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安全貨倉有限公司

SAFETY GODOWN CO LTD

(Incorporated in Hong Kong with limited liability)

(Stock Code: 237)

ANNUAL RESULTS ANNOUNCEMENT – 2015/2016

The Board of Directors of Safety Godown Company, Limited (the “Company”) is pleased to announce that the audited results of the Company and its subsidiaries (the “Group”) for the year ended 31 March 2016 are as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2016

	NOTES	2016 HK\$'000	2015 HK\$'000
Turnover	3	<u>154,002</u>	<u>156,416</u>
Income from godown operations		37,456	38,141
Income from property investment		108,612	111,347
Fair value (loss) gain on investments held for trading		(44,511)	2,479
Gain on disposal of available-for-sale investments		62,206	–
Interest income		2,813	2,669
Dividend income		5,121	4,259
Other income and gains		753	327
Gain on disposal of property, plant and equipment		326,574	–
Increase in fair value of investment properties		431,651	508,772
Staff costs		(18,550)	(17,318)
Depreciation of property, plant and equipment		(6,705)	(6,806)
Other expenses		<u>(32,261)</u>	<u>(25,364)</u>
Profit before taxation	5	873,159	618,506
Taxation	6	<u>(27,440)</u>	<u>(19,236)</u>
Profit for the year attributable to owners of the Company		<u>845,719</u>	<u>599,270</u>

	<i>NOTE</i>	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Other comprehensive income (expense)			
<i>Item that will not be reclassified to profit or loss:</i>			
Revaluation surplus on transfer of owner-occupied property to investment properties		214,389	–
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Fair value gain on available-for-sale investments		16,830	9,237
Investment revaluation reserve released upon disposal of available-for-sale investments		(18,078)	–
		<hr/>	<hr/>
Other comprehensive income for the year		213,141	9,237
		<hr/>	<hr/>
Total comprehensive income for the year attributable to owners of the Company		1,058,860	608,507
		<hr/> <hr/>	<hr/> <hr/>
Earnings per share – Basic	8	HK\$6.26	HK\$4.44
		<hr/> <hr/>	<hr/> <hr/>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 MARCH 2016

	<i>NOTE</i>	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Non-current assets			
Investment properties		2,694,200	3,176,400
Property, plant and equipment		76,963	94,790
Available-for-sale investments		23,155	36,628
Held-to-maturity investment		—	5,958
		<u>2,794,318</u>	<u>3,313,776</u>
Current assets			
Held-to-maturity investment		5,946	—
Investments held for trading		197,684	92,201
Trade and other receivables	9	16,962	10,364
Tax recoverable		1,219	2,002
Bank deposits		834,146	101,411
Other deposits		114,988	31,073
Bank balances and cash		685,340	141,429
		<u>1,856,285</u>	<u>378,480</u>
Current liabilities			
Other payables		44,084	26,498
Tax payable		12,831	2,244
		<u>56,915</u>	<u>28,742</u>
Net current assets		<u>1,799,370</u>	<u>349,738</u>
		<u>4,593,688</u>	<u>3,663,514</u>
Capital and reserves			
Share capital		178,216	178,216
Reserves		4,350,296	3,408,886
Equity attributable to owners of the Company		<u>4,528,512</u>	<u>3,587,102</u>
Non-current liabilities			
Long-term tenants' deposits received		9,162	18,635
Deferred tax liabilities		55,053	55,519
Provision for long service payments		961	2,258
		<u>65,176</u>	<u>76,412</u>
		<u>4,593,688</u>	<u>3,663,514</u>

NOTES:

1. BASIS OF PREPARATION

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

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 (the “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 provisions of the new Hong Kong Companies Ordinance (Cap. 622) regarding preparation of accounts and directors’ reports and audits became effective for the Company for the financial year ended 31 March 2016. Further, the disclosure requirements set out in the Listing Rules regarding annual accounts have been amended with reference to the new CO and to streamline with HKFRSs. Accordingly, the presentation and disclosure of information in the consolidated financial statements for the financial year ended 31 March 2016 have been changed to comply with these new requirements.

The financial information relating to the years ended 31 March 2016 and 2015 included in this preliminary announcement of annual results 2016 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 Companies Ordinance is as follows:

The Company has delivered the financial statements for the year ended 31 March 2015 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance and will deliver the financial statements for the year ended 31 March 2016 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 Companies Ordinance.

2. APPLICATION OF NEW AND REVISED HKFRSs

In the current year, the Group has applied, for the first time, the following amendments to Hong Kong Accounting Standard (“HKAS”) and HKFRSs (hereinafter collectively referred to as the “new and revised HKFRSs”) issued by the HKICPA.

Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions
Amendments to HKFRSs	Annual Improvements to HKFRSs 2010-2012 Cycle
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011-2013 Cycle

The application of the above new and revised 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.

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

HKFRS 9	Financial Instruments ³
HKFRS 14	Regulatory Deferral Accounts ²
HKFRS 15	Revenue from Contracts with Customers ³
HKFRS 16	Leases ⁵
Amendments to HKAS 1	Disclosure Initiative ¹
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation ¹
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants ¹
Amendments to HKAS 27	Equity Method in Separate Financial Statements ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception ¹
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations ¹
Amendments to HKFRS 15	Clarifications to HKFRS 15 Revenue from Contracts with Customers ³
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle ¹

¹ Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.

² Effective for first annual HKFRS financial statements beginning on or after 1 January 2016.

³ Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

⁴ Effective for annual periods beginning on or after a date to be determined.

⁵ Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.

HKFRS 15 “Revenue from Contracts with Customer”

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 “Revenue”, HKAS 11 “Construction Contracts” and the related interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for goods and services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, that is when “control” of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

HKFRS 16 “Leases”

HKFRS 16, which upon the effective date will supersede HKAS 17 “Leases”, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The directors of the Company are in the process of ascertaining the financial effect of the application of these two new HKFRSs on the Group’s consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of these new HKFRSs until the Group performs a detailed review.

Other than that the directors of the Company anticipate that the application of the other new and revised HKFRSs will have no material impact on the financial performance and position and/or the disclosures of the Group’s consolidated financial statements.

3. TURNOVER

Turnover represents the following revenue recognised during the year:

	2016	2015
	<i>HK\$’000</i>	<i>HK\$’000</i>
Income from godown operations	37,456	38,141
Income from property investment	108,612	111,347
Dividend income from listed investments	5,121	4,259
Bank interest income	2,382	2,155
Other interest income	431	514
	154,002	156,416

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, 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 2016

	Godown operations HK\$'000	Property investment HK\$'000	Treasury investment HK\$'000	Consolidated HK\$'000
<i>Turnover</i>				
Segment revenue	<u>37,456</u>	<u>108,612</u>	<u>7,934</u>	<u>154,002</u>
Segment profit	<u>20,354</u>	<u>82,241</u>	<u>21,547</u>	124,142
Gain on disposal of property, plant and equipment				326,574
Increase in fair value of investment properties				431,651
Other administrative costs				<u>(9,208)</u>
Profit before taxation				<u>873,159</u>

For the year ended 31 March 2015

	Godown operations HK\$'000	Property investment HK\$'000	Treasury investment HK\$'000	Consolidated HK\$'000
<i>Turnover</i>				
Segment revenue	<u>38,141</u>	<u>111,347</u>	<u>6,928</u>	<u>156,416</u>
Segment profit	<u>22,568</u>	<u>90,168</u>	<u>2,928</u>	115,664
Increase in fair value of investment properties				508,772
Other administrative costs				<u>(5,930)</u>
Profit before taxation				<u>618,506</u>

Segment profit/loss represents the profit earned/loss incurred 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 business. This is the measure reported to the chief operating decision maker, Executive Director of the Company, 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 tax recoverable; 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 35% (2015: 36%) of the Group's total turnover. The revenue attributable by the largest customer (included in both godown operations and property investment segments) in current year amounting to HK\$20,236,000 which accounted for 13% (2015: 12%) of the Group's total turnover, and the revenue attributed by each of the remaining four customers are less than 10% of the Group's total turnover for both years.

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

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Profit before taxation has been arrived at after charging (crediting):		
Auditor's remuneration		
– audit service	869	861
– non-audit services	630	258
Exchange loss, net	983	5,461
Impairment loss recognised on trade receivables	2	414
Gross rental income from investment properties	(108,612)	(111,347)
Less: direct operating expenses for investment properties that generated rental income	<u>9,316</u>	<u>7,621</u>
Net rental income	(99,296)	(103,726)
Dividend income from listed securities		
– available-for-sale investments	(701)	(701)
– investments held for trading	(4,420)	(3,558)
Bank interest income	(2,382)	(2,155)
Interest income from held-to-maturity investment	<u>(431)</u>	<u>(514)</u>

6. TAXATION

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
The charge comprises:		
Hong Kong Profits Tax		
Current year	27,902	16,164
Under(over) provision in prior years	<u>4</u>	<u>(3)</u>
	27,906	16,161
Deferred taxation		
Current year	<u>(466)</u>	<u>3,075</u>
	<u>27,440</u>	<u>19,236</u>

Hong Kong Profits Tax is calculated at 16.5% (2015: 16.5%) of the estimated assessable profit for the year. During the year, an income tax expense of HK\$14,459,000 has been recognised in respect of the balancing charge of HK\$87,630,000 upon disposal of properties.

7. DIVIDENDS

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Interim dividend paid in respect of 2016 – HK7 cents (2015: HK7 cents) per ordinary share	9,450	9,450
Special dividend paid in respect of 2016 – HK15 cents (2015: HK13 cents) per ordinary share	20,250	17,550
Final dividend paid in respect of 2015 – HK10 cents (2014: HK7 cents) per ordinary share	13,500	9,450
Special dividend paid in respect of 2015 – HK55 cents (2014: HK18 cents) per ordinary share	<u>74,250</u>	<u>24,300</u>
	<u>117,450</u>	<u>60,750</u>

A final dividend of HK12 cents per share, amounting to HK\$16,200,000 and a special dividend of HK\$3.88 cents per share, amounting to HK\$523,800,000 for the year have been proposed by the directors and is subject to the approval by shareholders in the forthcoming annual general meeting.

8. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit for the year attributable to owners of the Company of HK\$845,719,000 (2015: HK\$599,270,000) and on 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 age analysis of trade customers of the Group presented based on the billing date, which approximates revenue recognition date, is as follows:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Within 60 days	6,100	5,882
61-90 days	535	184
Over 90 days	261	165
	<hr/>	<hr/>
	6,896	6,231
Other receivables	3,342	1,152
Prepayments and deposits	6,724	2,981
	<hr/>	<hr/>
	16,962	10,364
	<hr/> <hr/>	<hr/> <hr/>

DIVIDENDS

The Board of Directors has resolved to recommend the payment of a final dividend of HK12 cents per share, amounting to HK\$16,200,000 and a special dividend of HK\$3.88 per share, amounting to HK\$523,800,000 for the year ended 31 March 2016, to shareholders whose names appear on the register of members on 29 August 2016 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 or around 9 September 2016. Together with the interim dividend of HK7 cents per share and special dividend of HK15 cents per share already paid, the total distribution for the year ended 31 March 2016 will be HK\$4.22 per share. Total distribution for the previous year was HK85 cents per share.

ANNUAL GENERAL MEETING

The Annual General Meeting of the Company will be held on Thursday, 18 August 2016. 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 meeting, the Register of Members will be closed from Monday, 15 August 2016 to Thursday, 18 August 2016, both days inclusive, during which period no transfer of shares can be registered. In order to be eligible to attend and vote at the 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, for registration not later than 4:00 p.m. on Friday, 12 August 2016.

To ascertain the shareholders' entitlement to the proposed final dividend and special dividend, the Register of Members will be closed from Thursday, 25 August 2016 to Monday, 29 August 2016, 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, for registration not later than 4:00 p.m. on Wednesday, 24 August 2016.

BUSINESS REVIEW

Throughout the year the economies of Hong Kong, the U.S. and China have shown signs of slowing. The economy of the U.S. grew only 0.5% in the first quarter. The growth rate of China dropped below 7% with increasing downward pressure, painting a grim outlook. The Hong Kong economy is negatively impacted by these factors. The impact of the substantial fall in stock market since mid-2015 and the softening in tourism and retail market have caused the trading, logistics and other auxiliary businesses to suffer from different levels of decline. The real estate market, excluding certain prestigious segments, encountered downward pressure in price and rentals.

The Group rental income for the year 2015-16 fell by 2.46% to HK\$108,612,000. This is attributed to the sales of Chivas Godown, as well as construction work for the Lu Plaza revitalization. The rental income would have increased had it not been affected by the revitalization work of Lu Plaza.

While the overall economy is not ideal, the godown business recorded only a slight decrease of 1.8% to HK\$37,456,000, mainly due to our good relationship with customers and competitive pricing.

Profit on treasury investment was recorded at HK\$21,547,000 during the year.

During the year, profit attributable to shareholders amounted to HK\$845,719,000, appreciated by HK\$246,449,000 against last year. The increase in profit was mainly derived from additional profit generated from the sale of Chivas Godown. The Group's core business profits after deducting profit on sale of Chivas Godown and gain on investment property revaluation amounted to HK\$102,071,000, an increase of HK\$11,573,000 compared to last corresponding period.

DISPOSAL OF CHIVAS GODOWN

The Group entered into a sale and purchase agreement with Apollo Luck Limited in November 2015. This agreement was to dispose of the Chivas Godown property located at Ka Yip Street, Chai Wan, owned by a wholly-owned subsidiary, Chivas Godown Limited, at the consideration of HK\$1,550,000,000. The Group recorded profits totalling HK\$618,542,000 (inclusive of HK\$292,118,000 as increase in fair value of investment properties and HK\$326,424,000 as gain on disposal of property, plant and equipment). The transaction was completed in December 2015. Related details of the said transaction had been published in the 30 December 2015 Circular, and had been mailed to shareholders. The Group considered the decision for sale was appropriate given the likelihood of a rate hike in the U.S. at the time of disposal that would negatively impact property price. The disposal could unlock the value of the investment.

SPECIAL DIVIDEND

In view of the extraordinary gains arising from the sale of Chivas Godown, the Board decided to declare a special dividend of HK\$3.88 per share. Together with the ordinary final dividend of HK\$0.12 per share, the total final dividend amounted to HK\$4.00 per share, or HK\$540,000,000. The dividend rewards shareholders for years of support and loyalty. Such dividends will be paid after the approval at the forthcoming Annual General Meeting.

OUTLOOK

Global economies face numerous uncertainties. Both developed and developing economies are slowing down, or even dipping into recessions. Originally it was anticipated that the U.S. would have a more meaningful interest rate hikes. But due to weak economic data, the rate hike speed is likely to slow down. Despite this, the benefit of keeping interest rate low on such a low interest rate environment is questionable. The newly introduced and continuous quantitative easing by major central banks create huge uncertainties to the already expensive stock and real estate markets. The Hong Kong economy, subject to the currency peg and slowing down of China's economy, is likely to remain volatile for some time. Last weekend, Britain voted to leave EU, which would definitely increase the volatility of the global economy.

We anticipate the results of 2016-17 to be lower than that of this year. Rental income will fall by about HK\$30,000,000 after the disposal of Chivas Godown property. The revitalization work of Lu Plaza will continue its various stages of construction, therefore it is unlikely that rental income will be enhanced. Godown income is hard to be optimistic as well given the softening of the Hong Kong economy. In view of the volatile stock market condition, we cannot place much expectation on the investment returns. After payment of the special dividend, the Group plans to invest part of the remaining sale proceeds in stable income investment instruments such as bonds and REITs, with a view to partially covering the drop in rental income. The remaining portion will serve as a war chest to capture further investment opportunities in the fluctuating markets. We believe that the fluctuation in global economy will continue for a period of time. There may have been a relatively greater ups and downs in stock and property prices, which may offer opportunities to buy on dips.

REVIEW OF FINANCIAL RESULTS

Financial review

The Group's audit consolidated profit attributable to shareholders for the year increased by 41.12% to HK\$845,719,000 (2015: rose by 193 % to HK\$599,270,000). The reported profit includes an unrealized increase in fair value of investment properties of HK\$139,533,000, compared to HK\$508,772,000 for the last corresponding period. The Group's underlying profit, excluding the effect of unrealized fair value changes on investment properties, amounted to HK\$706,186,000, surged 680.33% compared to HK\$90,498,000 last year. The increase in profit was mainly attributable to the gain on disposal of Chivas Godown of HK\$618,542,000 this year. Total revenue of the Group marginally reduced by 1.54% to HK\$154,002,000 (2015: HK\$156,416,000) against the backdrop of global economic growth.

Shareholders fund grew by 26.24% to HK\$4,528,512,000 as at 31 March 2016 (31 March 2015: HK\$3,587,102,000), with the net asset value per share of the Company valued at HK\$33.54 (31 March 2015: HK\$26.57). Earnings per share for the year recorded at HK\$6.26 (2015: HK\$4.44). With the market share price of the Company as at 31 March 2016 closed at HK\$18.92 (31 March 2015: HK\$12.20), the P/E ratio of the share was 3.02 (31 March 2015: 2.75).

Godown operations

Over the year under review, the Hong Kong economy faced a challenging and unsteady external environment. Most advanced economies were in a fragile state, Hong Kong export of goods deteriorated. Cargo and trade flows remained sluggish. The prolong weakness in external economy affected the godown business. In view of the slowdown in global economies and possible further US interest rate hikes, the Board decided to dispose Chivas Godown property to unlock the value of the Group's investment.

During the year, the Group had disposed the Chivas Godown property located at No. 60 Ka Yip Street, Chai Wan, Hong Kong with a book value of approximately HK\$915,000,000 at the consideration of HK\$1,550,000,000 and recognized a profit on disposal of HK\$618,542,000.

Before the disposal, 1/F to 7/F of Chivas Godown was recorded as Investment Property in the book of Chivas Godown while G/F, 8/F and the rest of the godown was recorded as Property, Plant and Equipment. Therefore the gain on disposal of HK\$618,542,000 was also split into two parts and recorded in the Consolidated Statement of Profit or Loss and Other Comprehensive Income on pages 1 to 2. The breakdowns are shown as below:

Increase in fair value of investment properties on disposal of 1/F to 7/F of Chivas Godown	292,118
Unrealized increase in fair value of investment properties of the rest of the Group	<u>139,533</u>
Increase in fair value of investment properties as shown in the Consolidated Statement of Profit or Loss and Other Comprehensive Income	<u><u>431,651</u></u>
Gain on disposal of G/F, 8/F and the rest of Chivas Godown	326,424
Gain on disposal of other Property, Plant and Equipment	<u>150</u>
Gain on disposal of Property, Plant and Equipment as shown in the Consolidated Statement of Profit or Loss and Other Comprehensive Income	<u><u>326,574</u></u>

Total revenue generated from godown operations slipped 1.8% from HK\$38,141,000 to HK\$37,456,000 while segment profit decreased by 9.81% to HK\$20,354,000. The loss of revenue and profit was mainly due to the sale of Chivas Godown resulted in a reduction in godown income. Operating expenses increased as a result of increase in warehouse rental expenses which arose from the lease back of the 8/F of Chivas Godown from the Purchaser to maintain the godown operation for one year commencing from the date of completion of the sale in mid December 2015. Previously G/F and 8/F of Chivas Godown were designated for godown operation business.

Part of the godown in Kwai Chung was leased to a third party to receive rental income. Due to the drop in storage capacity, the average occupancy level of our Godown increased from 64% to 69% on a year-on-year basis. The average storage price also jumped to HK\$78 (2015: HK\$67) because of increase in storage rate and the change in source of goods.

Property investment

During the year under review, Hong Kong property market remained in consolidation mode, trading volume tumbled and residential property prices shed. Residential flat and shop rentals dropped while office rentals remained strong.

Total rental income decreased by 2.46% to HK\$108,612,000 (2015: HK\$111,347,000). The drop in rental income was mainly resulted from the disposal of Chivas Godown. Average office rental at Lu Plaza rose to around HK\$16 (2015: around HK\$15) per square feet with overall average occupancy level dropped to around 76.5% (2015: 85%). The Group will adjust its mix of properties for property investment and godown premises purposes from time to time and to enhance its existing investment property to improve recurring income of the Group.

Revitalization works in Lu Plaza has been underway since June 2015 to transform it to non-industrial use in order to upgrade and enhance the quality of the property. Completion of the revitalization project is expected to take place by early 2017.

At the year-end date, the Group had an investment property portfolio of approximately HK\$2,694,200,000, comprise mainly office and industrial premises and recorded an increase in fair value of HK\$431,651,000 (2015: HK\$508,772,000). The fair value gain comprised HK\$292,118,000 (2015: unrealised fair value gain of HK\$119,000,000) attributable to disposal of the investment property portion of Chivas Godown.

The average occupancy level of the Groups investment properties dropped from 91% in 2015 to 84% in current year. The drop in occupancy rate was mainly attributable to the disposal of Chivas Godown, which is 100% occupied before disposal. The disposal of Chivas Godown in December 2015 drag down the average occupancy rate in the remaining properties to under 80% even though there is no significant changes in the occupancy rate of the remaining properties. The average monthly rental income per square feet increased from HK\$12.9 in 2015 to HK\$15, which is attributable to the increase in rental rate during the year.

Treasury investment

Weighed by a subdued global economic outlook, concerns over further US interest rate hike and sharp decline in commodity prices, the China stock prices went on a roller-coaster ride and Hong Kong stock market showed sharp fluctuations during the year. Hang Seng Index recorded a seven-year high of 28,442 points in April 2015, subsequently suffered on sharp correction in summer 2015 and hit the low of 18,319 in early 2016. As at 31 March 2016, Hang Seng Index finished at 20,776 points, declined by 16.75% over the period under review.

Under such volatile market, the Group reduced its portfolio weightings in available-for-sale investments during the year and realized a gain on disposal of HK\$62,206,000. The available-for-sale investment also registered a fair value gain of HK\$16,830,000 (2015: HK\$9,237,000) during the year which was recognized in other comprehensive income and accumulated in investment revaluation reserve. Income from treasury investment which comprises interest income and divided income increased by 14.52% to HK\$ 7,934,000 while the investment held for trading instruments suffered from a fair value loss of HK\$44,511,000 (2015: fair value gain of HK\$2,479,000).

Securities investment held for trading at the end of the year increased to HK\$197,684,000 (2015: HK\$92,201,000). Available-for-sale investments and investments held for trading comprise of securities listed in Hong Kong and overseas stock market.

During the year, the US dollar strengthened against most major currencies including Australian, Euro and Renminbi which the Group had such foreign currencies fixed deposits during the year. As such, an exchange loss of HK\$983,000 (2015: HK\$5,461,000) was incurred.

OPERATING COSTS

Major components of operating costs are staff costs, repairs and maintenance and others administrative costs. Total staff costs incurred for the year increased by 7.11% to HK\$18,550,000 (2015: HK\$17,318,000). Some of the Group's operating expenses have increased during the year, including warehouse rental expense arising from lease back of 8/F of Chivas Godown, commission paid to property agents due to introduction of tenants to lease the Group's investment properties and charges paid to securities brokers for sales and purchase of listed investments.

LIQUIDITY AND FINANCIAL RESOURCES

The Group continued to uphold its prudent financial management policies and maintained a strong cash position. Total cash and bank balance as at 31 March 2016 amounted to HK\$1,634,474,000 (2015: HK\$273,913,000), up 496.71% which includes sales proceeds from the disposal of investment properties in the amount of HK\$1,550,000,000, and the Group does not have any kind of loans or borrowings. Most of the bank deposits were denominated in Hong Kong dollars. The strong cash position offers protection against tough times and it also gives the Group more options for future investments.

Cash flow from operating activities before movement in working capital amounted to HK\$97,237,000 (2015: HK\$118,545,000), fell 17.97% mainly due to the loss of godown income and rental income arising from disposal of Chivas Godown. As at 31 March 2016, net current assets amounted to HK\$1,799,370,000 (31 March 2015: HK\$349,738,000) with current ratio of 32.62 times (31 March 2015: 13.17 times). The strong recurring income base provides the Group with a solid financial foundation for future development.

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.

PLEDGE OF ASSETS

As at 31 March 2016, the Group did not have any pledge of assets.

RELATION WITH EMPLOYEE, CUSTOMERS AND SUPPLIERS

The Group considers its employees the key to sustainable business growth and is committed to providing 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 a priority of the Group. The Group is keen in ensuring health and safety measures are followed while in the performance of duties by our employees as a result reducing total lost days to 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 2016, the Group employed 44 (31 March 2015: 53) employees. The reduction was mainly caused by retirement of aged staff and restructuring of the Group's business. Total staff cost increased by 7.11% to HK\$18,550,000 (2015: HK\$17,318,000) because of a one-off special bonus issued during the year. 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.

Relationship is the fundamentals of business. The Group fully understand this principal and thus maintain close relationship with the customer 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' need. For our property investment business, we employed 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 service so that tenants' satisfaction could be maintained.

Due to the nature of the business, the Group didn't have any major supplier that has significant influence on the operations. However, the Group strived to maintain fair and co-operating relationship with the suppliers. The selection of major suppliers or contractors is conducted through tendering process in the Group's business. The management of the Group regularly reviews the procurement and tendering procedures to ensure that the processes are conducted in an open and fair manner.

CONTINGENT LIABILITIES

As at 31 March 2016, 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 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, have reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including the review of the audited consolidated financial statements of the Group for the year ended 31 March 2016.

CORPORATE GOVERNANCE

The Company has complied with all the Code Provisions in the Corporate Governance Code contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the year ended 31 March 2016 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.

Code Provisions A.2.1 to A.2.9 stipulate (i) that 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 role and responsibility of the chairman of the board and the chief executive officer.

The late Mr. Lu Sin assumed the roles of both the Chairman and the Chief Executive Officer of the Company. Following the death of Mr. Lu Sin on 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 report.

The Board has kept under 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.

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.

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. However, the Company did not have formal letters of appointment for directors. 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 Board considers that such requirements are sufficient to meet the underlying objectives of the relevant code provisions.

Code Provision E.1.2 stipulates that the chairman of the Board should attend the annual general meeting.

Since the death of Mr. Lu Sin (the late Chairman), the position of the Chairman of the Board has been vacant, Mr. Lu Wing Yee, Wayne, the Executive Director, has been elected and acted as chairman of the annual general meeting of the Company held on 14 August 2015 in accordance with the Articles of Association of the Company.

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 position of the Chairman of the Board and the Chief Executive Officer have been vacant, the Company Secretary reported 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.

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 code of conduct regarding directors’ securities transactions. Having made specific enquiry of all Directors 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 2016.

OTHER INFORMATION

The annual report of the Company for the year ended 31 March 2016 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
Wong Leung Wai
Company Secretary

Hong Kong, 28 June 2016

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>