 subject to the approval of shareholders at the forthcoming annual general meeting. The proposed final dividend and special dividend will be despatched to shareholders on 13 September 2019. Together with the interim dividend of HK28 cents per share already paid, the total distribution for the year will be HK\$1.28 per share (2018: HK56 cents per share).

ANNUAL GENERAL MEETING

The Annual General Meeting of the Company will be held on Friday, 16 August 2019. The notice of Annual General Meeting will be published on the website of the Hong Kong Exchanges and Clearing Limited (“HKEx”) at www.hkex.com.hk and on the website of the Company at www.safetygodown.com and despatched to the shareholders in due course as required by the Listing Rules.

CLOSURE OF MEMBERS REGISTER

To ascertain the shareholders' entitlement to attend and vote at the annual general meeting, the Register of Members will be closed from Tuesday, 13 August 2019 to Friday, 16 August 2019, both days inclusive, during which period no transfer of shares can be registered. In order to be eligible to attend and vote at the annual general meeting, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's Share Registrars, Tricor Standard Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong (which will be relocated to Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong with effect from 11 July 2019), for registration not later than 4:30 p.m. on Monday, 12 August 2019.

To ascertain the shareholders' entitlement to the proposed final dividend and special dividend, the Register of Members will be closed from Monday, 26 August 2019 to Thursday, 29 August 2019, both days inclusive, during which period no transfer of shares can be registered. In order to qualify for the final dividend and special dividend, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's Share Registrars, Tricor Standard Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong (which will be relocated to Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong with effect from 11 July 2019), for registration not later than 4:30 p.m. on Friday, 23 August 2019.

BUSINESS REVIEW

During the period under review, the profit attributable to owners of the Company was HK\$279,042,000. The core earnings based on profit for the year attributable to shareholders after adjusting the effect on unrealised fair value changes in investment properties and the gain on disposal of property, plant and equipment was HK\$51,162,000, being HK\$7,905,000 less than that of previous year (2018: HK\$59,067,000), which was mainly attributable to the loss arising from the treasury investment due to volatile fluctuations in the stock markets, offsetting the increase in the property investment and godown operations income.

Godown operations: Last year, our godown operations faced significant challenges. In the past six months, the cargo volume of paper, plastics, textiles and other traditional industrial materials accounting for a significant portion of the Group's godown operations decreased because of the gradual shrinkage of the traditional industries together with decreased demand for traditional industrial materials from the Mainland China and other adjacent countries. The abovementioned facts have an adverse impact on the warehousing demands. As the Group strived to improve its competitive strengths this year, the storage volume increased from approximate 18,000 cubic meters at the end of last year to approximate 27,000 cubic meters at the end of the year, the overall godown occupancy rate was approximate 82% whilst the godown operations income increased by approximate 10% from HK\$22,195,000 to HK\$24,411,000.

Property investment: Lu Plaza maintained stable occupancy rate during the period, coupled with the resumption of operation of the carparking spaces after the completion of revitalization work, the total rental revenue generated from Lu Plaza and the car parking spaces in aggregate increased by approximate 6%. Together with other leased properties, the overall rental revenue of property investment increased to HK\$93,947,000.

Treasury investment: Given that the stock markets experienced significant fluctuations during the year arising from the external global political and economic factors such as the trade friction between China and the United States, the overall treasury investment performance recorded a loss of HK\$4,039,000 (2018: a profit of HK\$23,534,000).

OUTLOOK

The Group's godown operations had obtained the ISO9001:2015 International Standard certification in April 2019. In addition, with support from certain upstream and downstream strategic partners in the logistics industry, we are expected to extend our scope of services to cater for market demands including document processing, claims and delivery management, and warehouse and fulfillment management. Meanwhile, the Group will continue to make investments to upgrade the IT systems for the warehouse management and logistics operations with a view to attracting local consumers, retailers, wholesalers and other potential customers to mitigate the effect from the decrease in cargo volume of the traditional industrial materials.

The revitalization work has been significantly improved the overall quality of Lu Plaza. Despite the expectation of sluggish growth in unit rent due to ongoing sufficient supply of new office spaces in the Kowloon East area, the rental income is expected to continue to achieve gradual growth in the future as the result of higher occupancy rate and gradual optimization of tenant mix. Following the leasing of one storey of the godown to a tenant in April 2018, the Group had leased out another half of one storey, generating additional rental income of approximate HK\$2,000,000 per year. On the whole, the Group recorded an increase in rental income. Furthermore, the Group had commenced work on waterproof renovation and power supply upgrade for the godown in a bid to improve the quality of the godown and rental income potential.

As at 31 March 2019, the Group had net liquid assets of approximate HK\$1,122,210,000, of which approximate HK\$757,584,000 was in part placed as time deposits denominated in Hong Kong dollar and United States dollar and the balance was unutilised for investments in stock markets in the United States and Hong Kong and the real estate investment trusts. Given the significant and continuous volatility in the stock markets worldwide, the financial markets are still shadowed by uncertainties. The Group will continue to closely monitor the market conditions and seek suitable investment opportunities.

REVIEW OF FINANCIAL RESULTS

Financial overview

For the Group's financial results for the year under review, the core earnings recorded a decrease as compared with last year. Profit attributable to owners of the Company for the year ended 31 March 2019 decreased by 41% to HK\$279,042,000 (2018: HK\$471,213,000), and the core earnings decreased by 13% to HK\$51,162,000 (2018: HK\$59,067,000) excluding the gain on investment property revaluation of HK\$227,873,000 (2018: HK\$412,146,000) and the gain on disposal of property, plant and equipment of HK\$7,000 (2018: HK\$Nil). Total revenue however increased by 15% to HK\$142,275,000 (2018: HK\$123,515,000).

The core earnings decreased by HK\$7,905,000 as compared with last year, which was mainly due to the loss from treasury investment of HK\$4,039,000 recorded for the year as compared to a profit of HK\$23,534,000 for last year, as well as a decrease in profit of HK\$2,228,000 in godown operations. Although property investment recorded an increase of HK\$7,457,000 in segment profit, it was insufficient to make up for the decrease in profit generated from treasury investment and godown operations.

During the year under review, the Company made dividend payments in the total amount of HK\$75,600,000 (2018: HK\$172,800,000). The consolidated shareholder's fund as at 31 March 2019 amounted to HK\$4,887,109,000 (2018: HK\$4,573,546,000), with the net asset value per share of the Company valued at HK\$36.20 (2018: HK\$33.88). Earnings per share for the year was registered at HK\$2.07 (2018: HK\$3.49).

Godown operations

As stated above, traditional warehousing operations focusing on industrial raw materials and products' customers have been languishing because of the continuous shrinkage of service demand. Thanks to the support from our existing and new customers, coupled with the strenuous efforts by the Group's management and staff, we had successfully turned around the downward trend in the past few years and witnessed improvement in the revenue generated from the godown operations during the year. During the year under review, our revenue generated from godown operations increased by 10% to HK\$24,411,000 (2018: HK\$22,195,000) and the respective segment profit decreased by 21% to HK\$8,526,000 (2018: HK\$10,754,000) due to the depreciation charge on certain areas of the Godown changed from investment properties purpose to owner-occupied.

The profit margin of the godown operations decreased to 35% (2018: 48%), and the average storage occupancy rate of the godown (2018: a total capacity of 35,500 cubic meters) increased from 62% to 69% (deducting the one storey of the godown leased out at the beginning of the year, the total godown capacity had decreased to 31,600 cubic meters and the average storage occupancy rate was 75%), whilst the average storage rental rate slightly increased by 1% to around HK\$74 (2018: HK\$73) per cubic meter.

Property investment

Following the completion of Lu Plaza's revitalization work, the average occupancy rate reached approximate 86% during the year. The tenants of this property constitute as a diversified portfolio, including manufacturing, trading, logistics, information technology, engineering and catering enterprises such as restaurants, which has improved the stability of its rental revenue.

Total rental income generated from property investment amounted to HK\$93,947,000 (2018: HK\$85,257,000), a rise of 10% as compared to last year. Segment profit from property investment amounted to HK\$66,218,000 (2018: HK\$58,761,000), representing an increase of 13% as compared to the corresponding period of the last year. Rental revenue (including carparking rental income) of the Lu Plaza increased from HK\$72,029,000 of last year to HK\$76,274,000 for the year.

The fair value of the Group's investment properties as at 31 March 2019 amounted to HK\$3,635,100,000 (2018: HK\$3,398,200,000) after accounting for an unrealised fair value gain of HK\$227,873,000 (2018: HK\$412,146,000) which had been recognised in profit or loss this year.

The average occupancy rate of the Group's major investment properties rose from 82% in 2018 to 86% in current year.

Treasury investment

Our treasury investment business diversified its investment in listed securities, bonds and mutual funds in Hong Kong and overseas financial markets, local and foreign currencies bank deposits, and other financial products. The Group had established a balanced investment portfolio of listed stocks in Hong Kong and the United States including high dividend yield stocks and stocks with growth potentials. Foreign currency bank deposits were mainly denominated in United States Dollars. We also invested in bonds to earn interest income, mutual funds, and real estate investment trusts. The objectives of the treasury investment are to strike a balance between risk and return and maximize return to shareholders.

During the year, the Hong Kong stock market had been affected by external factors in particular the trade friction between China and the United States, resulting in volatile fluctuations in the performance of Hang Seng Index.

Revenue from treasury investment grew by 49% to HK\$23,917,000 (2018: HK\$16,063,000) for the year, which was mainly attributable to the increase in interest income. Meanwhile, a loss of HK\$4,039,000 was recorded (2018: a profit of HK\$23,534,000), which was mainly due to the fair value loss on investments held for trading of HK\$19,783,000 (2018: fair value gain of HK\$12,063,000). As at 31 March 2019, the securities investments held for trading valued at HK\$292,744,000 (2018: HK\$384,219,000), a decrease of 24%.

Since the Group converted some Hong Kong dollars into foreign currencies during the year, it recorded a loss of HK\$4,537,000 (2018: a gain of HK\$289,000) was recorded. As United States dollar is pegged to the Hong Kong dollar, the Group's exposure to foreign exchange risk as at 31 March 2019 was not significant.

OPERATING COSTS

The operating costs of the Group, mainly comprising of staff costs, repairs and maintenance, depreciation and other administrative costs including real estate agency fees, building management fee, repairs and maintenance cost and brokers fees for securities transactions, decreased by 9% to HK\$23,755,000 (2018: HK\$26,123,000). The staff costs for the year was HK\$15,493,000 (2018: HK\$12,821,000), of which HK\$860,000 was allocated as interim and annual performance linked bonuses to motivate the staff performance. Depreciation for the year amounted to HK\$16,283,000 (2018: HK\$9,409,000), representing an increase of 73%, which was mainly due to the additional provision for depreciation as certain areas of the Godown changed from investment properties purpose to owner-occupied.

LIQUIDITY AND FINANCIAL RESOURCES

The Group continued to adopt a prudent financial management policy and maintained a strong cash position. Total cash and bank balances as at 31 March 2019 amounted to HK\$859,275,000 (2018: HK\$778,354,000). Most of the bank deposits were denominated in Hong Kong or United States dollars. The strong cash reserve position offers protection against tough times and it also gives the Group more options when future investment opportunities arise. The Group has sufficient financial resources to finance its operations.

The Group financed its operation mainly by its strong cash flows generated from operations. Recurring net cash flow from operating activities before movement in working capital amounted to HK\$85,067,000 (2018: HK\$94,680,000), decreased by 10%. As at 31 March 2019, net current assets amounted to HK\$1,122,210,000 (2018: HK\$1,151,088,000) with a liquidity ratio (ratio of current assets to current liabilities) of 22.34 times (2018: 28.75 times).

The Group did not have any loan or borrowings throughout the year. Therefore, the gearing ratio was zero. Notwithstanding the continuous payment of generous dividends to shareholders over the past years, the net asset value of the Group continues to increase. As at 31 March 2019, the Group had net asset value of HK\$4,887,109,000 (2018: HK\$4,573,546,000) or HK\$36.20 per share (2018: HK\$33.88).

DIVIDEND POLICY

It is the Group's intention to provide shareholders with relatively consistent dividend income over the long term. In the past 10 years, the Group had provided shareholders with relatively generous dividend payments. The management will try to maintain the dividend payment at a satisfactory level based on the business environment and the performance of the Group but this does not constitute a legally binding commitment on the part of the management.

Total dividends including interim and final dividends paid by the Company during the year amounted to HK\$75,600,000 (2018: interim, final and special dividends paid by the Company amounted to HK\$172,800,000).

RELATION WITH EMPLOYEE, CUSTOMERS AND SUPPLIERS

The Group considers its employees the key to sustainable business growth and is committed to provide all employees a safe and harassment free work environment with equality opportunities in relation to employment, reward management, training and career development. Workplace safety is on top priority of the Group. This is of paramount importance that health and safety measures are followed by employees in performing their duties to reduce work injuries. The Group has in place a fair and effective performance appraisal system and incentive bonus schemes designed to motivate and reward employees at all levels to deliver their best performance and achieve business performance targets. For continuous development, the Group offers job related trainings and provides sponsorship/subsidies to employees who are committed to personal development and learning.

As at 31 March 2019, the Group employed 37 (2018: 35) employees. Total staff cost was HK\$15,493,000 (2018: HK\$12,821,000). The remuneration policies are reviewed periodically on the basis of the nature of job, market trend, company performance and individual performance. The Group does not have any share option scheme for employees.

Customer relationship is the fundamentals of business. The Group fully understands this principle and thus maintain close relationship with customers to fulfil their immediate and long-term need. For our customer of godown operation business, we deliver high quality logistics service and meet our customers' needs. For our property investment business, we have engaged high quality property management company to manage our major investment properties. Tenant's need and feedback are communicated through the property manager from time to time to improve the management services and ensure tenants' satisfaction.

Due to the nature of its businesses, the Group does not have any major supplier that has significant influence on the operations. However, the Group strives to maintain fair and co-operating relationship with the suppliers. The selection of major suppliers or contractors is conducted through a tendering process in accordance with the Group's relevant policy. The management of the Group also regularly reviews the procurement and tendering procedures to ensure that the processes are conducted in an open and fair manner.

PLEDGE OF ASSETS

As at 31 March 2019, the Group did not pledge any of its assets.

CONTINGENT LIABILITIES

As at 31 March 2019, the Group did not have any significant contingent liabilities.

PURCHASE, SALE OR REDEMPTION OF SHARES

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

AUDIT COMMITTEE

The Audit Committee comprises of three Independent Non-executive Directors and one Non-executive Director. The Committee is chaired by Mr. Gan Khai Choon. The other members are Mr. Lam Ming Leung, Mr. Leung Man Chiu, Lawrence and Mr. Lee Ka Sze, Carmelo.

The Audit Committee, together with the management of the Company, had reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the audited consolidated financial statements of the Group for the year ended 31 March 2019.

CORPORATE GOVERNANCE PRACTICES

The Board of Directors (the “Board”) is committed to achieving and maintaining high standards of corporate governance practices for the purpose of providing a framework and solid foundation for its business operation and development. Effective corporate governance provides integrity, transparency, accountability which contributes to the corporate success and enhancement of shareholder value.

The Company has complied with all the code provisions set out in the Corporate Governance Code (“CG Code”) contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) (the “Listing Rules”) throughout the year ended 31 March 2019 except for the following deviations from code provisions A.2.1 to A.2.9, A.4.1, D.1.4, E.1.2 and F.1.3.

CG Code Provisions A.2.1 to A.2.9 stipulate that (i) the roles of the Chairman of the Board and Chief Executive Officer should be separate and should not be performed by the same individual, (ii) the division of responsibilities between the Chairman of the board and the Chief Executive Officer shall be clearly established and (iii) the responsibilities should be performed by the Chairman.

Since 5 April 2015, the position of the Chairman and the Chief Executive Officer of the Company have been vacant and have not been filled up as at the date of this announcement. The Board has kept review of its current structure from time to time. If any candidate with suitable skills and experiences is identified within or outside the Group, the Company will make necessary appointment to fill these positions in due course. Currently, the Board collectively performs the responsibilities of the Chairman while with the assistance of the senior management, executive director continues to monitor the business and operation of the Group.

CG Code Provision A.4.1 stipulates that Non-executive Directors should be appointed for a specific term. However, all Non-executive Directors of the Company are appointed with no specific term. In fact, all the Directors (including Non-executive Directors) of the Company are subject to retirement by rotation once every three years and are subject to re-election in accordance with the Company’s Articles of Association (the “Articles”). The Board considers that such requirements are sufficient to meet the underlying objectives of the relevant code provisions.

CG Code Provision D.1.4 stipulates that issuers should have formal letters of appointment for directors setting out the key terms and conditions of their appointment. But, the Company did not have formal letters of appointment for directors. However, the Directors shall be subject to retirement by rotation and being eligible for re-election pursuant to the Articles. Moreover, the Directors are required to comply with the requirements under statute and common law, the Listing Rules, the Companies Ordinance, legal and other regulatory requirements, if applicable.

CG Code Provision E.1.2 stipulates that the Chairman of the Board should attend the annual general meeting. Since 5 April 2015, the position of the Chairman of the Board has been vacant, Mr. Lu Wing Yee, Wayne, the Executive Director, was elected and acted as the chairman of the annual general meeting of the Company held on 17 August 2018 in accordance with the Articles.

CG Code Provision F.1.3 stipulates that the company secretary should report to the Chairman of the Board and/or the chief executive. As the positions of the Chairman of the Board and the Chief Executive Officer have been vacant, the Company Secretary reports to the Executive Director of the Company.

The Board will continuously review and improve the corporate governance practices and standards of the Company to ensure that business activities and decision making processes are regulated in a proper and prudent manner.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 of the Listing Rules as the Company’s code of conduct governing dealing by all directors in the securities of the Company. All the Directors have confirmed in writing that they had complied with the required standard as set out in the Model Code throughout the year ended 31 March 2019.

OTHER INFORMATION

The annual report of the Company for the year ended 31 March 2019 containing all the information required by the Listing Rules will be published on the websites of the HKEx at www.hkex.com.hk and the Company at www.safetygodown.com and despatched to shareholders in due course.

By Order of the Board
Safety Godown Company, Limited
Lu Wing Yee, Wayne
Executive Director

Hong Kong, 27 June 2019

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

Mr. Lu Wing Yee, Wayne	<i>Executive Director</i>
Mr. Lee Ka Sze, Carmelo	<i>Non-executive Director</i>
Mr. Gan Khai Choon	<i>Independent Non-executive Director</i>
Mr. Lam Ming Leung	<i>Independent Non-executive Director</i>
Mr. Leung Man Chiu, Lawrence	<i>Independent Non-executive Director</i>