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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 FOR 2017/2018

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 2018 are as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2018

	Notes	**2018**	2017
		HK$'000	*HK$'000*
Revenue	*3*	**123,515**	122,404
Income from godown operations		**22,195**	31,816
Income from property investment		**85,257**	79,988
Interest income		**4,990**	3,367
Dividend income		**11,073**	7,233
Gain on disposal of available-for-sale investments		**–**	19,782
Other gains and losses		**12,478**	8,994
Exchange gain (loss), net		**289**	(6,220)
Loss on disposal of property, plant and equipment		**–**	(9)
Loss on disposal of subsidiaries		**(1,510)**	–
Increase in fair value of investment properties		**412,146**	187,389
Staff costs		**(12,821)**	(12,705)
Depreciation of property, plant and equipment		**(9,409)**	(7,156)
Other expenses		**(26,123)**	(29,776)
Profit before taxation	*5*	**498,565**	282,703
Taxation	*6*	**(27,352)**	(13,073)
Profit for the year attributable to owners of the Company		**471,213**	269,630

	Note	2018	2017
		HK$'000	*HK$'000*
Other comprehensive income (expense)			
Item that will not be reclassified to profit or loss:			
Revaluation surplus on transfer of owner-occupied property to investment properties		**78,092**	–
Item that may be reclassified subsequently to profit or loss:			
Investment revaluation reserve released upon disposal of available-for-sale investments		–	(20,601)
Other comprehensive income (expense) for the year		**78,092**	(20,601)
Total comprehensive income for the year attributable to owners of the Company		**549,305**	249,029
Earnings per share – Basic	*8*	**HK$3.49**	HK$2.00

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 MARCH 2018

	Note	**2018**	2017
		HK$'000	*HK$'000*
Non-current assets			
Investment properties		**3,398,200**	3,081,000
Property, plant and equipment		**85,807**	87,708
Held-to-maturity investment		**23,241**	23,239
Derivative financial instrument		**–**	15,049
		3,507,248	3,206,996
Current assets			
Investments held for trading		**384,219**	313,621
Trade and other receivables	*9*	**28,606**	17,095
Tax recoverable		**1,390**	604
Bank deposits		**311,904**	563,534
Other deposits		**285,280**	13,763
Bank balances and cash		**181,170**	215,181
		1,192,569	1,123,798
Current liabilities			
Other payables		**24,153**	58,883
Tax payable		**17,328**	905
		41,481	59,788
Net current assets		**1,151,088**	1,064,010
		4,658,336	4,271,006
Capital and reserves			
Share capital		**178,216**	178,216
Reserves		**4,395,330**	4,018,825
Equity attributable to owners of the Company		**4,573,546**	4,197,041
Non-current liabilities			
Long-term tenants' deposits received		**20,428**	13,499
Deferred tax liabilities		**63,950**	60,054
Provision for long service payments		**412**	412
		84,790	73,965
		4,658,336	4,271,006

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 2018 and 2017 included in this preliminary announcement of annual results 2018 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 2017 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 2018 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

Amendments to HKFRSs that are mandatorily effective for the current year

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

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle

Except as described as below, the application of the amendments to HKFRSs in the current year has had no material effect 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.

Amendments to HKAS 7 "Disclosure Initiative"

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed, (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure of the reconciliation between the opening and closing balances of the mentioned items, the application of these amendments has had no impact on the Group's consolidated financial statements.

New and revised HKFRSs in issue but not yet effective

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[1]
HKFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
HKFRS 16	Leases[2]
HKFRS 17	Insurance Contracts[4]
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration[1]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[2]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[2]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[2]
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle[1]
Amendments to HKAS 40	Transfers of Investment Property[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle[2]

[1] Effective for annual periods beginning on or after 1 January 2018
[2] Effective for annual periods beginning on or after 1 January 2019
[3] Effective for annual periods beginning on or after a date to be determined
[4] Effective for annual periods beginning on or after 1 January 2021

HKFRS 9 "Financial Instruments"

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 which are relevant to the Group are:

- All recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income. All other financial assets are measured at their fair value at subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss;

- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39 "Financial Instruments: Recognition and Measurement". The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Based on the Group's financial instruments and risk management policies as at 31 March 2018, the directors of the Company anticipate the following potential impact on initial application of HKFRS 9:

Classification and measurement

Debt instrument classified as held-to-maturity investment carried at amortised cost: this is held within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on the principal outstanding. Accordingly, this financial asset will continue to be subsequently measured at amortised cost upon the application of HKFRS 9. All other financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under HKAS 39.

Impairment

In general, the directors of the Company anticipate that the application of the expected credit loss model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised cost subject to the impairment provisions upon application of HKFRS 9 by the Group.

Based on the assessment by the directors of the Company, they anticipate that the application of HKFRS 9 will have no material financial impacts on the results and the financial position of the Group.

HKFRS 15 "Revenue from Contracts with Customers"

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, i.e. 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.

In 2016, the HKICPA issued clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, the directors of the Company do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

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. 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.

In contrast to lessee accounting, 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$12,983,000 (included in other payables) and long-term tenants' deposits received of HK$20,428,000 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.

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

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 observable 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. For example, change in use for transfer from properties under development for sale in the ordinary course of business to investment properties could be evidenced by inception of an operating lease to another party. Currently, the Group accounts for such transfer only upon commencement of an operating lease.

The directors of the Company anticipate that the application of these amendments will result in early recognition of such transfers on the Group's consolidated financial statements in future periods should there be a change in use of any of its properties.

Except for the new and revised HKFRSs mention above, the directors of the Company anticipate that the application of all other new and revised HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

3. Revenue

The amount represents the following revenue recognised during the year:

	2018	2017
	HK$'000	*HK$'000*
Income from godown operations	**22,195**	31,816
Income from property investment	**85,257**	79,988
Dividend income from listed investments	**11,073**	7,233
Bank interest income	**4,308**	3,083
Other interest income	**682**	284
	123,515	122,404

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 2018

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

For the year ended 31 March 2017

	Godown operations *HK$'000*	Property investment *HK$'000*	Treasury investment *HK$'000*	Consolidated *HK$'000*
Segment revenue	31,816	79,988	10,600	122,404
Segment profit	15,079	58,019	28,451	101,549
Loss on disposal of property, plant and equipment				(9)
Increase in fair value of investment properties				187,389
Central administrative costs				(6,226)
Profit before taxation				282,703

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, bank balances and cash 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 25% (2017: 28%) 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$9,794,000 (2017: HK$11,395,000) which accounted for 8% (2017: 9%) of the Group's total revenue, and the revenue attributed to each of the remaining four customers are less than 8% of the Group's total revenue 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

	2018	2017
	HK$'000	*HK$'000*
Profit before taxation has been arrived at after charging (crediting):		
Auditor's remuneration		
– audit service	**925**	935
– non-audit services	**384**	373
Exchange (gain) loss, net	**(289)**	6,220
Gross rental income from investment properties	**(85,257)**	(79,988)
Less: direct operating expenses for investment properties that generated rental income	**10,884**	8,858
Net rental income	**(74,373)**	(71,130)
Dividend income from listed investments		
– investments held for trading	**(11,073)**	(7,233)
Bank interest income	**(4,308)**	(3,083)
Interest income from held-to-maturity investment	**(682)**	(284)
Fair value (gain) loss on derivative financial instrument *(Note)*	**(110)**	39,384
Fair value gain on investments held for trading *(Note)*	**(12,063)**	(46,962)

Note: Amount included in other gains and losses.

6. TAXATION

	2018	2017
	HK$'000	*HK$'000*
The charge comprises:		
Hong Kong Profits Tax		
Current year	**23,662**	8,160
Overprovision in prior years	**(611)**	(88)
	23,051	8,072
Deferred taxation		
Current year	**4,301**	5,001
	27,352	13,073

Hong Kong Profits Tax is calculated at 16.5% (2017: 16.5%) of the estimated assessable profit for the year.

7. DIVIDENDS

	2018	2017
	HK$'000	*HK$'000*
Interim dividend paid in respect of 2018 – HK28 cents (2017: HK8 cents) per ordinary share	**37,800**	10,800
Special dividend paid in respect of 2018 – HK$nil (2017: HK22 cents) per ordinary share	**–**	29,700
Final dividend paid in respect of 2017 – HK12 cents (2016: HK12 cents) per ordinary share	**16,200**	16,200
Special dividend paid in respect of 2017 – HK88 cents (2016: HK$3.88) per ordinary share	**118,800**	523,800
	172,800	580,500

A final dividend of HK28 cents per share, amounting to HK$37,800,000 for the year have been proposed by the directors of the Company 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$471,213,000 (2017: HK$269,630,000) and on 135,000,000 (2017: 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:

	2018	2017
	HK$'000	*HK$'000*
Within 60 days	**4,689**	4,872
61 - 90 days	**105**	322
Over 90 days	**–**	454
Less: allowance for doubtful debts	**–**	–
	4,794	5,648
Other receivables	**3,022**	2,490
Prepayments and deposits	**20,790**	8,957
	28,606	17,095

DIVIDENDS

The board of directors recommended the payment of a final dividend of HK28 cents per share, amounting to HK$37,800,000 for the year ended 31 March 2018, to shareholders whose names appear on the register of members of the Company on 28 August 2018 subject to the approval of shareholders at the forthcoming annual general meeting. The proposed final dividend will be despatched to shareholders on 12 September 2018. Together with the interim dividend of HK28 cents per share already paid, the total distribution for the year will be HK56 cents per share. Total distribution for the previous year was HK$1.3 per share.

ANNUAL GENERAL MEETING

The Annual General Meeting of the Company will be held on Friday, 17 August 2018. 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, 14 August 2018 to Friday, 17 August 2018, 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, for registration not later than 4:00 p.m. on Monday, 13 August 2018.

To ascertain the shareholders' entitlement to the proposed final dividend, the Register of Members will be closed from Friday, 24 August 2018 to Tuesday, 28 August 2018, both days inclusive, during which period no transfer of shares can be registered. In order to qualify for the final dividend, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's Share Registrars, 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 Thursday, 23 August 2018.

BUSINESS REVIEW

The profit attributable to owners of the company for the period under review was HK$471,213,000. And 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 loss on disposal of property, plant and equipment was HK$59,067,000, being HK$23,183,000 less than that of previous year. The reasons were mainly due to drop in income from godown business and the effect of profits tax provision on disposal of the property located at Hoi Bun Road.

Godown operations: Last year, our godown operations were confronted with great challenges. Due to the fact that paper, plastics, textiles and other traditional industrial products accounting for a significant portion of the Group's storage goods categories, and being affected by the shrinkage in the traditional industry together with decreased demand for traditional industrial products from the Mainland and other countries, the storage volume decreased from an average of approximately 26,000 cubic meters last year to 18,000 cubic meters at the end of the year, and the warehousing income decreased by approximately 30% from HK$31,816,000 to HK$22,195,000.

Leasing: The revitalization works in Lu Plaza have been completed. As of 31 March 2018, the average occupancy rate increased from approximately 80% last year to nearly 90% at the end of the year with rental income up by approximately 10%. Despite an increase in occupancy rate, the overall profits from the leasing business only slightly increased by 1% due to the higher management expenditure and commission, increase in renovation work, maintenance fees and depreciation charges, coupled with the unsatisfactory leasing performance of other properties.

Investment income: Given that the stock market experienced significant fluctuations during this year, just like taking a roller-coaster ride going up and down, the overall investment income decreased by 17% to HK$23,534,000 as compared to last year.

OUTLOOK

In light of decreased demand for traditional industrial products, and in order to enhance economic benefits and explore new businesses, the Group's logistics segment intends to implement the ISO9001: 2015 International Standard on a pilot basis in the coming year, with an aim to provide better services to meet market needs. Meanwhile, investments will be made to upgrade computer software and hardware for the godown and logistics operations, in the hope of attracting local consumers, retailers, wholesalers and other customers to mitigate the effect from decrease in business from traditional industrial products.

The leasing performance of Lu Plaza is expected to improve. Despite the expectation of sluggish growth in unit rent due to the excess supply in the property market of Kowloon East, the rental income will record mild increase as a result of higher occupancy rate. One more level on Safety Godown No. 4 warehouse at Kwai Chung was leased to a tenant in April 2018, generating additional rentals of HK$4,000,000. On the whole, the Group will record increase in rental income.

Given the significant fluctuations in the stock market and the launch of another round of interest rate hikes, the financial market is plagued by a number of uncertainties. As of the end of this year, the Group had liquid assets of approximately HK$1,162,573,000, of which approximately HK$778,354,000 was in part placed as time deposits denominated in Hong Kong dollar and United States dollar and others were used as investments in stock markets in the United States and Hong Kong and the real estate investment trust, in the hope to bring in more non-recurring income.

REVIEW OF FINANCIAL RESULTS

Financial overview

For the Group's financial results for the year under review, it remained in line with that of last year in respect of revenue, while recorded a decrease in core earnings as compared with last year. Profit attributable to shareholders for the year ended 31 March 2018 increased by 75% to HK$471,213,000 (2017: HK$269,630,000), and the core earnings amounted to HK$59,067,000 (2017: HK$82,250,000) excluding the gain on investment property revaluation of HK$412,146,000 (2017: HK$187,389,000). Total revenue remained at HK$123,515,000 (2017: HK$122,404,000).

During the year under review, the Company paid dividends and special dividend in the total amount of HK$172,800,000 (2017: HK$580,500,000). The consolidated shareholders fund as at 31 March 2018 amounted to HK$4,573,546,000 (31 March 2017: HK$4,197,041,000), with the net asset value per share of the Company valued at HK$33.88 (31 March 2017: HK$31.09). Earning per share for the year was registered at HK$3.49 (2017: HK$2.00).

Godown operations

There is a decrease in business from godown operation for the reason that traditional warehousing has been languishing and its demand kept shrinking. During the year, our revenue generated from godown operation dropped by 30% to HK$22,195,000 (2017: HK$31,816,000) and segment profit decreased by 29% to HK$10,754,000 (2017: HK$15,079,000).

Net contribution margin in godown operation remained at 48% (2017: 48%), the average storage occupancy rate of the godown dropped from 73% to 62%, while the average storage rentals slightly decreased by 1% to around HK$73 (2017: HK$74) per cubic meter.

Property investment

Lu Plaza's revitalization works have been completed with its occupancy rate increasing by 10% during the year. The property also has numerous and diversified tenants, including manufacturing, trading, logistics, information technology and engineering companies as well as catering enterprises such as restaurants, which have greatly enhanced its competitiveness of leasing.

Total rental income generated from property investment amounted to HK$85,257,000 (2017: HK$79,988,000), a rise of 7% comparing to last year. Segment profit delivered from property investment amounted to HK$58,761,000 (2017: HK$58,019,000), representing a gentle increase of 1% for the corresponding period last year, which was mainly due to the increase in property management expenses, rental commissions, maintenance fees and depreciation.

During the year, the Group disposed of the office property on the 8th floor and 8 car parks at One Harbour Square, No. 181 Hoi Bun Road, Kwun Tong at the consideration of around HK$190,000,000. The fair value of the Group's investment properties as at 31 March 2018 amounted to HK$3,398,200,000 (31 March 2017: HK$3,081,000,000) with an unrealised fair value gain of HK$412,146,000 (2017: HK$187,389,000) which has been recognised in profit or loss this year.

The average occupancy rate of the Group's major investment properties rose slightly from 81% in 2017 to 82% in current year. The average monthly rental income per square feet remained at HK$16.

Treasury investment

During the year, the Hong Kong stock market has experienced a significant increase. The Hang Seng Index rose from 24,261 points at the beginning of the year to the highest at 33,484 points in January. Although it fell back to 30,093 points at the end of the year, an increase of 5,832 points was recorded for the year, representing an increase of 24%.

Revenue from treasury investment grew 52% to HK$16,063,000 (2017: HK$10,600,000) for the year, which was mainly attributable to the increase of dividend and interest income. Meanwhile, segment profit dropped by 17% to HK$23,534,000 (2017: HK$28,451,000), mainly due to the absence of gain on one-off disposal of all its available-for-sale investments which were held for long term purposes in last year of HK$19,782,000. Portfolio in securities investments held for trading, however, increased. As at 31 March 2018, the securities investments held for trading valued at HK$384,219,000 (31 March 2017: HK$313,621,000), increased by 23%.

Fair value gain on investments held for trading amounted to HK$12,063,000 (2017: HK$46,962,000). The investments held for trading mainly comprise securities listed in Hong Kong stock market and overseas stock markets, mutual funds, bonds and real estate investment trust, etc. Fair value gain on derivative financial instruments was HK$110,000 (2017: loss of HK$39,384,000). The derivative financial instruments include Hang Sang Index Futures, Hang Sang Index Options and US dollars Participatory Notes. Income generated from treasury investment included interest income and dividend income. During the year, interest income, mainly from bank deposits and bonds, increased by 48% to HK$4,990,000 (2017: HK$3,367,000), while dividend income rose by 53% to HK$11,073,000 (2017: HK$7,233,000).

Since the Group converted most of its deposits into United States dollar deposits last year, it only recorded foreign exchange gain of HK$289,000 (2017: loss of HK$6,220,000). As United States dollar is pegged to the Hong Kong dollar, the Group's exposure to foreign exchange risk as at 31 March 2018 is not significant.

OPERATING COSTS

Major components of operating costs of the Group are staff costs, repairs and maintenance, depreciation and other administrative costs including brokage, building management fee, repairs and maintenance cost and brokers fees for securities transactions. Given that the leaseback arrangement of 8/F of Chivas Godown after disposal of the property has expired in December 2016, no rental expenses were incurred during the year, resulting in a decrease in other costs of 12% to HK$26,123,000 (2017: HK$29,776,000). The staff costs for the year was HK$12,821,000 (2017: HK$12,705,000), remaining generally stable. Depreciation for the year amounted to HK$9,409,000 (2017: HK$7,156,000), representing an increase of 31%, which was mainly due to the upgrading of lifts and the addition of equipment and computer hardware and software for the Safety Godown in Kwai Chung to enhance operational efficiency. In addition, some improvements and equipment were also required on the G/F and 3/F of Lu Plaza for the smooth opening of the business of the tenants.

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 2018 amounted to HK$778,354,000 (31 March 2017: HK$792,478,000). Most of the bank deposits were denominated in Hong Kong or United States dollars. The strong cash position offers protection against tough times and it also gives the Group more options for future investments. The Group has sufficient financial resources to finance its operations.

The Group financed its operation mainly by its strong cash flows generated from operation. Recurring net cash flow from operating activities before movement in working capital amounted to HK$94,680,000 (2017: HK$75,211,000), increased by 26%. As at 31 March 2018, net current assets amounted to HK$1,151,088,000 (2017: HK$1,064,010,000) with a liquidity ratio (ratio of current assets to current liabilities) of 28.8 times (31 March 2017: 18.8 times).

The Group did not have any kind of loan or borrowings throughout the year, 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 maintain at high level. As at 31 March 2018, the Group had net asset value of HK$4,573,546,000 (31 March 2017: HK$4,197,041,000)

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.

Total dividends including interim, final and special dividends paid by the Company during the year amounted to HK$172,800,000 (2017: HK$580,500,000).

PLEDGE OF ASSETS

As at 31 March 2018, the Group did not pledge any of its assets.

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 2018, the Group employed 35 (31 March 2017: 37) employees. Total staff cost maintain HK$12,821,000 (2017: HK$12,705,000). 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.

Customers 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' need. For our property investment business, we 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 service so that tenants' satisfaction could be maintained.

Due to the nature of the business, 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 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 2018, 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 2018.

CORPORATE GOVERNANCE

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 Listing Rules throughout the year ended 31 March 2018 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, (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.

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 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 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 Company's Articles of Association. 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 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 18 August 2017 in accordance with the Company's Articles of Association.

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 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.

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 2018.

OTHER INFORMATION

The annual report of the Company for the year ended 31 March 2018 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, 28 June 2018

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

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