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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)

INTERIM RESULTS ANNOUNCEMENT – 2019/2020

FINANCIAL HIGHLIGHTS

- Turnover: HK\$72,558,000, an increase of 4.5% (2018: HK\$69,465,000)
- Loss attributable to owners of the Company: HK\$33,060,000, a decrease of 121.2% (2018: profit of HK\$155,703,000)
- Net profit excluding fair value loss on investment properties: HK\$33,840,000, an increase of 36.8% (2018: net profit excluding fair value gain on investment properties of HK\$24,730,000)
- Bank balance: HK\$737,518,000 (31.3.2019: HK\$859,275,000)
- Loss per share: HK\$0.24 (2018: earnings per share HK\$1.15)
- Net asset value per share: HK\$35.48 (31.3.2019: HK\$36.20)
- Interim dividend: HK8 cents per share (2018: HK28 cents per share)

The Board of Directors of Safety Godown Company, Limited (the “Company”) is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30 September 2019. These results have been reviewed by the Company’s auditor, Deloitte Touche Tohmatsu, in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” and by the Audit Committee of the Company.

For the six months ended 30 September 2019, the Group recorded loss attributable to owners of approximately HK\$33,060,000 (six months ended 30 September 2018: profit of HK\$155,703,000), representing a decrease of 121.2% as compared with the corresponding period in 2018. Total revenue increased by 4.5% from HK\$69,465,000 to HK\$72,558,000 mainly due to an increase in income from property investment. The Group’s net profit excluding fair value loss on investment properties increased by 36.8% to HK\$33,840,000.

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**

For the six months ended 30 September 2019

	<i>Notes</i>	Six months ended	
		30.9.2019 (unaudited) HK\$'000	30.9.2018 (unaudited) HK\$'000
Revenue	3	<u>72,558</u>	<u>69,465</u>
Income from godown operations		11,394	11,786
Income from property investment		48,364	45,467
Interest income		10,455	7,447
Dividend income		2,345	4,765
Other gains and losses		(1,697)	(8,004)
Exchange loss, net		–	(4,488)
(Decrease) increase in fair value of investment properties		(66,900)	130,973
Staff costs		(7,639)	(6,891)
Depreciation of property, plant and equipment		(9,478)	(8,046)
Other expenses		<u>(12,859)</u>	<u>(10,057)</u>
(Loss) profit before taxation		(26,015)	162,952
Taxation	5	<u>(7,045)</u>	<u>(7,249)</u>
(Loss) profit for the period attributable to owners of the Company		<u>(33,060)</u>	<u>155,703</u>
Other comprehensive income			
Item that will not be reclassified to profit or loss:			
Revaluation surplus on transfer of owner-occupied properties to investment properties at fair value		<u>70,673</u>	<u>110,121</u>
Other comprehensive income for the period		<u>70,673</u>	<u>110,121</u>
Total comprehensive income for the period attributable to owners of the Company		<u>37,613</u>	<u>265,824</u>
(Loss) earnings per share – Basic	7	<u>(HK\$0.24)</u>	<u>HK\$1.15</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION*At 30 September 2019*

	<i>Note</i>	30.9.2019 (unaudited) HK\$'000	31.3.2019 (audited) HK\$'000
Non-current assets			
Investment properties		3,592,600	3,635,100
Property, plant and equipment		226,903	188,980
Debt instrument at amortised cost		—	23,244
		<u>3,819,503</u>	<u>3,847,324</u>
Current assets			
Investments held for trading		321,109	292,744
Debt instrument at amortised cost		23,246	—
Trade and other receivables	8	31,111	22,775
Bank deposits		651,602	757,584
Other deposits		65,082	84,150
Bank balances and cash		20,834	17,541
		<u>1,112,984</u>	<u>1,174,794</u>
Current liabilities			
Other payables		31,211	32,249
Tax payable		23,529	20,335
		<u>54,740</u>	<u>52,584</u>
Net current assets		<u>1,058,244</u>	<u>1,122,210</u>
		<u>4,877,747</u>	<u>4,969,534</u>

	30.9.2019 (unaudited) <i>HK\$'000</i>	31.3.2019 (audited) <i>HK\$'000</i>
Capital and reserves		
Share capital	178,216	178,216
Reserves	<u>4,611,506</u>	<u>4,708,893</u>
Equity attributable to owners of the Company	<u>4,789,722</u>	<u>4,887,109</u>
Non-current liabilities		
Long-term tenants' deposits received	19,098	15,662
Deferred tax liabilities	68,349	66,185
Provision for long service payments	<u>578</u>	<u>578</u>
	<u>88,025</u>	<u>82,425</u>
	<u><u>4,877,747</u></u>	<u><u>4,969,534</u></u>

NOTES:

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) as well as the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The financial information relating to the period ended 31 March 2019 that is included in these condensed consolidated financial statements as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements is as follows:

The Company has delivered the financial statements for the year ended 31 March 2019 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance.

The Company’s auditor has reported on those financial statements. The auditor’s report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain investment properties and financial instruments, which are measured at fair values.

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards (“HKFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 September 2019 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 March 2019.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatorily effective for the annual period beginning on or after 1 April 2019 for the preparation of the Group’s condensed consolidated financial statements:

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Investments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle

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

2.1 Impacts and changes in accounting policies of application on HKFRS 16 “Leases”

The Group has applied HKFRS 16 for the first time in the current interim period. HKFRS 16 superseded HKAS 17 “Leases” and the related interpretations.

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of HKFRS 16.

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessor

Allocation of consideration to components of a contract

Effective on 1 April 2019, the Group applies HKFRS 15 “Revenue from Contracts with Customers” (“HKFRS 15”) to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

Refundable rental deposits

Refundable rental deposits received are accounted under HKFRS 9 “Financial Instruments” and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

Lease modification

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 “Determining whether an Arrangement contains a Lease” and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 April 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessor

In accordance with the transitional provisions in HKFRS 16, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with HKFRS 16 from the date of initial application and comparative information has not been restated.

- (a) Upon application of HKFRS 16, new lease contracts entered into but commence after the date of initial application relating to the same underlying assets under existing lease contracts are accounted as if the existing leases are modified as at 1 April 2019. The application has had no impact on the Group's condensed consolidated statement of financial position at 1 April 2019. However, effective 1 April 2019, lease payments relating to the revised lease term after modification are recognised as income on straight-line basis over the extended lease term.
- (b) Before application of HKFRS 16, refundable rental deposits received were considered as rights and obligations under leases to which HKAS 17 applied. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right-of-use assets and were adjusted to reflect the discounting effect at transition. The amount of such adjustments are considered insignificant.
- (c) Effective on 1 April 2019, the Group has applied HKFRS 15 to allocate consideration in the contract to each lease and non-lease components. The change in allocation basis has had no material impact on the condensed consolidated financial statements of the Group for the current period.

Based on the assessment by the directors of the Company, the transition to HKFRS 16 as a lessor had no material impact on the Group's condensed consolidated financial statements as at 1 April 2019.

3. REVENUE

	Six months ended	
	30.9.2019	30.9.2018
	HK\$'000	HK\$'000
Income from godown operations	11,394	11,786
Income from property investment	48,364	45,467
Dividend income from listed investments	2,345	4,765
Bank interest income	9,515	6,834
Other interest income	940	613
	<hr/>	<hr/>
	72,558	69,465
	<hr/> <hr/>	<hr/> <hr/>

4. SEGMENT INFORMATION

The Group's operating and reportable segments, based on information 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 are as follows:

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

The following is an analysis of the Group's revenue and results by reportable and operating segments:

For the six months ended 30 September 2019

	Godown operations	Property investment	Treasury investment	Segments total	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue					
Segment revenue	<u>11,394</u>	<u>48,364</u>	<u>12,800</u>	<u>72,558</u>	<u>72,558</u>
Segment profit	<u>3,183</u>	<u>32,425</u>	<u>9,410</u>	<u>45,018</u>	45,018
Decrease in fair value of investment properties					(66,900)
Central administrative costs					<u>(4,133)</u>
Loss before taxation					<u>(26,015)</u>

For the six months ended 30 September 2018

	Godown operations	Property investment	Treasury investment	Segments total	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue					
Segment revenue	<u>11,786</u>	<u>45,467</u>	<u>12,212</u>	<u>69,465</u>	<u>69,465</u>
Segment profit (loss)	<u>4,384</u>	<u>33,868</u>	<u>(2,780)</u>	<u>35,472</u>	35,472
Increase in fair value of investment properties					130,973
Central administrative costs					<u>(3,493)</u>
Profit before taxation					<u>162,952</u>

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

The following is an analysis of the Group's assets and liabilities by reportable and operating segment:

	30.9.2019	31.3.2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Godown operations	167,050	175,720
Property investment	3,677,103	3,665,746
Treasury investment	1,065,236	1,160,852
	<hr/>	<hr/>
Total segment assets	4,909,389	5,002,318
	<hr/> <hr/>	<hr/> <hr/>
Godown operations	2,631	2,580
Property investment	39,430	37,149
Treasury investment	52	171
	<hr/>	<hr/>
Total segment liabilities	42,113	39,900
	<hr/> <hr/>	<hr/> <hr/>

5. TAXATION

	Six months ended	
	30.9.2019	30.9.2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
The charge comprises:		
Hong Kong Profits Tax	4,881	5,044
Deferred taxation	2,164	2,205
	<hr/>	<hr/>
	7,045	7,249
	<hr/> <hr/>	<hr/> <hr/>

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the current and prior periods.

6. DIVIDENDS

	Six months ended	
	30.9.2019	30.9.2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Dividends paid:		
Final dividend paid in respect of the year ended 31 March 2019 of HK12 cents (2018: HK28 cents) per ordinary share	16,200	37,800
Special dividend paid in respect of the year ended 31 March 2019 of HK88 cents (2018: nil) per ordinary share	118,800	—
	<hr/>	<hr/>
	135,000	37,800
	<hr/> <hr/>	<hr/> <hr/>

Subsequent to the end of the current interim period, the directors of the Company have determined that an interim dividend of HK8 cents (six months ended 30.9.2018: HK28 cents) per share, amounting to HK\$10,800,000 (six months ended 30.9.2018: HK\$37,800,000) will be paid to the shareholders of the Company, whose names appear in the register of members on 23 December 2019. The interim dividend will be paid on 10 January 2020.

7. (LOSS) EARNINGS PER SHARE-BASIC

The calculation of basic (loss) earnings per share is based on the loss for the period attributable to owners of the Company of HK\$33,060,000 (six months ended 30.9.2018: profit of HK\$155,703,000) and on 135,000,000 (six months ended 30.9.2018: 135,000,000) shares in issue throughout the period.

No diluted earnings per share have been presented as there were no potential ordinary shares in issue throughout both periods.

8. TRADE AND OTHER RECEIVABLES

The Group has a policy of allowing a credit period of 60 days to its customers in respect of godown operations and 30 days for tenants. Before accepting any new customer, the Group will assess the potential customer's credit quality. Credit limits allowed to customers are reviewed once a year.

An analysis of trade receivables by age, presented based on the billing date are as follows:

	30.9.2019	31.3.2019
	HK\$'000	HK\$'000
Trade receivables		
Within 60 days	5,429	5,821
61-90 days	206	71
Over 90 days	—	7
	5,635	5,899
Other receivables	6,134	5,020
Prepayments and deposits	19,342	11,856
	31,111	22,775

9. RELATED PARTY DISCLOSURES

The remuneration of directors and other members of key management during the period was approximately HK\$591,000 (six months ended 30.9.2018: HK\$614,000).

BUSINESS REVIEW

During the six months ended 30 September 2019 (the “Period”) under review, the economy and commercial activities in Hong Kong have been adversely impacted by the recent widespread social protests and unrests. As a result of the escalation of the ongoing trade conflict between the US and China and the uncertainty of Brexit, the weaker performance of the global economy suppressed the office leasing demand and rents in Hong Kong. The Group’s existing tenants and customers became more cautious at the time of negotiating lease renewals whilst the potential tenants and customers adopted a highly prudent attitude towards lease terms and rents.

Godown Operations Segment

Revenue generated from godown operations in the Period decreased approximately 3.3% to HK\$11,394,000 (six months ended 30 September 2018: HK\$11,786,000). The profit of godown operations segment fell approximately 27.4% to HK\$3,183,000 (six months ended 30 September 2018: HK\$4,384,000). Average warehouse rent per cubic meter decreased from HK\$77 for the six months ended 30 September 2018 to HK\$74 during the Period under review, whilst the average occupancy rate increased from approximately 66% for the six months ended 30 September 2018 (if based on the reduced total storage capacity of 31,100 cubic meters of the Period, the average occupancy rate was 69%) to 72% during the Period under review.

Property Investment Segment

Whilst the rental income of Lu Plaza recorded an increase, the occupancy rate dropped slightly. The average occupancy rate of Lu Plaza during the Period maintained at approximately 84.8%. As a half storey of the Kwai Chung Safety Godown had been leased out in May this year, the total rental income and net profit from investment properties increased approximately 6.4% to HK\$48,364,000 (six months ended 30 September 2018: HK\$45,467,000) and decreased by approximately 4.3% to HK\$32,425,000 (six months ended 30 September 2018: HK\$33,868,000), respectively. The decrease in segment profit was attributable to the increase in the subsidies of management fees for the Lu Plaza and Kwai Chung Safety Godown.

Treasury Investment Segment

Revenue from treasury investment increased by approximately 4.8% to HK\$12,800,000 (six months ended 30 September 2018: HK\$12,212,000). The segment profit increased approximately 438.5% to HK\$9,410,000 (six months ended 30 September 2018: loss of HK\$2,780,000) which was mainly attributable to the increase in interest income.

OUTLOOK

The economic outlook for 2020 will continue to be sluggish with the economic and socio-political challenges including the ongoing trade conflict between the US and China, Brexit and persistent protests in Hong Kong. The office leasing activity and demand in Hong Kong will be impacted as the corporate tenants tend to hold wait-and-see attitude towards leasing decisions. Coupled with the abundant volume of new supply of office space in Kowloon East, the upside for rent growth potential will be limited. As a result, the rental growth will be subdued and the negotiation process for new lease or renewal is required to take longer. Therefore, the Group has adopted a more flexible approach in response to the current office rental market sentiment. Starting from July 2019, the occupancy and turnover rate of the godown operations segment had consistently declined. The overall situation exacerbated after October. Should the present socio-political unrest in Hong Kong persist, the financial results for the second half of the 2019/20 is expected to remain subdued.

The Board of Directors would like to take this opportunity to express its gratitude to all staff and stakeholders including tenants and customers for their support to the Group. The Group will continue to exercise cautious risk management and internal controls in relation to its business management and development so as to maximise the return to the shareholders.

FINANCIAL REVIEW

Condensed consolidated statement of profit or loss and other comprehensive income

During the Period, the Company's total revenue reached HK\$72,558,000, including income from property investment segment of HK\$48,364,000, income from godown operations segment of HK\$11,394,000, and income from treasury investment segment of HK\$12,800,000 in total, comprising interest income of HK\$10,455,000 and dividend income of HK\$2,345,000. The revenue of the three segments increased approximately 6.4%, decreased approximately 3.3%, and increased approximately 4.8%, respectively comparing to the last corresponding period.

Staff costs rose 10.9% to HK\$7,639,000 (six months ended 30 September 2018: HK\$6,891,000) arising from the new recruitments and increase of provision for performance based bonuses.

Depreciation of property, plant and equipment increased because the original rental godown property was converted into self-operated godown use, thus incurring additional depreciation and resulting in a rise to HK\$9,478,000 (six months ended 30 September 2018: HK\$8,046,000).

Other expenses rose to HK\$12,859,000 (six months ended 30 September 2018: HK\$10,057,000) mainly because of the increase in the property management fees, subsidies of management fees for the property management company and treasury investment related expenses.

Condensed consolidated statement of financial position

The Company's net asset value stood at HK\$4,789,722,000, mainly comprising HK\$3,592,600,000 of investment properties, HK\$226,903,000 of fixed assets (mainly the Safety Godown's self-operated property), and current assets, including deposits and financial investment, etc..

The carrying amount of the investment properties decreased as a result of a downward adjustment in their fair value with reference to valuations carried out by the independent valuers and by the Directors on an open market basis as at 30 September 2019.

There were no significant changes in the total amount of other financial assets when compared with that on 31 March 2019, cash and deposits (including those deposits in the investment accounts) decreased by 14.2% to HK\$737,518,000 (31 March 2019: HK\$859,275,000).

During the Period, the Group recorded a fair value loss on investment properties of HK\$66,900,000 (six months ended 30 September 2018: gain of HK\$130,973,000) which had been included in the condensed consolidated statement of profit or loss and other comprehensive income. In addition, certain fixed assets had been transferred to investment properties for rental income purposes. The accumulated fair value gain up to the date of such transfer in the amount of HK\$70,673,000 was recognised in property revaluation reserve and other comprehensive income.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 September 2019, the Group had cash and bank balances of HK\$737,518,000 (31 March 2019: HK\$859,275,000) and the total current liabilities amounted to HK\$54,740,000 (31 March 2019: HK\$52,584,000). Current ratio stood at approximately 20.33 times (31 March 2019: 22.34 times) and the Group had no bank borrowings.

Net assets of the Group recorded lower by approximately 2% to HK\$4,789,722,000 (31 March 2019: HK\$4,887,109,000) and the net asset value per share decreased to HK\$35.48 (31 March 2019: HK\$36.20) per share.

EMPLOYEES

As at 30 September 2019, the Group had a total of 37 (31 March 2019: 37) employees. Remuneration is determined on the basis of qualifications, experience, responsibilities and performance. During the Period, staff costs (including Directors' emoluments) increased by approximately 10.9% to HK\$7,639,000 (six months ended 30 September 2018: HK\$6,891,000).

The Group's remuneration policies are reviewed periodically on the basis of the nature of job, market trend, company performance and individual performance. The Group also offers suitable trainings to staff and provides bonuses based on the staff performance and results of the Group. The Group has not adopted any share option scheme for employees.

EXPOSURE TO FOREIGN EXCHANGE

The Group's foreign currency exposure principally related to its investment in US dollar securities and deposits. Since the Hong Kong dollar is pegged to the US dollar, the management is of the opinion that the foreign exchange risk of financial instruments denominated in US dollar is insignificant. During the Period, the Group recorded no exchange gain or loss (six months ended 30 September 2018: exchange loss of HK\$4,488,000).

CONTINGENT LIABILITIES

As at 30 September 2019, the Group did not have any significant contingent liabilities (31 March 2019: nil).

PLEDGE OF ASSETS

As at 30 September 2019, the Group did not have any pledge of assets (31 March 2019: nil).

DIVIDEND

The Board of Directors has declared an interim dividend of HK8 cents for the six months ended 30 September 2019 (2018: HK28 cents) per share payable to the shareholders of the Company, whose names appear on the register of members on 23 December 2019. The interim dividend will be paid on 10 January 2020.

CLOSURE OF MEMBERS REGISTER

The Register of Members of the Company will be closed from Thursday, 19 December 2019 to Monday, 23 December 2019, both days inclusive, during which period no transfer of shares can be registered. In order to qualify for the interim dividend, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's Share Registrars, Tricor Standard Limited, Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Wednesday, 18 December 2019.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the Period under review.

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 six months ended 30 September 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 Chairman of the Board and Chief Executive Officer should be separate and should not be performed by the same individual and (ii) the division of responsibilities between the Chairman of the Board and the Chief Executive Officer shall be clearly established.

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 provision.

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 16 August 2019 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 manners.

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 six months ended 30 September 2019.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This announcement is published on the respective websites of Hong Kong Exchanges and Clearing Limited www.hkex.com.hk and of the Company www.safetygodown.com on 27 November 2019. The interim report for the six months ended 30 September 2019 containing all the information required by the Listing Rules will be published on the above websites 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 November 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>