

安全貨倉有限公司

**SAFETY GODOWN COMPANY, LIMITED**

(Stock code 股份代號: 237)

ANNUAL REPORT  
2020

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# Corporate Information

## DIRECTORS

### Executive Director

Mr. Lu Wing Yee, Wayne

### Non-executive Director

Mr. Lee Ka Sze, Carmelo

### Independent Non-executive Directors

Mr. Gan Khai Choon

Mr. Lam Ming Leung

Mr. Leung Man Chiu, Lawrence

## COMPANY SECRETARY

Ms. Mui Ngar May Joel

## BANKERS

The Hongkong and Shanghai Banking Corporation Limited

Bank of China (Hong Kong) Limited

Industrial and Commercial Bank of China (Asia) Limited

MUFG Bank, Limited

## SOLICITORS

Woo, Kwan, Lee & Lo

## AUDITOR

Deloitte Touche Tohmatsu

*Registered Public Interest Entity Auditors*

## KEY DATES

Final Results Announcement

Annual General Meeting

Closure of Register of Members

Record Date for Final Dividend

Payment of Final Dividend

## AUDIT COMMITTEE

Mr. Gan Khai Choon (*Chairman*)

Mr. Lee Ka Sze, Carmelo

Mr. Lam Ming Leung

Mr. Leung Man Chiu, Lawrence

## REMUNERATION AND NOMINATION COMMITTEE

Mr. Lam Ming Leung (*Chairman*)

Mr. Lee Ka Sze, Carmelo

Mr. Leung Man Chiu, Lawrence

Mr. Gan Khai Choon

## REGISTERED OFFICE

Unit 1801, 18th Floor, Lu Plaza

2 Wing Yip Street

Kwun Tong

Kowloon

Hong Kong

## REGISTRARS AND TRANSFER OFFICE

Tricor Standard Limited

Level 54, Hopewell Centre

183 Queen's Road East

Hong Kong

## WEBSITE

<http://www.safetygodown.com>

## STOCK CODE

237

26 June 2020

14 August 2020

i) 11 to 14 August 2020 (both days inclusive) (to ascertain the shareholders' right to attend and vote at the AGM)

ii) 24 to 27 August 2020 (both days inclusive) (to ascertain the shareholders' right to dividend payment)

27 August 2020

11 September 2020

# Biographical Information of Directors and Senior Management

## EXECUTIVE DIRECTOR

**Mr. Lu Wing Yee, Wayne**, aged 46, was appointed as an Executive Director of the Company on 12 December 2008. He has joined the Group since July 2001. Prior to his appointment as Executive Director, he was the General Manager of the Group in charge of day-to-day operations of the Group. He has extensive experience in the field of accounting, auditing, financial management and operations control. Mr. Lu holds a master degree in business administration, a bachelor degree of science in business administration and a diploma in risk management. He is also a member of The American Institute of Certified Public Accountants. Mr. Lu had previously worked for audit firm, securities and brokerage firm and listed property company. Mr. Lu is also a director and shareholder of Kian Nan Financial Limited, which is a substantial shareholder of the Company as defined in Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (“SFO”). He is the son of Mr. Lu Sin, the late Chairman of the Company.

## NON-EXECUTIVE DIRECTOR

**Mr. Lee Ka Sze, Carmelo**, JP, aged 60, has been a Director of the Company since 2000. Mr. Lee acted as an Independent Non-executive Director from 1 July 2000 to 28 September 2004 and has been re-designated as a Non-executive Director since 28 September 2004. Mr. Lee is a partner of Woo Kwan Lee & Lo. He received his Bachelor of Laws degree and the Postgraduate Certificate in Laws from The University of Hong Kong. Mr. Lee is also a non-executive director of two listed public companies in Hong Kong, namely CSPC Pharmaceutical Group Limited and Playmates Holdings Limited. Mr. Lee is also an independent non-executive director of two listed public companies in Hong Kong, namely KWG Property Holding Limited and Esprit Holdings Limited.

Mr. Lee was a non-executive director of Planetree International Development Limited (formerly known as “Yugang International Limited”) (from September 2004 to April 2019), Hopewell Holdings Limited (from September 2004 to May 2019), Termbray Industries International (Holdings) Limited (from September 2004 to September 2019) and China Pacific Insurance (Group) Co., Ltd. (from November 2015 to May 2020). Hopewell Holdings Limited was listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) until 3 May 2019. Planetree International Development Limited, Termbray Industries International (Holdings) Limited and China Pacific Insurance (Group) Co., Ltd. are companies listed on the Stock Exchange.

Mr. Lee is one of the four chairmen of The Listing Review Committee of the Stock Exchange, a convenor and member of the Financial Reporting Review Panel of the Financial Reporting Council of Hong Kong. He is also a chairman of the Appeal Tribunal Panel (Buildings) and a non-official member of the InnoHK Steering Committee.

Mr. Lee is a member of the Audit Committee and the Remuneration and Nomination Committee of the Company.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Gan Khai Choon**, aged 74, has been an Independent Non-executive Director of the Company since 1990. He is also the Chairman of HL Global Enterprises Limited (a company listed in Singapore), Director of China Yuchai International Limited (a company listed in New York) and Managing Director of Hong Leong International (Hong Kong) Limited. Mr. Gan has extensive experience in finance, property development, hotel management and international trading.

Mr. Gan is the Chairman of the Audit Committee and a member of the Remuneration and Nomination Committee of the Company.

**Mr. Lam Ming Leung**, aged 68, has been an Independent Non-executive Director of the Company since 1 January 2004. Mr. Lam was a director and general manager of The National Commercial Bank Limited, Hong Kong Branch.

Mr. Lam is the Chairman of the Remuneration and Nomination Committee and a member of the Audit Committee of the Company.

# Biographical Information of Directors and Senior Management

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**Mr. Leung Man Chiu**, Lawrence, aged 72, has been an Independent Non-executive Director of the Company since 16 June 2006. He is also an Independent Non-executive Director of Pak Fah Yeow International Limited, PFC Device Inc. and SMC Electric Limited, which are listed on the Stock Exchange. Mr. Leung has been a Non-executive Director of World Super Holdings Limited since 26 April 2017. Mr. Leung is a fellow member of the Association of Chartered Certified Accountants (ACCA) and the Hong Kong Institute of Certified Public Accountants. He graduated in 1969 from the Hong Kong Technical College (now known as Hong Kong Polytechnic University) with a diploma in accountancy and qualified as a certified public accountant in 1972. Mr. Leung is a practising certified public accountant and has been in the public practice for over 40 years. He has extensive experience in accounting and auditing and served in listing and auditing projects for a number of Hong Kong public listed companies. He is now practicing as a partner in Tang and Fok.

Mr. Leung is a member of the Audit Committee and the Remuneration and Nomination Committee of the Company.

## SENIOR MANAGEMENT

**Mr. Huang Hwei Ru**, aged 71, is the assistant general manager of the Group. He is responsible for overall management of operations. He has joined the Group since 1976. Mr. Huang was also the supervisor of the Chivas Godown of the Group from 1991 to 2016.

**Mr. Ng Gei**, aged 72, is an assistant manager of the Group. He is responsible for the general administration of the Group. He has joined the Group since 1973. He was the assistant to the late Chairman of the Group, Mr. Lu Sin from 1992 to 2015.

# Five-year Financial Summary

	2020 HK\$'000	2019 HK\$'000	2018 HK\$'000	2017 HK\$'000	2016 HK\$'000
<b>Consolidated Statement of Profit or Loss and Other Comprehensive Income</b>					
<b>Turnover</b>					
Godown operations	19,958	24,411	22,195	31,816	37,456
Property investment	96,651	93,947	85,257	79,988	108,612
Treasury investment	21,003	23,917	16,063	10,600	7,934
	<u>137,612</u>	<u>142,275</u>	<u>123,515</u>	<u>122,404</u>	<u>154,002</u>
<b>(Loss) Profit attributable to owners of the Company</b>					
Godown operations	3,562	8,526	10,754	15,079	20,354
Property investment	63,509	66,218	58,761	58,019	82,241
Treasury investment	(29,042)	(4,039)	23,534	28,451	21,547
Gain (Loss) on disposal of property, plant and equipment	8	7	–	(9)	326,574
(Decrease) Increase in fair value of investment properties	(307,600)	227,873	412,146	187,389	431,651
Other administrative costs	(9,714)	(7,778)	(6,630)	(6,226)	(9,208)
(Loss) Profit before taxation	(279,277)	290,807	498,565	282,703	873,159
Taxation	(13,250)	(11,765)	(27,352)	(13,073)	(27,440)
(Loss) Profit for the year attributable to owners of the Company	<u>(292,527)</u>	<u>279,042</u>	<u>471,213</u>	<u>269,630</u>	<u>845,719</u>
Core earnings	<u>15,065</u>	<u>51,162</u>	<u>59,067</u>	<u>82,250</u>	<u>87,494</u>
<b>Consolidated Statement of Financial Position</b>					
Total assets	4,658,248	5,022,118	4,699,817	4,330,794	4,650,603
Total liabilities	(138,793)	(135,009)	(126,271)	(133,753)	(122,091)
Equity attributable to owners of the Company	<u>4,519,455</u>	<u>4,887,109</u>	<u>4,573,546</u>	<u>4,197,041</u>	<u>4,528,512</u>
<b>Per Share</b>					
(Loss) Earnings per share	(HK\$2.17)	HK\$2.07	HK\$3.49	HK\$2.00	HK\$6.26
Core earnings per share (Note 1)	HK\$0.11	HK\$0.38	HK\$0.44	HK\$0.61	HK\$0.65
Dividends per share	HK3 cents	HK\$1.28	HK56 cents	HK\$1.30	HK\$4.22
	(Note 2)				
Dividend payout ratio (Note 3)	80.61 %	337.70%	127.99%	213.40%	76.76%
Net asset value per share	HK\$33.48	HK\$36.20	HK\$33.88	HK\$31.09	HK\$33.54
<b>Ratios</b>					
Return on average shareholder's funds	-6.22%	5.90%	10.74%	6.18%	20.84%
Current ratio	21.91:1	22.34:1	28.75:1	18.80:1	32.62:1
Gearing ratio (Note 4)	–	–	–	–	–
P/E ratio (Note 5)	N/A	6.72	5.01	9.37	3.02

## Notes:

- Core earnings per share is calculated based on (loss) profit for the year attributable to shareholders after adjusting the effect on unrealised fair value changes in investment properties and gain (loss) on disposal of property, plant and equipment.
- A final dividend of HK3 cents per share after the Share Subdivision (as defined in section headed "Proposed Share Subdivision" set out in page 6 below) (or equivalent to HK9 cents per share if the Share Subdivision does not become effective) has been proposed by the directors of the Company and is subject to the approval by shareholders at the AGM.
- The dividend payout ratio is calculated based on the total dividend distribution including the interim dividend paid and final dividend and special dividend proposed for the year and the (loss) profit for the year attributable to shareholders after adjusting the effect on unrealised fair value changes in investment properties.
- Gearing ratio is calculated at the ratio of total interest-bearing loans to total assets of the Group at balance sheet date. As there were no borrowings during the past 5 years, the gearing ratios for the 5 years were therefore equal to zero.
- Based on closing price as at 31 March for each year.

# Executive Director's Statement

I hereby present the annual results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 March 2020 (the "Period").

## PROPOSED SHARE SUBDIVISION

The Board of Directors (the "Board") has proposed to implement a share subdivision on the basis that every one existing share of the Company be subdivided into three subdivided shares of the Company with the proposed effective date of 18 August 2020 (the "Share Subdivision"). Further details of the Share Subdivision are disclosed in the announcement of the Company dated 26 June 2020 and in the circular to the shareholders sent together with this Annual Report.

## DIVIDENDS

The Board has resolved to recommend the payment of a final dividend of HK3 cents per share after the Share Subdivision (equivalent to HK9 cents per share (2019: HK12 cents) if the Share Subdivision does not become effective), amounting to HK\$12,150,000 (2019: HK\$16,200,000), for the year ended 31 March 2020 (the "Period"), to shareholders whose names appear on the register of members of the Company (the "Register of Members") on 27 August 2020 subject to the approval of shareholders at the forthcoming annual general meeting of the Company (the "AGM"). The proposed final dividend will be despatched to shareholders on 11 September 2020. Together with the interim dividend of approximately HK2.67 cents per share already paid (on the basis there being 405,000,000 shares of the Company in issue immediately after the Share Subdivision becomes effective), the total distribution for the Period will be approximately HK5.67 cents per share calculated based on the total of 405,000,000 shares of the Company in issue immediately after the Share Subdivision becomes effective (or equivalent to HK17 cents per share calculated based on the total of 135,000,000 shares of the Company in issue immediately prior to the Share Subdivision becoming effective (2019: HK\$1.28 per share)).

## BUSINESS REVIEW

The Group was founded by the late Chairman Mr. Lu Sin with the business mission of contributing to the society and serving the business community. The Group was established in 1960 and has 60 years of history. This year is the 60th anniversary of the Group since its establishment.

During the Period, the loss attributable to owners of the Company was HK\$292,527,000 (2019: profit of HK\$279,042,000) and the core earnings based on the loss attributable to owners after adjusting the effect of fair value loss on investment properties was HK\$15,065,000 (2019: HK\$51,162,000).

### Godown operations segment

Last year, our godown operations was severely impacted by the social unrest in Hong Kong started from June 2019 in tandem with the worldwide outbreak of COVID-19 during the first quarter of 2020. The overall godown utilisation rate dropped to approximately 58% from 77% whilst the revenue of godown operations decreased by approximately 18% to HK\$19,958,000 from HK\$24,411,000.

In response to the rapid widespread of pandemic with our godown customers, we provided them with discounts on storage charges in February 2020.

### Property investment segment

During the Period, Lu Plaza's total rental revenue slightly increased by approximately 1% to HK\$76,773,000. Together with other leased properties, the total rental revenue of investment properties increased by approximately 3% to HK\$96,651,000 (2019: HK\$93,947,000). The average occupancy rate of Lu Plaza decreased by approximately 2% to 83% during the Period.

# Executive Director's Statement

In response to the COVID-19 outbreak erupting in the late January 2020, the Group had stepped up with its property management company to establish and implement highest level of healthcare and workplace wellness measures including (i) enforcement of sanitization protocols for regular cleaning and disinfecting all common areas and public amenities, (ii) all-time security and body temperature measurement at all building entry points, (iii) frequent cleaning and disinfecting the filters of all fancoil units of the air conditioning system and (iv) installation of ultraviolet disinfection devices at fresh air intake vents. Furthermore, all public areas of Lu Plaza and the workplace of the Company had been sprayed with photocatalyst coating which is a high-tech nano protectant for antibacterial, disinfection, anti-mold formation and formaldehyde disintegration. The Group is committed to enhance the health, safety and wellness of the employees and tenants.

Against the backdrop of weak economic sentiment from the beginning of 2019 arising from the US-China trade dispute and the ensuing social unrest in Hong Kong, the global outbreak of the pandemic only exacerbated the overall worsened business environment not only in Hong Kong but also on a global scale. Since our tenants were inevitably affected by the unprecedented times of crisis, we had proactively provided them with rent concessions in March 2020 with a view to alleviating their financial burden and distress.

## Treasury investment segment

Given that the instability of global economic environment and the worldwide outbreak of COVID-19 during the Period, the treasury investment performance recorded a loss of HK\$29,042,000 (2019: a loss of HK\$4,039,000).

Given the continued uncertainties in relation to the duration of the pandemic and the simmering trade dispute between the two biggest economies, the financial markets are expected to be not promising in the year of 2020. The management will closely monitor the situations and cautiously manage the investment portfolio with a conservative investment strategy.

## OUTLOOK

Although the latest situation of pandemic in Hong Kong appears to be stable, office and retail leasing activities have been adversely affected against the backdrop of lack of tourists, shop closures, limited expansions of retailers and decrease in physical patronage of consumers. In consideration of the ongoing change of circumstances regarding the office leasing demand in Hong Kong, we expect that decentralisation and/or consolidation of workplace would become commonplace even beyond the pandemic period as part of the cost saving measures and reallocation of resources undertaken by many businesses so as to strength medium to long-term financial position to weather the difficult times ahead. Coupled with the abundant supply of new office space in Kowloon East which consists of the former airport site – the Kai Tak Development Area, the Kwun Tong and Kowloon Bay Business Areas, the overall rent level in Kwun Tong where our major investment property Lu Plaza is situated at is expected to be inevitably subdued. Major leasing decisions tend to be postponed if not cancelled. Both the potential and existing tenants are very cautious about decisions on their expansion or relocation plans and have even shifted to wait-and-see approach. Therefore, the management of the Company will continue to adopt a flexible approach when dealing with new leases and renewals of tenancy.

The Board recognised the impact of the pandemic on all commercial and public activities in Hong Kong and the financial distress of all business stakeholders. In the furtherance of the business culture and corporate mission persistently practiced by the Company's late founder, Mr. Lu Sin throughout his lifetime with the view to making contributions to the society and business community of Hong Kong, the Board had resolved to provide various rental concessions to the Group's tenants and discounts to godown customers as a gesture of goodwill to provide a certain degree of relief to assist them to undergo this unprecedented times of crisis.

The Group has planned to roll out a mini storage service for personal and household storage needs around the fourth quarter of 2020. The facility is provided with 24/7 access with smart card, CCTV security, free Wi-Fi, temperature-controlled atmosphere and various choices in sizes of storage space.



# Executive Director's Statement

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It is expected that the pandemic might persist for a certain period of time and continue to cause disruptions to business activities worldwide. As a matter of fact, the scale and magnitude of the impact of the pandemic are unprecedented and worldwide. The economic recovery may not be instantaneous and it is very likely all governments will struggle for a longer time than expected in order to keep their economies afloat. The Board will continue to closely monitor its developments and take appropriate risk management and internal control measures and adjust the Group's business strategies and operations as and when necessary. As at 31 March 2020, the Group had total cash and bank balances amounted to approximately HK\$798,077,000, of which approximately HK\$610,190,000 was placed as time deposits denominated in Hong Kong dollar and United States dollar and part of the balance was allocated for treasury investment including equities, debts and trusts in a prudent manner. Given the Groups' solid financial strength and effective control policies, the Board is confident that the Group's business operations will remain normal and continue to contribute to the Shareholders' value growth.

This year is the 60th anniversary of the Company. The Board would like to take this opportunity to express its gratitude to all staff members and stakeholders for their continuous dedications, contributions and support in the past. Year of 2020 will continue to be very challenging in view of global and domestic continued economic and heightened political uncertainties and headwinds ahead. In particular, the second half of 2020 could be very critical because the threat of second wave of pandemic may emerge and the second round of US-China trade negotiation will likely be resumed. These unknowns could probably lead to determine whether a long-lasting worldwide recession will be set in motion. As such, a sustainable recovery which is mainly bolstered by governments' aggressive stimulus measures may not come as quickly as anticipated and hoped for. Accordingly, the Board would seriously assess the ongoing developments and post COVID-19 new normal in order to review and reformulate its holistic development strategy and implementation plans. As always, the Board would continue to use its best efforts to sustain the Group's competitiveness and profitability in the long term.

**Lu Wing Yee, Wayne**  
*Executive Director*

Hong Kong, 26 June 2020

# Management Discussion and Analysis

## FINANCIAL OVERVIEW

For the year ended 31 March 2020 (the "Period"), the Group's loss attributable to owners was HK\$292,527,000 (2019: profit of HK\$279,042,000) whilst the core earnings, excluding the loss on investment properties revaluation of HK\$307,600,000 (2019: gain of HK\$227,873,000) and the gain on disposal of property, plant and equipment of HK\$8,000 (2019: HK\$7,000), decreased by 71% to HK\$15,065,000 (2019: HK\$51,162,000). Total revenue fell 3% to HK\$137,612,000 (2019: HK\$142,275,000).

The decrease of core earnings was mainly due to the fair value loss from investment held for trading of HK\$46,590,000 recorded for the Period as compared with a loss of HK\$19,783,000 for the corresponding period of last year. The profits of godown operations and property investment segments decreased by HK\$4,964,000 and HK\$2,709,000, respectively.

During the Period, the Company paid dividend payments in the total amount of HK\$145,800,000 (2019: HK\$75,600,000). As at 31 March 2020, the consolidated shareholders' fund and net asset value per share of the Company amounted to HK\$4,519,455,000 (31 March 2019: HK\$4,887,109,000) and HK\$33.48 (31 March 2019: HK\$36.20), respectively. Loss per share for the Period registered at HK\$2.17 (2019: earnings per share of HK\$2.07).

### Godown operations segment

During the Period, our revenue generated from godown operations decreased by 18% to HK\$19,958,000 (2019: HK\$24,411,000) and the respective segment profit decreased by 58% to HK\$3,562,000 (2019: HK\$8,526,000).

The profit margin of the godown operations decreased to 18% (2019: 35%) and the average storage utilisation rate (2019: a total capacity of 31,600 cubic meters) decreased to 58% from 69% whilst the average storage rent increased by 7% to around HK\$79 per cubic meter (2019: HK\$74).

Competition in public godown market in Hong Kong is expected to remain keen. The Group will continue to maintain its competitive edge for sustainable growth.

Methodology of calculating Key Performance Data:

- Definition and calculation: Average utilisation rate, being percentage of godown space occupied by cargo. Average storage rent per cubic meter (CBM), being average storage rent charged per CBM of cargo handled.
- Source of underlying data: Internal company data
- Assumption: Maximum capacity of the godown is 31,100 CBM (31,600 CBM for 2019)
- Purpose: Utilisation rate and average storage rent per CBM are key drivers for performance

### Property investment segment

Lu Plaza is the major investment property of the Group and its average occupancy rate recorded at approximately 83% during the Period. The tenant mix of Lu Plaza includes consumer products, trading, logistics, information technology, engineering and catering businesses.

Total rental income generated from property investment amounted to HK\$96,651,000 (2019: HK\$93,947,000), an increase of 3% compared with that of the last year. The segment profit was HK\$63,509,000 (2019: HK\$66,218,000), representing a decrease of 4% as compared with the corresponding period of the last year. Rental revenue (including carparking rental income) of the Lu Plaza increased from HK\$76,274,000 of the last year to HK\$76,773,000 for the Period.

# Management Discussion and Analysis

The fair value of the Group's investment properties as at 31 March 2020 amounted to HK\$3,351,900,000 (31 March 2019: HK\$3,635,100,000) based on an unrealised loss of HK\$307,600,000 (2019: a gain of HK\$227,873,000) which had been recognised in profit or loss for the Period.

The average occupancy rate of the Group's major investment properties fell slightly to 83% from 86% in the year. The average monthly rental per square feet slightly increased from HK\$16 to HK\$17.

The Lu Plaza is situated at Kung Tong which is in the Kowloon East district. Competition in the office leasing in the Kowloon East district is intense because of abundant new supply of Grade A office space in the recent years. Our competitors are mainly office landlords particularly those with office properties near the Lu Plaza. Factors for the intense competition includes location, quality and rental rate. This competition could have a material adverse effect on our ability to achieve higher occupancy rate and on the amount of rental revenue that we could generate.

Methodology of calculating Key Performance Data:

- Definition and calculation: Average occupancy rate, being percentage of lettable floor area occupied by tenants. Average monthly rental income per square feet (sq. ft.), being average rental income charged per sq. ft. of the floor area leased.
- Source of underlying data: Internal company data
- Purpose: Occupancy rate and average monthly rental income per sq. ft. are key drivers for performance
- No changes have been made to the source of data or calculation methods used compared to 2019

## Treasury investment segment

During the Period, the global financial markets' steep sell-off caused by the sudden widespread of the pandemic worldwide not only wiped out all the unrealized profits accumulated but also translated into a substantial loss for the Period. It is expected that the investment environment will be affected by external factors in particular the simmering tension and retaliation arising from the trade friction between China and the United States and the ongoing developments of the pandemic.

Revenue from the treasury investment decreased by approximately 12% to HK\$21,003,000 (2019: HK\$23,917,000) for the Period, which was mainly attributable to the decrease in dividend income from equity investments. Meanwhile, a loss of HK\$29,042,000 was recorded (2019: a loss of HK\$4,039,000), which was mainly due to the realised and unrealised losses of HK\$24,595,000 and HK\$21,995,000, respectively. As at 31 March 2020, the securities investments held for trading valued at HK\$223,208,000 (31 March 2019: HK\$292,744,000), a decrease of 24%.

Since the Group converted some Hong Kong dollars into foreign currencies during the Period, a loss of HK\$19,000 (2019: a loss of HK\$4,537,000) was registered. As United States dollar is pegged to the Hong Kong dollar, the Group's exposure to foreign exchange risk as at 31 March 2020 was insignificant.

## OPERATING COSTS

The operating costs of the Group, mainly comprising of staff costs, repairs and maintenance, depreciation and other administrative costs including real estate agency fees, property management fees and brokers' fees increased by 6% to HK\$25,102,000 (2019 HK\$23,755,000). The staff costs for the year was HK\$16,087,000 (2019: HK\$15,493,000), of which HK\$184,000 was allocated as interim and annual performance linked bonuses to motivate the staff morale and performance. Depreciation for the Period amounted to HK\$19,320,000 (2019: HK\$16,283,000), representing an increase of 19%, which was mainly due to the additional provision for depreciation as certain investment properties changed to owner-occupied.

# Management Discussion and Analysis

## 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 2020 amounted to HK\$798,077,000 (31 March 2019: HK\$859,275,000). Most of the bank deposits were denominated in Hong Kong or United States dollars. The strong cash reserve position offers protection against unstable times and it also gives the Group more options for future investment opportunities. The Group has sufficient financial resources to continue to finance its operations.

The Group financed its operation mainly by its internal cash reserve and cash flows generated from operations. Recurring net cash flow from operating activities before movement in working capital amounted to HK\$72,496,000 (2019: HK\$85,067,000), decreased by 15%. As at 31 March 2020, net current assets amounted to HK\$1,023,815,000 (31 March 2019: HK\$1,122,210,000) with a liquidity ratio (total current assets divided by total current liabilities) of 21.91 times (31 March 2019: 22.34 times).

The Group did not have any kind of loans or borrowings throughout the Period, therefore the gearing ratio was zero. As at 31 March 2020, the Group had a net asset value of HK\$4,519,455,000 (31 March 2019: HK\$4,887,109,000).

## COMPLIANCE WITH REGULATIONS

All the immovable assets and principal activities of the Group are located and carried out in Hong Kong. Compliance procedures are in place to ensure adherence to applicable laws, rules and regulations, in particular those that have significant impact on the godown operations and property investment segments. Any changes in the applicable laws, rules and regulations affecting godown operations and property investment are brought to the attention of the management and operation teams from time to time. The Group is also committed to safeguarding the security of personal data. When collecting and processing such data, the Group complies with the Personal Data (Privacy) Ordinance and the guidelines issued by the Office of the Privacy Commissioner for Personal Data.

## RELATION WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The management considers its employees as the key to sustainable business growth of the Group 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 the top priority of the management. 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 professional development and training.

As at 31 March 2020, the Group employed 34 (31 March 2019: 37) employees. Total staff cost was HK\$16,087,000 (2019: HK\$15,493,000). The remuneration policies are reviewed periodically on the basis of the nature of job, market trend, company performance and individual performance. The Group does not have any share option scheme for employees.

Customer relationship is the fundamentals of business. The Group fully understands this principle and thus maintain good relationship with customers to fulfil their immediate and long-term needs. For our customers of godown operations, we deliver high quality services to meet our customers' needs. For our property investment, we have engaged a quality property management company to manage our major investment properties. Tenant's need and feedbacks are communicated through the property manager from time to time to cater for tenants' requirements and ensure prompt response.

# Management Discussion and Analysis

Due to the nature of its businesses, the Group does not have any major supplier that has significant influence on its 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 normal course of the Group's businesses. The management of the Group also regularly reviews the procurement and tendering procedures to ensure that the processes are conducted in an open and fair manner.

## PRINCIPAL RISK AND UNCERTAINTY

In general, all of the Group's immovable assets are located in Hong Kong and a majority of the Group's revenue is derived from Hong Kong. As a result, the general state of Hong Kong warehouse segment and the property market, the interest rate changes and the political and legal situation in Hong Kong may have a significant impact on the Group's operating results and financial position. Specific key risks of the Group's business are discussed as below. It is a non-exhaustive list and there may be other risks and uncertainties in addition to the key risk areas outlined below.

### Godown operations

The international trade could be under the influence of the economic conditions around the world, especially those in Mainland China, Europe, Asia Pacific and Hong Kong, which in turn could have a significant impact on the godown business. The Group is primarily engaged in the provision of godown services to manufacturers, wholesalers, retailers, media and publishers and other relevant customers. We are therefore dependent on our customers' business performance and prospects in their respective sectors, markets and industries.

### Property investment

Financial performance may be adversely affected in the event of a decline in the level of rents or occupancy rate, or incapability of procuring lease renewals or obtaining new tenants. The management is unable to assure that the existing tenants will renew their leases upon expiration or new leases can be achieved at rental rates equal to or higher than the current level of rents. The Group may also be subject to changes in rental income due to government's change of policies and/or overall business environment. For example, if the government resumes the revitalization scheme for industrial buildings, the supply of potential commercial premises in Kowloon East and other districts will increase and then exert pressure on the general level of rents.

### Treasury investment

For the treasury investment, the fluctuation in market value of the investment portfolio could significantly affect the profitability of the Group. According to the Hong Kong Financial Reporting Standards, the gain/loss on the listed securities should be booked as fair value gain/loss on investment held for trading in the Statement of Profit or Loss and Other Comprehensive Income, no matter whether the securities are disposed or not. Therefore, the fluctuation in market or trading price could have positive or negative effect on the Group's profitability. The management will closely monitor the overall ongoing investment sentiment and adjust the investment portfolio when required in order to safeguard the assets of the Group and maximize the shareholders' return.

The Group is exposed to financial risks related to interest rate, foreign currency, equity price, liquidity and credit risks in the normal course of the business. For further details of such risks and relevant management policies, please refer to Note 27 to the consolidated financial statements from pages 94 to 100.

# Management Discussion and Analysis

## GROUP'S ABILITY TO FUND CURRENT AND FUTURE OPERATIONS

The Group currently funds its operations wholly by internal cash reserve and cash generated from operations and has no bank borrowing. The management anticipates that no bank borrowing is required to maintain the current and future operations of the Group. The Group has a credit policy to the godown customers and debt recovery procedures which have been practised satisfactorily for years are subject to annual review by the management. Thus, the bad debt risk is regarded as low.

## DIVIDEND POLICY

It is the Board'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 Board will try to maintain the dividend payment at a reasonable level based on the business environment and the performance of the Group but should not be deemed to constitute as a legal binding commitment on the part of the Board.

For the details of the dividend paid and proposed dividend for the year, please refer to the Dividends section under Executive Directors' Statement on pages 6 to 8.

## PLEDGE OF ASSETS

As at 31 March 2020, the Group did not pledge any of its assets.

## CONTINGENT LIABILITIES

As at 31 March 2020, the Group did not have any significant contingent liabilities.

## 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, 11 August 2020 to Friday, 14 August 2020, 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Monday, 10 August 2020.

To ascertain the shareholders' entitlement to the proposed final dividend, the Register of Members will be closed from Monday, 24 August 2020 to Thursday, 27 August 2020, 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Friday, 21 August 2020.

# Corporate Governance Report

## 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 operations and developments. Effective corporate governance provides integrity, transparency, accountability which contributes to the corporate success and enhancement of shareholder value.

The Company has complied with all the code provisions set out in the Corporate Governance Code (“CG Code”) contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) (the “Listing Rules”) throughout the year ended 31 March 2020 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.

Since 5 April 2015, the position of the Chairman of the Board 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 reviewing 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, the Executive Director continues to monitor the businesses and operations 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 manner.

# Corporate Governance Report

## 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 2020.

## BOARD OF DIRECTORS

The Board is currently composed of one Executive Director, one Non-executive Director and three Independent Non-executive Directors. Over half of the Board members are Independent Non-executive Directors who enable the Board to exercise independent judgement effectively. An updated list of Directors of the Company and their respective roles and functions has been maintained on the websites of the Company and the Stock Exchange. The composition of the Board during the year is shown below. As announced by the Company on 19 June 2020, Mr. Gan Khai Choon has tendered his resignation as an independent non-executive director of the Company with effect from 17 August 2020.

There is no financial, business, family and other material relationship among members of the Board. Biographies of the Directors are set out on pages 3 to 4 under the subject Biographical Information of Directors and Senior Management.

The Company held an annual general meeting and five board meetings during the year. Details of Directors’ attendance records are as follows:

Directors	Attendance/Number of meetings held during the year	
	Board Meetings	Annual General Meeting
<i>Executive Director</i>		
Mr. Lu Wing Yee, Wayne	5/5	1/1
<i>Non-executive Director</i>		
Mr. Lee Ka Sze, Carmelo	5/5	0/1
<i>Independent Non-executive Directors</i>		
Mr. Gan Khai Choon	5/5	0/1
Mr. Lam Ming Leung	5/5	0/1
Mr. Leung Man Chiu, Lawrence	5/5	1/1

Board members are supplied with agenda and comprehensive Board papers in respect of regular Board meetings at least three days before the intended date of meeting. Board minutes are sent to all Directors within a reasonable time after each Board meeting for their comments and records.

Responsibilities over day-to-day operations are delegated to the management under the leadership of the Executive Director. The Board meets regularly to review the overall strategy and to monitor the operation as well as the financial performance of the Group.



# Corporate Governance Report

There is a clear division of responsibilities between the Board and the management. The Board is responsible for providing high-level guidance and effective oversight of management while day-to-day management of the Group is delegated to the management team of each respective subsidiary. Generally speaking, the Board is responsible for:

- formulating the Group's long term strategy and monitoring the implementation thereof;
- approval of interim and year end dividends;
- reviewing and approving the circular, proxy form, announcements, annual and interim reports;
- ensuring good corporate governance and compliance;
- monitoring the performance of the management;
- reviewing and approving any material acquisition and assets disposal; and
- overseeing the management in the design, implementation and monitoring of the risk management and internal control systems on an ongoing basis.

Each of the Independent Non-executive Directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Board, through the Remuneration and Nomination Committee, has assessed their independence and concluded that all the Independent Non-executive Directors are independent.

The Directors have a balance of skills and experience and diversity of perspective appropriate to the requirements of the Group's businesses. All Directors have full access to accurate, relevant and timely information of the Group through management and are able to obtain independent professional advices on issues whenever deemed necessary by the Directors at the expense of the Company.

## DIRECTORS' TRAINING AND PROFESSIONAL DEVELOPMENT

Directors are provided with timely updates on changes in laws and compliance issues relevant to the Group. The Company also encourages its Directors to enroll in relevant professional development courses to continually update and further improve their relevant knowledge and skills.

The Company has provided funding to encourage the Directors to participate in professional development courses and seminars to develop and refresh their knowledge and skills. During the year ended 31 March 2020, regulatory updates and relevant materials on amendment of Listing Rules were sent to the Directors for their awareness of the latest development on statutory requirements.

All directors have declared that they have attended training during the year ended 31 March 2020 and the training received by each Director during the year ended 31 March 2020 is summarized as below:

Name of directors	Regulatory update and corporate governance matters	
	Reading materials	Attendance on seminars/internal discussions meetings
<i>Executive Director</i>		
Mr. Lu Wing Yee, Wayne	✓	✓
<i>Non-executive Director</i>		
Mr. Lee Ka Sze, Carmelo	✓	✓
<i>Independent Non-executive Directors</i>		
Mr. Gan Khai Choon	✓	✓
Mr. Lam Ming Leung	✓	-
Mr. Leung Man Chiu, Lawrence	✓	✓

# Corporate Governance Report

## CHAIRMAN AND CHIEF EXECUTIVE

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 should be clearly established, and (iii) the responsibilities should be performed by the Chairman.

The late Mr. Lu Sin, the founder of the Group, assumed the roles of both the Chairman and Chief Executive Officer of the Company. After passing away of Mr. Lu Sin on 5 April 2015, the position of the Chairman and the Chief Executive Officer of the Company have not been filled up as at the date of this report. Until the appointment of a new Chairman, the Board collectively focuses on the overall strategic planning and development of the Group and effective functioning of the Board. At the same time until the appointment of a new Chief Executive Officer, the Executive Director with the assistant of the senior management, will continue to oversee the day-to-day management of the business and operations of the Group.

## NON-EXECUTIVE DIRECTORS

There are currently four Non-executive Directors, three of them are Independent Non-executive Directors. All the Non-executive Directors are subject to retirement by rotation at least once every three years. They have brought independent judgement and provided the Group with invaluable guidance and advice on the Group's development.

## BOARD COMMITTEES

The Board has established two committees, the Remuneration and Nomination Committee and the Audit Committee, each of which has its specific written terms of reference.

## REMUNERATION AND NOMINATION COMMITTEE

The Remuneration and Nomination Committee was established in April 2004. A majority of the members are Independent Non-executive Directors. The Committee currently comprises of four members including one Non-executive Director and three Independent Non-executive Directors. The Committee is chaired by Mr. Lam Ming Leung. The other members are Mr. Lee Ka Sze, Carmelo, Mr. Leung Man Chiu, Lawrence and Mr. Gan Khai Choon. As announced by the Company on 19 June 2020, Mr. Gan Khai Choon has tendered his resignation as a member of Remuneration and Nomination Committee with effect from 17 August 2020.

The Remuneration and Nomination Committee is responsible for making recommendations to the Board on issues including new appointment and re-appointment of Directors and senior management; review management succession planning for senior management of the Company; formulate, review and make recommendation to the Board on the remuneration policy and packages of all Directors and senior management; and review and approve roles and responsibilities, compensation packages and performance assessment of employees of the Group.

New Directors are sought mainly through referrals and internal promotions. In evaluating whether an appointee is suitable to act as a director, the Board will review the independence, experience and skills of the appointee as well as personal ethics, integrity and time commitment of the appointee. The nomination process, selection criteria and succession planning are set out in the policy for nomination adopted by the Board (the "Nomination Policy"). The emoluments of Directors are based on the skill, knowledge and involvement in the Company's affairs of each Director and are determined by reference to the Company's performance and profitability.

In accordance with the nomination policy, the Remuneration and Nomination Committee has been appointed to identify persons with suitable qualifications to become members of the Board and to make choices or to make recommendations to the Board on the selection of persons nominated for directorship. The Board of Directors is responsible for the final selection and appointment of new directors.

# Corporate Governance Report

The Remuneration and Nomination Committee should use a variety of methods to identify candidates for directorship, including recommendations from board members, management and professional headhunting companies. In addition, the Remuneration and Nomination Committee will consider the candidates for directors formally submitted by the shareholders of the Company.

The Remuneration and Nomination Committee's assessment of candidates may include (but is not limited to) reviewing resumes and work experience, personal interviews and conducting background checks. The Board will consider the recommendations of the Remuneration and Nomination Committee and will be responsible for designating candidates as proposed directors to be elected by shareholders at the general meeting of the Company, or appointing suitable candidates to serve as directors to fill vacancies on the Board or as additional Board members (in compliance with the articles of association of the Company).

The Remuneration and Nomination Committee shall consider the following qualifications as the minimum qualification required to recommend candidates to the Board for new appointment or re-election:

- Highest personal and professional conduct and integrity;
- Nominees' outstanding personal achievements and abilities and their ability to make sound business judgments;
- Skills that complement existing boards;
- Ability to assist and support management and make a significant contribution to the success of the Company;
- Understand the time and effort required for board members to be trusted and to perform their duties diligently;
- Independence: Candidates for independent non-executive directors should meet the "independence" criteria set out in the Listing Rules and the composition of the Board complies with the provisions of the Listing Rules.

The Committee shall consider other appropriate factors as it considers appropriate to the best interest of the Company and Shareholders.

During the year, one meeting was held and the attendance records of individual members at Remuneration and Nomination Committee meetings are as follows:

<b>Members</b>	<b>Number of meetings attended/held</b>
Mr. Lam Ming Leung ( <i>Chairman of the Committee</i> )	1/1
Mr. Lee Ka Sze, Carmelo	1/1
Mr. Leung Man Chiu, Lawrence	1/1
Mr. Gan Khai Choon	1/1

# Corporate Governance Report

The work done by the Remuneration and Nomination Committee during the year includes the following:

- (a) making recommendation to the Board on the re-appointment of retiring Directors;
- (b) assessing the independence of the Independent Non-executive Directors;
- (c) reviewing and approving the annual salary and bonus for staff of the Group;
- (d) reviewing and approving the remuneration to the Executive Director and senior management; and
- (e) making recommendation to the Board on the remuneration for Non-executive Directors.

The Remuneration and Nomination Committee is provided with sufficient resources, including the advice of professional firms if necessary, to discharge its duties.

The remuneration of the members of the senior management (including Executive Director) by band for the year ended 31 March 2020 is set out below:

Remuneration bands (HK\$)	Number of person(s)
0 to 1,000,000	3

From October 2011, the Executive Director has voluntarily agreed suspension of payment of his salaries. Further particulars regarding the Directors' remuneration and the five highest paid employees as required to be disclosed pursuant to Appendix 16 to the Listing Rules are set out in notes 7 and 8 to the consolidated financial statements respectively.

## BOARD DIVERSITY POLICY

The Company has formulated the board diversity policy aiming at setting out the approach on diversity of the Board of the Company.

The Board recognises the importance of having a diverse Board in enhancing the Board's effectiveness and corporate governance. A diverse Board will include and make good use of differences in the skills, industry knowledge and experience, education, background and other qualities, etc. of Directors and does not discriminate on the ground of race, age, gender or religious belief. These differences will be taken into account in determining the optimum composition of the Board and when possible should be balanced appropriately.

The Remuneration and Nomination Committee has responsibility for identifying and nominating for approval by the Board, candidates for appointment to the Board. It takes responsibility in assessing the appropriate mix of experience, expertise, skills and diversity required on the Board and assessing the extent to which the required skills are represented on the Board and reviewing effectiveness of the Board.

The Remuneration and Nomination Committee is also responsible for reviewing and reporting to the Board in relation to Board diversity. Board appointments will be based on the requirements set out in the Nomination Policy and candidates will be considered regard for the necessary qualifications and benefits of diversity on the Board.

The Board considers that Board diversity is a vital asset to the business.

# Corporate Governance Report

At present, the Remuneration and Nomination Committee has not set any measurable objectives to implement the board diversity policy. However, it will consider and review the board diversity policy and setting of any measurable objectives from time to time.

## AUDIT COMMITTEE

The Audit Committee currently comprises of three Independent Non-executive Directors and one Non-executive Director. The Committee is chaired by Mr. Gan Khai Choon. The other members are Mr. Lam Ming Leung, Mr. Leung Man Chiu, Lawrence and Mr. Lee Ka Sze, Carmelo. Both Mr. Gan and Mr. Leung possessed appropriate professional qualifications or accounting or related financial management expertise as required by the Listing Rules. As announced by the Company on 19 June 2020, Mr. Gan Khai Choon has tendered his resignation as the chairman of Audit Committee with effect from 17 August 2020. Following the above resignation, Mr. Leung Man Chiu, Lawrence who is an independent non-executive director of the Company, has been appointed the chairman of the Audit Committee with effect from 17 August 2020.

The Company has complied with Rule 3.21 of the Listing Rules which requires that the audit committee (i) has a minimum of three non-executive directors, (ii) must be chaired by an independent non-executive director, (iii) at least one of the audit committee member is an independent non-executive director who possesses appropriate professional qualifications or accounting or related financial management expertise, and (iv) a majority of the audit committee members are independent non-executive directors.

Throughout the year under review, the Audit Committee discharged the duties and responsibilities under its terms of reference and the CG Code. The terms of reference of the Audit Committee are available on the website of the Company and the Stock Exchange.

Under its terms of reference, the Audit Committee is required to oversee the relationship between the Company and its external auditors, review the Group's preliminary interim and annual results, and interim and annual financial statements, monitor the corporate governance of the Group including compliance with statutory and Listing Rules requirements, review the scope, extent and effectiveness of the Group's financial reporting system, risk management and internal control systems, engage independent legal and other advisers as it determines to be necessary.

During the year, two meetings were held and the attendance records are as follows:

Members	Number of meetings attended/held
Mr. Gan Khai Choon (Chairman of the Committee)	2/2
Mr. Lee Ka Sze, Carmelo	2/2
Mr. Lam Ming Leung	2/2
Mr. Leung Man Chiu, Lawrence	2/2

The Audit Committee assists the Board in meeting its responsibilities for maintaining an effective risk management and internal control systems. It receives and considers the presentations of the Management in relation to the reviews on the effectiveness of the Group's risk management and internal control systems, review the completeness, accuracy and fairness of the Company's financial statements, to review the interim and final financial statements before their submission to the Board and the annual general meeting for approval, and to make recommendation on the appointment of external auditor and approve the remuneration and terms of engagement of external auditor. The Audit Committee is provided with sufficient resources, including independent access to and advice from external auditors.

All matters raised by the Audit Committee have been addressed by the Management. The work and findings of the Audit Committee have been reported to the Board. During the year, no issues brought to the attention of the Management and the Board were of sufficient importance to require disclosure in the Annual Report.

# Corporate Governance Report

## CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the functions as set out in the code provision D.3.1 of the CG Code. During the year, the Board had reviewed the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and Written Employee Guidelines, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

## CONSTITUTIONAL DOCUMENT

The constitutional documents of the Company can be found on the websites of the Company and the Stock Exchange.

During the year, there is no change in the Company's constitutional documents.

## AUDITOR'S REMUNERATION

The Board agrees with the Audit Committee's recommendation for the re-appointment of Deloitte Touche Tohmatsu ("Deloitte") as the Group's external auditor for financial year 2020/21. The recommendation will be presented for the approval of shareholders at the Annual General Meeting to be held on 14 August 2020.

During the year, fees paid/payable to Deloitte for providing audit services and non-audit services are as follows:

Nature of services	For the year ended 31 March	
	2020 HK\$	2019 HK\$
Review fee for interim results	180,000	141,000
Audit fee for final results	1,020,000	1,000,000
Taxation consultancy services fee	132,900	126,800
Internal control assessment and enterprise risk management advisory services	69,000	–
Consultancy service for Environmental, Social and Governance Reporting	90,000	90,000
Total audit and non-audit services	<u>1,491,900</u>	<u>1,357,800</u>

## ACCOUNTABILITY

The Board is accountable for the proper stewardship of the Group's affairs, and the Directors acknowledge their responsibility for preparing the financial statements of the Company in accordance with generally accepted accounting standards in Hong Kong, the requirements of the Listing Rules and applicable laws as well as the integrity of the financial information so reported. Such responsibility is extended to cover not only the annual and interim reports but also announcements and other financial disclosures of the Company required under the Listing Rules.

The financial statements are prepared on a going concern basis. The Directors confirm that, to the best of their knowledge, they are not aware of material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

# Corporate Governance Report

The external auditor has a primary responsibility for auditing and reporting on the financial statements and the Report of the Independent Auditor to the shareholders is set out on pages 47 to 50 of this Annual Report. The management of each business within the Group provides the Directors with such information and explanations necessary to enable them to make an informed assessment of the financial and other information put before the Board for approval.

## RISK MANAGEMENT AND INTERNAL CONTROLS

### Group Risk Management

The Board has overall responsibilities for maintaining sound and effective risk management and internal control systems of the Group. The Audit Committee assisted the Board to fulfill its responsibility. The Board recognizes that risk taking is unavoidable as part of the Group's business. By appropriate risk management and continuous risk monitoring, risk taking can bring value to the Company. The Board believes that risks are acceptable after prudent assessment of their impact and likelihood. The Company can protect its assets and shareholders' interests and create value simultaneously through appropriate risks management and control measures. The system includes a defined management structure with limits of authority, safeguards its assets against unauthorised use or disposition, ensures the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensures compliance with relevant laws and regulations. The system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss, and to manage the risks of failure in the Group's operational systems and in the achievement of the Group's objectives.

### Risk assessment approach and Risk identification

The Board has the oversight responsibility for evaluating and determining the nature and extent of the risks facing the Group and reviewing and monitoring the Group's approach to addressing these risks at least annually. In addition, the Board oversees management in the design, implementation and monitoring of the risk management and internal control systems.

A risk management program was carried out during the year to ensure all material risks to which the Company exposed are properly identified, assessed, managed, monitored and reported to the Audit Committee and the Board. Risks identification is based on questionnaire with senior management from different departments. Risks are preliminarily identified by senior management from the risk universe which is a collection of risks built on environmental analysis and external benchmarking that can impact the Group at the entity or specific business process level. The risk universe covers both internal and external risks in four major areas, namely strategic risks, operational risks, financial risks and legal and compliance risks. Key risk factors are then identified by integrating the results of the questionnaire.

### Risk evaluation and Risk prioritisation

Risk evaluation is the second step to assess the relative impact and likelihood of the identified key risk factors. These identified key risk factors are further assessed by a scale rating process by the senior management to evaluate their impact and likelihood. The scale rating process is further supported by face-to-face or phone interview with the senior management to assess the rationales of these identified key risk factors behind.

Risk prioritisation is a mapping exercise. A risk map is used to prioritise the identified key risk factors according to their impact and likelihood.

# Corporate Governance Report

## Risk reporting, managing and monitoring

Risk reporting and risk monitoring are essential and integral parts of risk management. A risk assessment report was submitted to the Audit Committee and the Board. The risk assessment report was compiled to cover: (i) the top risks of the Group; and (ii) associated action plans and controls designed to mitigate the top risks, where applicable, at appropriate levels. The management will perform the ongoing assessment to update the entity-level risk factors and report to the Board on a regular basis.

## Handling and dissemination of inside information

The handling and dissemination of inside information of the Group is strictly controlled and remains confidential including but not limited by the following ways:

1. Restrict access to inside information to a limited number of employees on a need-to-know basis;
2. Reminder to employees who are in possession of inside information shall be fully conversant with their obligations to preserve confidentiality;
3. Ensure appropriate confidentiality agreements are in place when the Group enters into significant negotiations or dealings with third party; and
4. Inside information is handled and communicated by designated persons to outside third party.

## Internal Audit Function

A professional firm has been appointed as the Group outsourced internal audit function (the "IA Function") and assists the Board in conducting a review of certain key parts of the internal control system of the Group. Based on the Company's risk assessment results, the IA Function recommended a three-year internal audit plan to the management and endorsed by the Board and Audit Committee. The scope of the internal audit review carried out during the year includes: a) scoping and planning audit locations as agreed with the Audit Committee and the Board; b) review of the design of internal control structure by identifying the key controls in place and determining significant gaps within the design of the controls; c) testing of the key controls; and d) reporting to and making recommendations to the Audit Committee on the major design weaknesses in order to enhance the internal control of operation procedures, systems and controls.

During the year, the internal audit function has carried out review of the following process of the Group:

1. Treasury management;
2. Business development management;
3. Human resources management; and
4. Sales management.

The report with recommendations had been submitted to the Audit Committee and the Board and follow-up action has been taken based on recommendations, which have been monitored by the Board.



# Corporate Governance Report

## Management's confirmation on risk management

Based on the risk management mechanism and internal audit review activities mentioned in the aforesaid paragraphs, the management made a confirmation to the Board that the Company had maintained an effective risk management mechanism and internal control system during the financial year ended 31 March 2020.

## COMMUNICATION WITH SHAREHOLDERS

In addition to sending annual reports, interim reports, circulars and notices to the shareholders, the Company also makes these materials, which contain extensive information about the Group's activities, timely available for access by shareholders at both the Stock Exchange's and the Company's own websites.

The Company encourages the shareholders to attend annual general meetings and all its other shareholders' meetings (if any) to discuss progress and matters. Directors are available at these meetings to answer shareholders' questions. In accordance with Rule 13.39(4) of the Listing Rules, all the resolutions to be proposed at the 2020 Annual General Meeting will be decided on poll. The Company's share registrar will act as the scrutineer for the vote-taking, the voting results of which will be announced by the Company in accordance with Rule 2.07C of the Listing Rules as soon as possible on the websites of the Stock Exchange and the Company respectively. The Chairman of shareholders' meeting will ensure that any vote of shareholders at the 2020 Annual General Meeting (and any other shareholders' meetings) will be taken by poll in compliance with the said Rule 13.39(4) of the Listing Rules.

## SHAREHOLDERS' RIGHTS

### (a) General meeting on requisition by shareholders

Pursuant to Section 566 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) ("Companies Ordinance"), shareholder(s) representing at least 5% of the total voting rights of all the shareholders having a right to vote at general meetings of the company can make a request to call a general meeting.

The request:

- (i) must state the general nature of the business to be dealt with at the meeting;
- (ii) may include the text of a resolution that may properly be moved and is intended to be moved at the meeting;
- (iii) may consist of several documents in like form;
- (iv) may be sent in hard copy form or in electronic form; and
- (v) must be authenticated by the person or persons making it.

Pursuant to Section 567 of the Companies Ordinance, directors must call a general meeting within 21 days after the date on which they become subject to the requirement and the meeting so called must be held on a date not more than 28 days after the date of the notice convening the meeting.

# Corporate Governance Report

Pursuant to Section 568 of the Companies Ordinance, if the directors do not do so, the shareholders who requested the meeting, or any of them representing more than one half of the total voting rights of all of them, may themselves convene a general meeting. The meeting must be called for a date not more than 3 months after the date on which the directors become subject to the requirement to call a meeting. The Company must reimburse any reasonable expenses incurred by the shareholders requesting the meeting by reason of the failure of the directors duly to call the meeting.

## **(b) Procedures for putting forward enquires to the Board**

Shareholders may put forward enquiries to the Board through the Company Secretary who will direct the enquiries to the Board for handling. The contact details of the Company Secretary are as follows:

Company Secretary  
Safety Godown Company, Limited  
Unit 1801, 18/F., Lu Plaza,  
2 Wing Yip Street,  
Kwun Tong, Kowloon, Hong Kong

E-Mail: [info@safetygodown.com.hk](mailto:info@safetygodown.com.hk)  
Telephone: (852) 2622 1100  
Facsimile: (852) 2598 6123

## **(c) Putting forward proposal at annual general meeting (“AGM”)**

Pursuant to Section 615 of the Companies Ordinance, shareholder(s) can make a request to circulate a notice of a resolution that may properly be moved and is intended to be moved at an AGM. The request must be made by:

- (i) shareholder(s) representing at least 2.5% of the total voting rights of all shareholders who have a right to vote on the resolution at the AGM to which the request relates; or
- (ii) at least 50 shareholders who have a right to vote on the resolution at the AGM to which the request relates.

The request:

- (i) may be sent in hard copy form or in electronic form;
- (ii) must identify the resolution of which notice is to be given;
- (iii) must be authenticated by the person or persons making it; and
- (iv) must be received by the Company not later than 6 weeks before the AGM to which the request relates or if later, the time at which notice is given of that AGM.

# Corporate Governance Report

## (d) Procedure for shareholders to propose a person for election as a director

According to Article 82A of the Articles, a notice signed by a shareholder of his/her intention to propose a person for election and also a notice signed by the person (the "Candidate") to be proposed of his/her willingness to be elected shall be lodged at the registered office of the Company no earlier than the day after the despatch of the notice of the general meeting appointed for such election and no later than 7 days prior to the date of such general meeting.

The Candidate is required to provide his/her biographical details as set out under Rule 13.51(2) of the Listing Rules.

The Remuneration and Nomination Committee, where applicable, will review and make recommendations to the Board on the selection of any individuals nominated for directorships in accordance with the terms of reference of the Remuneration and Nomination Committee.

The Company will, where appropriate, issue a supplementary circular which shall include the name of the Candidate together with his/her biographical details as set out in Rule 13.51(2) of the Listing Rules to the shareholders for them to make decision on their election at a general meeting.

## COMPANY SECRETARY

The Company engages an external service provider, Ms. Mui Ngar May, Joel, as its company secretary. Ms. Mui possesses the necessary qualification and experience, and is capable of performing the functions of the company secretary. Mr. Lu Wing Yee, Wayne, Executive Director of the Company is the primary contact person who Ms. Mui contacts, Ms. Mui has confirmed that she has taken no less than 15 hours of relevant professional training during the year.

## INVESTOR RELATIONS

The general meetings of the Company provide a platform for communication between the shareholders and the Board. Our Directors are available at the shareholders' meetings of the Company to answer questions and provide information which shareholders may enquire. The Company continues to enhance communications and relationships with its investors. Enquiries from investors are dealt with in an informative and timely manner.

Taking advantages of various resources, the Company keeps communicating with its shareholders regularly and properly to ensure that shareholders are adequately aware of any important issues during the course of the Company's operation, and then exercise their rights as shareholders with sufficient knowledge. Investors are welcome to write directly to the Company at its Hong Kong registered office for any inquires.

## DIVIDEND POLICY

It is the intention of the Board to provide its shareholders with relatively consistent dividend income over the long term and to maintain the dividend payment at a satisfactory level based on the business environment and the performance of the Group but this does not constitute a legally binding commitment on the part of the Board. Declaration, recommendation and payment of dividends shall be subject to the approval of the Board, based on the suggestion of the management, according to the results of operations, working capital, financial position, future prospects, and capital requirements, as well as any other factors which the Board may consider relevant from time to time. Any future declaration, recommendation and payment of dividends may or may not reflect the historical declarations and payments of dividends and will be at the absolute discretion of the Board.

# Corporate Governance Report

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## SOCIAL RESPONSIBILITIES AND SERVICES AND ENVIRONMENTAL POLICY

Upholding the motto of “caring for the society and serving the community”, the Group has taken active actions to extend care and love to the society over the past years. Working together with all employees, the Group is dedicated to fulfilling its corporate social responsibilities by making contributions to the society, with an aim to promote sustainable development of the Group.

The Group continued to actively participate in a number of public welfare activities, including the annual blood donation activity organised by Hong Kong Red Cross, the House Sponsorship Programme of Po Leung Kuk Child Sponsorship, the Senior Citizen Home Safety Association – ‘Love and Peace of Mind’ Corporate Engagement Program, the 3-Legged Charity Walk organised by Christian Action, the Community Chest Corporate Challenge, the Community Chest – Skip Lunch Day, the Community Chest Green Day and the Love Teeth Day. The Group sponsored A Night of Melodies from Movies and TV Dramas organised by Hong Kong Chinese Orchestra, and the FIVB Volleyball Nations League Hong Kong organised by Volleyball Association of Hong Kong.

In addition, the Group organises employees to visit and offer gifts to the elderly at Kwong Yam Care Home twice a year, supports Caritas La Vie Bakery, a charitable organization, by ordering mooncakes.

The Group also persistently promotes and takes part in environmental protection, through recycling of Chinese new year red pockets, moon cake boxes, computer parts and electrical appliances. The Group takes measures to enhance energy conservation and paper recycling at our offices, and pushes ahead the implementation of plans to create a green working environment. Every year, the Group provides venue at Lu Plaza to World Vision for used book collection center.

The Hong Kong Council of Social Service has awarded the Group the “15 years Plus Caring Company” certificate.

**Lu Wing Yee, Wayne**

*Executive Director*

Hong Kong, 26 June 2020

# Environmental, Social and Governance Report

## ABOUT THIS REPORT

This Environmental, Social and Governance (“ESG”) Report (the “Report”) is the fourth ESG Report of Safety Godown Company, Limited (the “Company”, together with its subsidiaries, collectively as the “Group”, “We”, “our” or “us”). It presents the ESG strategies of the Group and its commitment to promote sustainability throughout the business portfolio.

## Reporting Standard

This Report has been prepared in accordance with the “ESG Reporting Guide” as set out in Appendix 27 of the Main Board Listing Rules of The Stock Exchange of Hong Kong (“HKEX”). The disclosure obligations and the reporting principles of materiality, quantitative, balance, and consistency have been strictly followed to define the content and the presentation of the Report.

**Materiality:** Through the materiality assessment and on-going stakeholder engagement, we report the key issues that reflect our significant economic, environmental, and social impacts and substantively influence the stakeholders.

**Quantitative:** Our ESG performances are discussed and compared with measurable results. For all quantitative information disclosed, we provide explanation and help identify patterns and trends for meaningful interpretation.

**Balance:** We ensure the ESG reporting process and information contained in this Report is balanced, fair, and accurate. Any form of selections, omissions, or misleading presentation formats are strictly prohibited.

**Consistency:** The reporting and calculation methodologies are the same as previous reporting years to allow year-to-year comparison. Changes to the methods used or any other relevant factors will be explained.

The HKEX announced amendments to the ESG Reporting Guide in December 2019. The new requirements, including the disclosure of environmental targets and social KPIs, are effective from financial years commencing on or after 1 July 2020. We have carefully observed the updates to the listing rules and in the progress of developing a more comprehensive data collection and reporting mechanism to enable our disclosure in the coming year.

## Reporting Scope

This ESG Report covers the ESG information related to the two principal businesses of the Group, namely property investment and godown operations, for the year ended 31 March 2020 (the “Reporting Period”). The Report emphasizes on the Group’s policies, initiatives and performances of material ESG issues, which have been identified by our internal and external stakeholders. Meanwhile, details of our corporate governance practices are outlined in the “Corporate Governance Report” as set out in the Annual Report.

## Report Confirmation and Approval

The senior management and the Board of Directors of the Group have reviewed and approved the ESG report in June 2020, confirming that the disclosures fairly represented the Group’s ESG performances, as well as fulfilling the reporting principles as set out in the ESG Reporting Guide.

# Environmental, Social and Governance Report

## ESG APPROACH

The Group is committed to creating positive impacts on our stakeholders and contributing broadly to the environment and society that stands the test of time. This is only possible by integrating the environmental and social considerations into our management strategies and maintaining a high standard corporate governance framework. We address our material issues, ESG risks and opportunities to ensure we generate values to our employees, customers, tenants and business partners. The work is a continuous journey and we promise to set up sustainability development agenda for the enhancement of sustainability reporting and boost environmental and social performance.

## ESG GOVERNANCE

Our sound and comprehensive ESG governance framework headed by the Board of Directors provides a strong basis for incorporating sustainability into our daily businesses and ensuring the interests and expectations of our stakeholders are considered for in our development strategies and implementations. The well-established framework facilitates communications and divides roles and responsibilities of the team to properly tackle ESG issues. The structure of our ESG governance team is indicated as below:

### Roles



Board of Directors



Senior Management



ESG Working Group

### Responsibilities

The Board of Directors determines the overall ESG strategies and direction of the Group. They take charge of the annual risk assessment to oversee the Group's ESG performances and identify ESG-related risks and opportunities. Furthermore, the Board takes a monitoring role to ensure that appropriate and effective risk management and internal control systems are in place to manage ESG-related risks.

The senior management of major functional departments is empowered by the Board of Directors to develop ESG policies and procedures, initiatives and implementation plans to align business operations with the Group's ESG and sustainability goals. They are also responsible for implementing effective risk management and internal control systems in tackling ESG-related risks, and providing annual confirmation on their effectiveness to the Board.

A dedicated ESG working group was formulated in 2017 to handle the ESG activities of the Group. The taskforce comprises of selected members with sufficient and adequate ESG knowledge from core departments to engage with stakeholders, promote ESG policies and initiatives in operations, measure ESG data, participate in ESG reporting, etc.

# Environmental, Social and Governance Report

## Stakeholders' Engagement

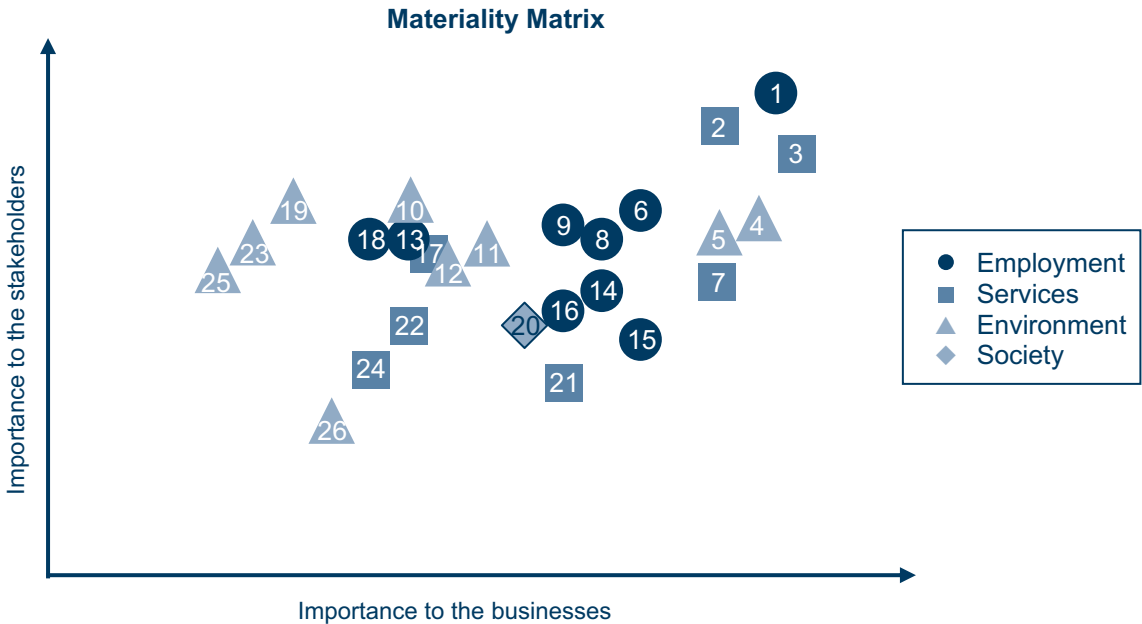
We pay much attention to our stakeholders' feedback so as to formulate a balanced and sustainable development strategy that can best address stakeholders' needs and expectations. To collect their opinions, we actively engage with our stakeholders including but not limited to our staff, customers, investors, suppliers, government, media, and the general public through various communication channels as illustrated below:

Relevant Stakeholders	Participation Methods
Employees	<ul style="list-style-type: none"><li>• Emails and Publications</li><li>• Trainings and Meetings</li><li>• Employee Activities</li><li>• Performance Appraisal</li></ul>
Clients	<ul style="list-style-type: none"><li>• Corporate Websites</li><li>• Client Service Hotline</li><li>• Client Surveys</li><li>• Client Meetings</li></ul>
Investors and Stockholders	<ul style="list-style-type: none"><li>• Annual General Meeting</li><li>• Annual and Interim Report</li><li>• Announcements</li><li>• Emails</li></ul>
Suppliers and Business Partners	<ul style="list-style-type: none"><li>• Business Meetings</li><li>• Field Visitation</li><li>• Supplier Assessment</li></ul>
Government and Supervising Authorities	<ul style="list-style-type: none"><li>• Public Consultation</li><li>• Industry Forum</li></ul>
Social Groups and the General Public	<ul style="list-style-type: none"><li>• Charitable Activities</li><li>• Donation</li></ul>
Media	<ul style="list-style-type: none"><li>• Official Websites</li></ul>

## MATERIALITY ASSESSMENT

To identify and address key ESG issues concerned by our stakeholders, we have carried out a materiality assessment to understand the impact of our businesses to the environment and society. We have invited the representatives of our external stakeholders and our senior management to evaluate the importance of a list of potential material topics. Based on the quantitative and qualitative responses, followed by management review for validation, we have identified 26 material ESG topics to discuss in this Report.

# Environmental, Social and Governance Report



- |    |                                      |    |                                |
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The materiality assessment result in 2020 has revealed an increased concern to the environmental related topics by our internal and external stakeholders. At the same time, the workplace health and safety, services quality and data privacy protection remained our primary focus. We will develop our sustainability strategies and set performance targets based on the assessment result.



# Environmental, Social and Governance Report

## VALUE OUR PEOPLE

### Workplace Health and Safety

The Group is committed to establishing and maintaining a safe working environment for our employees and subcontractors with an aim to raise occupational safety and health awareness, and to ultimately minimize the potential risks and hazards in our operation. We also work closely with the property management manager to develop safety objectives, annual safety plans, emergency reporting line, as well as conducting systematic examination on safety condition. Mitigation and preventive measures that are in compliance with OHSAS 18001:2007 and the laws and regulations governing workplace safety are in place. For instance, when heavy machines or high voltage electricity is involved, we engage licensed subcontractors to inspect the equipment and perform risk assessments prior to operations. Only certified employees are allowed to perform works under such high risk conditions. In addition, internal safety training is provided and promotional posters are also available on corridors and lobbies to attract attention on safety issues among our staff.

As for our daily operations, we provide our employees with necessary equipment such as ladders, trolleys and forklifts, and safety instructions on the correct postures when using computers and lifting heavy goods to reduce risks of potential incidents and occupational injuries. In our warehouses, all machine operators must be well-trained and possess relevant qualifications before they are assigned to machine operation tasks. Moreover, no dangerous goods are allowed to be stored in our warehouses as set out in tenancy agreements, in accordance with the Dangerous Goods Ordinance.

Since late 2019, the spread of coronavirus disease (COVID-19) pandemic has posed significant health and safety risks to people around the world. We have assessed the impact of COVID-19 on our business and our vulnerability to such serious pandemic event. Appropriate mitigation actions have been taken immediately to address the risk. Placing the wellbeing of our employees at top, we have adopted a number of precautionary measures to keep our employees and workplaces safe. Our measures include:

- Gather information about the employees' travel history in the past 14 days to ascertain travel history to the affected areas;
- Postpone business travel activities;
- Implement shift working schedule and flexible working location and time arrangement to avoid large groups;
- Employees and visitors are required to measure body temperature before entering into office;
- Deliver face masks and alcohol-based hand sanitizers to employees;
- Employees with respiratory symptoms are required to stay home, report to their supervisor and seek immediate medical attention;
- Conduct intensive cleaning and disinfection in office areas and engaged a professional team to carry out photocatalytic disinfection.

We understand that the risk of COVID-19 will continue and we will actively monitor and evolve our measures to ensure a healthy and safe environment for all.

We adhere to the Factories and Industrial Undertakings Ordinance, the Occupational Health and Safety Ordinance and other safety-related laws and regulations. As a reasonable employer, we take active role in protecting our employees. We provide and maintain working environment, plants and systems that are of minimal health and safety risks. Furthermore, we ensure sufficient instruction, trainings and supervision are in place to reduce possibility of workplace injury. Based on the above mentioned measures, during the Reporting Period, we did not identify any material non-compliance cases with occupational health and safety-related laws and regulations.

# Environmental, Social and Governance Report

## Labor Practices

### *Employee Compensation and Benefits*

We offer competitive compensation packages to attract and retain talents as we believe they are the main drive to our success. Employee compensation is reviewed annually based on market trend, company performance and a systematic performance evaluation mechanism with criteria such as qualifications, experience, as well as work performance and responsibilities. In addition, numerous benefits are provided including mandatory provident fund ("MPF"), medical insurance, long term service awards and special allowance for marriage.

The Group values the wellbeing of our employees. We implement working hours with full consideration of employees' physical and mental health. Overtime working is compensated in accordance with relevant regulations. Furthermore, our employees are entitled to paid leave such as annual leave, personal leave, maternity leave and exam study leave. An Employee Handbook has been established to document all human resource policies, including employee compensation and welfare, dismissal, recruitment, working hours and rest periods, etc. for the reference of all staff.

### *Recruitment, Promotion and Dismissal*

We aim to recruit the good talents who share the same values with us. The setting of annual human resources plan is in line with our strategic development and operational needs. We adopt fair and objective selection criteria and a structured interview process to identify appropriate personnel. Probation period is provided to the new-joins to ensure their performances are satisfactory. In addition, employees have the right to terminate the employment relationship and we follow standard termination procedures, which comply with applicable laws and regulations, to protect the interest of our staff and avoid any potential legal issues.

### *Equal Opportunity, Diversity and Anti-discrimination*

All of our employees are treated fairly and equally for hiring, promotion and job transfer, while training must be given on an open and equal basis. The assessments for recruitment and promotion are developed solely to evaluate the attributes, skills and experiences of the candidates or employees and we strictly prohibit any discrimination against age, gender, race, religious belief, physical features, etc. We also strive to build a diverse team to embrace new ideas and create a culture that fosters innovation with these differences.

Our human resources policies and procedures have been developed in accordance with the Employment Ordinance and the Anti-discrimination Ordinances in Hong Kong related to sex, disability, family status and race. The Human Resource Department implements proper controls throughout the administrative processes to ensure compliance with legal requirements on wage, holidays, rest days and leave, and other employment protection as well as preventing discrimination, harassment and unfair treatment to the employees. We are keen to safeguard our employee's interest and develop a harmonious workplace with equality, care and respect. Based on the above mentioned measures, during the Reporting Period, we did not identify any material non-compliance cases with employment-related laws and regulations.

# Environmental, Social and Governance Report

## Trainings and Development

The Group continuously supports both career and personal development of our employees as we believe such initiatives will bring mutual benefits. Therefore, we proactively provide sufficient trainings for employees to ensure that they are equipped with the necessary skills and knowledge. Trainings includes induction courses, technical seminars, as well as on-the-job training to expand the knowledge base of all staff and facilitate the effectiveness and efficiency of their performance. Full education sponsorship and examination leave will be granted to our employees to undertake further studies or technical courses, if required.

## Anti-child and Forced Labor

We advocate human rights and believe no one should be forced to work by any means, such as physical abuse, duress, detention, or any other unethical or unlawful reasons. Hence, we strictly prohibit any employment of child and forced labor, as defined in local labor laws, in any of our business operations. All of our employees sign formal employment contracts with us voluntarily and possess qualified identity documents. Proper identity check is adopted in recruitment process to ensure candidates are eligible to work under the local labor laws.

We closely follow the Employment of Children Regulations and Employment of Young Persons (Industry) Regulations under the Employment Ordinance and have zero tolerance to the use of child and forced labor in our operations as well as our supply chain. Based on the above mentioned measures, during the Reporting Period, we did not identify any material non-compliance cases with child and forced labor-related laws and regulations.

## VALUE OUR SERVICES

### Service Quality and Safety

We continuously strive to enhance the quality of service to our customers and pursue high customer satisfaction. Our godown operation has obtained ISO9001:2015 quality management system accreditation. For our customers of godown business, we deliver quality warehousing services and efficient logistic services to meet our customers' needs by maintaining a secure environment in safeguarding our customers' stocks. Measures including secure warehouse door locks, 24-hour security guards, monitoring through closed circuit television ("CCTV"), recording visitors' identity, and implementation of tight procedures in controlling stock movement are in place for the purpose of warehouse security.

For our property investment business, we continue to employ a high quality property management service provider. The needs and feedback of tenants or clients are frequently communicated through the property management manager. We also monitor their levels of satisfaction regularly and request our property management manager to enhance their service quality continuously. If a tenant or client has made a complaint, the property management manager will handle the complaint and the case will also be investigated by various management personnel. Improvement measures will be designed and discussed to solve the existing problems and prevent similar issues from arising in the future.

We also take into account the safety concerns associated with our godown operations and property investment businesses. We require all of our sub-contractors to have safety plans to govern their safety practices when discharging their work duties. Our employees and sub-contractors follow the general safety rules and instructions on fire prevention, housekeeping, electricity and overhead and underground services in order to provide customers with the highest standard of safety. Safety equipment is placed in a clearly identified and accessible location. We also set out emergency preparedness to facilitate proper handling of accidents and incidents.

# Environmental, Social and Governance Report

In response to the COVID-19, equal emphasis was developed to protect the health and safety of our customer, tenants and business partners. We installed thermal cameras at the main entrance of Lu Plaza to detect body temperature of the building visitors. For public areas in Lu Plaza and our godown including traffic pathways, lobby, lifts and elevator control panels were disinfected with photocatalytic coating and rinsed with 1 in 99 diluted household bleach regularly. We work with our property management company to remind our tenants to promote personal hygiene and take all reasonable precautions in the circumstances to protect themselves and other people.

We strictly conform to the Supply of Services (Implied Terms) Ordinance, the Building Management Ordinance, the Factories and Industrial Undertakings Ordinance, and other services quality and safety-related laws and regulations. The service providers are required to ensure the services with satisfactory quality. Both the godown and property investment businesses abide by the statutory requirements on the operation and safety conditions, supported by regular compliance checks. Based on the above mentioned measures, during the Reporting Period, we did not identify any material non-compliance cases with services quality and safety-related laws and regulations.

## Data Privacy and Protection

The protection of customers' data is also our major concern. We strictly comply with the Personal Data (Privacy) Ordinance and have applied Data Protection Principles from the Ordinance to our operations as follows:

- Only collect and retain personal data relevant to our business operations;
- Only use personal data for the purpose of which the data is collected or for a directly related purpose unless consent with a new purpose is obtained;
- Never transfer or disclose personal data to any entity that is not a member of the Group without consent unless required by law or previously notified; and
- Maintain appropriate security systems and measures to prevent unauthorised access to personal data.

In addition, we require our employees to take up necessary precautions to prevent leakage or abuse of sensitive information and intellectual properties, including but not limited to trademarks and patents, personal data and copyrighted information. Based on the above mentioned measures, during the Reporting Period, we did not identify any material non-compliance cases with data privacy-related laws and regulations.

## Anti-corruption and Money Laundering

Honesty, probity and fairness are the core values of the Group and therefore, any forms of corruption, bribery, extortion, money-laundering and other fraudulent activities in connection with any of our business operations are not tolerated. Our staff is required to uphold the highest degree of integrity and ethics at all time. Any non-compliance with our internal policies will be subject to warning and even disciplinary actions.

The following ethical guidelines are documented in the Employee Handbook to provide detailed instructions for employees in different scenarios:

- Soliciting or accepting an advantage
- Hospitality
- Conflict of interest
- Abuse of company assets

# Environmental, Social and Governance Report

- Loan arrangement
- Gambling activities

We stringently obey the Prevention of Bribery Ordinance, the Competition Ordinance, and other relevant laws and regulations related to anti-corruption and money laundering. Employees are not allowed to solicit or accept any advantages to corrupt, damage market competition and conduct illegal actions. Whistle-blowing channels are available for reporting of potential fraudulent activities. Based on the above mentioned measures, during the Reporting Period, we did not identify any material non-compliance cases with anti-corruption and money laundry-related laws and regulations.

## Sustainable Supply Chain

### *Supply Chain Management*

We understand our supply chain plays a critical role to our businesses and we only choose suppliers which are consistent with our principles of corporate social responsibility to cooperate with. The property management company we have chosen possesses different accreditations relating to environmental and social risk management such as ISO 14001:2015 for environmental management system and OHSAS 18001:2007 for occupational health and safety management best practices. Apart from property management, our renovation contractors are required to provide sound waste management plan to minimize the environmental impact from wastes generated from renovation work, and site safety plan to ensure the safety of workers and the general public, thereby decreasing the possibilities of accidents. We also focus on how suppliers fulfil social responsibility. Hence, we prefer social enterprises or suppliers with FAIRTRADE Mark and Caring Company certificates which indicate their community involvement. By selecting those suppliers, we can provide support to the community based organisations, which in turn indirectly contribute to the society.

### *Green Procurement*

As a corporate citizen, we understand our role in promoting green procurement. We encourage the use of environment-friendly products that cause minimal adverse environmental impacts. Before the purchase decisions are made, we would strike a balance between the environment, cost and product quality. Products that are made by recycled materials, free of toxic substances, reusable and recyclable as well as featured with long durability and easy maintenance are always preferable.

## Advertising and Labelling

Our marketing and sales function operates under the principle of integrity. Promotion and advertising materials are designed in accordance with our internal policies and reviewed by relevant supervisors before its publication to ensure that no false or inaccurate information is contained to mislead our customers. We maintain our high credibility by providing services that are consistent with services description and labelling to gain trust from our customers and the general public. We strictly comply with the Trade Descriptions Ordinance and other advertising and labelling-related laws and regulations. The regulations seek to enhance the protection for customers and prohibit unfair trade practices deployed by merchants against consumers. Based on the above mentioned measures, during the Reporting Period, we did not identify any material non-compliance cases with advertising and labelling-related laws and regulations.

# Environmental, Social and Governance Report

## VALUE OUR ENVIRONMENT

Apart from complying relevant environment laws, we recognize the importance of environmental impacts from our businesses and we adopt risk-based environmental management in our operations. As we own several properties for operation and investment, we have employed an independent property management company to assess and manage environmental impacts of our properties. The property management company has established the Environmental Aspects and Environmental Impact Assessment Report for our properties to assess their environmental impacts and recommend green controls of different activities, ranging from office administration to garbage disposal. We also encourage the property management company to implement various environmental initiatives and monitor their performance.

### Resources Management

#### *Electricity and Water Consumption*

We conserve natural resources for the long-term sustainability of the community and aim at improving the efficiency on use of resources. Our operations consume unleaded petrol, electricity, LPG and water.

We have taken green measures in reducing the use of resources, monitoring the resources consumption, and driving behavior changes of employees. Replacement with advanced equipment and considerable technologies to enhance energy efficiency are our trend of sustainable development. By reducing the use of our resources and creating long-term value to our stakeholders, we believe these green moves bring mutual benefits to both the environment and the stakeholders.

In addition, we have worked together with our property management manager to produce an environmental management plan to identify potential improvement areas for resources use, set improvement targets for energy and water consumption, as well as monitoring the outcomes and effectiveness of the implemented plans closely based on internal and local standards. We will continuously monitor electricity and water consumptions and deploy any possible course of actions to achieve effective use of energy and waste reduction.

Throughout the year, our Lu Plaza has demonstrated its green efforts in energy saving and being recognized by the Environmental Campaign Committee as one of the Hong Kong Green Organisations with Energywise Certificate in Basic Level. Being part of the global environmental movement, we also supported the Earth Hour in March 2020 to switch off lights installed in the lobby and on the exterior wall of Lu Plaza for one hour.

#### *Packaging Materials*

Plastic wraps are used in our godown business to protect the goods of our customers during transportation. We are aware of the potential environmental impact resulting from the use of packaging materials. Working with our customers, we would continue to promote the sense of eco-friendliness to our employees and customers and look for more sustainable alternatives in possible ways.

#### *Other Impacts on Environment and Natural Resources*

We consider the impact on the environment in the process of making business decisions. We make every endeavor to manage environmental risks related to our operations, and implement preventive measures to control the risks. If a significant environmental risk is encountered, corresponding mitigating plans will be developed to address the issues. To promote and implement our sustainable development, we work closely with our business partners and our people to develop environmental risk assessment and management mechanism and to achieve zero complaint from tenants regarding any environmental aspects so as to build a green environment to our stakeholders.

# Environmental, Social and Governance Report

## Emission Management

Given our Group's principal businesses of property investment and godown operations, non-hazardous waste management and emissions control have become the core parts of our sustainable development strategy. We strictly comply with the Air Pollution Control Ordinance, the Public Health and Municipal Services Ordinance and other emission-related laws and regulations. The ordinances prohibit the use of high sulphur and leaded fuels and disposal of wastes in public place. We have implemented various measures as mentioned in Resource Management above to reduce the use of fuels and we properly handle our non-hazardous waste. During the Reporting Period, we did not identify any material non-compliance cases with environmental laws and regulations.

### *Air and Greenhouse Gas Emissions*

The major air emissions identified from our operations arise from the use of private vehicles and forklifts. We generated nitrogen oxides (NO<sub>x</sub>), sulphur oxides (SO<sub>x</sub>) and particulate matter (PM) from the use of unleaded petrol and LPG. For our Greenhouse Gas (GHG) emissions, it comprised of emissions from the consumption of purchased electricity, vehicle fuels, water and paper.

To reduce air and GHG emissions, the Group has implemented various measures in our operations. For instance, the majority of forklifts used in our godown is electric-operated with no emissions while the rest consumes LPG, a relatively clean fuel with lower level of emissions, and certified with NRMM label by the Environmental Protection Department. For the measures to control other sources of GHG emissions such as electricity, water and paper, please refer to the respective Electricity and Water Consumption and Waste Management sections. During the Reporting Period, we have engaged Hong Kong Productivity Council to conduct carbon audit on Lu Plaza with an aim to measure the actual amount of GHG released to the atmosphere and identify areas of improvement to reduce our GHG emission and enhance energy efficiency.

### *Waste Management*

Due to our business nature, no significant hazardous waste was produced from our operating activities during the Reporting Period and hence the disclosure on the amount of hazardous waste was inapplicable. On the other hand, the non-hazardous wastes directly produced and disposed of from our operations during the Reporting Period are general domestic wastes, waste paper and wooden pallets.

In order to minimize wastes produced and their environmental impacts, we closely monitor from sources to the entire waste management system. The Group also incorporates the 3Rs (Reduce, Reuse, and Recycle) waste management principle into our operational procedures for our staff to follow.

Since paper has been identified to be the major source of waste produced, we have adopted a paperless office strategy such as encouraging double-sided printing and the use of electronic communication channels for document sharing to reduce paper usage. We also encourage employees to maintain electronic records instead of printed copies to reduce paper to be discarded.

In addition, we emphasize the importance of recycling and reuse in our workplace such as setting up paper and battery recycling bins, reusing pallets, and organizing different campaigns with environmental organizations including collection of second-hand books and mooncake boxes to raise the awareness of recycling and reuse of resources. We also participated in various recycling activities to collect used red pocket and mooncake boxes. During the Reporting Period, we took part in the computer & communication products recycling programme held by Environmental Protection Department to support the collection of old computers and electrical components from tenants in Lu Plaza.

# Environmental, Social and Governance Report

## Environmental Impacts from Business Operation

### *Green Renovation*

When renovation work is commenced in our properties, we seek to implement strict controls on our subcontractors regarding noise nuisance, odor and waste management, in order to meet the statutory and contractual requirements. We require our subcontractors to ensure all wastes generated during the renovation process are properly managed on site and transported and disposed of to a designated site that is in compliance with the Waste Disposal Ordinance.

### *Climate Resilience*

Climate change has gradually affected the atmospheric condition and the living environment of human being. Developing climate resilience is critical for the business to anticipate, prepare for and respond to climate-related risks such as extreme weather events and hazardous trends. We constantly review our role and position in adapting climate change and take multi-faceted approaches to reduce carbon emission. Besides, we have adopted resilience planning to address the need for building and facilities maintenance under climate loads. Disaster recovery plans are also in place to tackle power outages, floods and other disasters caused by severe weather event as well as protect the safety and health of every individual.

## VALUE OUR SOCIETY

### Community Programs, Employee Volunteering and Donation

While achieving business growth, we strive to fulfil our social responsibilities in order to give back to the community. The Group has been actively participating in charity events and our effort has been recognized by the Hong Kong Council of Social Service with the 15 Years Plus Caring Company logo.

The community programs and organizations we supported during the Reporting Period were as follows:

<b>Name of Organization/Event</b>	<b>Purpose and Target beneficiary</b>
The Community Chest – Green Day	Raised funds for the Medical and Health Services program
The Community Chest Corporate Challenge – Half Marathon & the 10 Km Run	Supported the cause to enhance Rehabilitation & Aftercare Service
The Community Chest – Skip Lunch Day	Supported the Services for Street Sleepers, Residents in Cage Homes and Cubicles
FIVB Volleyball Nations League Hong Kong	Supported the international sports event in Hong Kong
Senior Citizen Home Safety Association – Love and Peace of Mind Corporate Engagement Program	Supported the program of 24-hour emergency assistance and caring services for the needy elderly
World Vision Hong Kong – Used Book Recycling Campaign	Raised funds for the World Vision's childhood education projects in the provinces of Guangxi and Shaanxi, China
Po Leung Kuk – House Sponsorship for Children	Provided accommodation for children in need
The Hong Kong Chinese Christian Churches Union	Sponsored the Lunar New Year luncheon for the elderly



# Environmental, Social and Governance Report

Name of Organization/Event	Purpose and Target beneficiary
Christian Action – 3-Legged Charity Walk	Supported the child welfare services for underprivileged children in Hong Kong as well as orphans and disabled children in Qinghai
The Hong Kong Red Cross Blood – Transfusion Service Blood Donation Events	Organized two blood donation events to raise blood donation awareness
The Hong Kong Chinese Christian Churches Union Kwong Yum Care Home – Elderly Visit	Organized elderly visits in Christmas and Mid-Autumn Festive to celebrate with the elderly
Caritas La Vie Bakery – Mooncake Gift Box Purchase	Supported the bakery shop that trained and hired people with disabilities
The Community Chest – Love Teeth Day	Sponsored the oral care products for the oral health of the needy
Evangel Children’s Home	Made donation to support project Shine.Empower.Network.2.0 for the children’s care and family support service for deprived families
Hong Kong Chinese Orchestra – A Night of Melodies from Movies and TV Dramas Concert	Promoted Chinese music culture

## Promoting Arts and Cultural Development

We believe that arts, culture and heritage are key drivers to create social interaction and boost creativity beyond boundaries. For the benefit of our community, the Group has devoted itself to preserve arts and encourage cultural exchange. In April 2019, we invited the Hong Kong Chinese Orchestra to bring an excellent classical music performance to Lu Plaza. The live concert was hosted for the performance of a collection of pop songs and gathered our tenants, customers and visitors with fun, unique, immersive orchestral experience. In addition, we continued to support the Hong Kong Chinese Orchestra in delivering high quality performance in theatre. We sponsored the A Night of Melodies from Movies and TV Dramas to promote golden TV theme songs. With an aim to build a diverse and cohesive community, we look forward to organizing more community programmes to make our city a better place to live.

# Environmental, Social and Governance Report

## PERFORMANCE STATISTICS

Reporting Items	Unit	Total	2020		2019			2018		
			Per Staff	Per GFA of Office and Warehouse	Total	Per Staff	Per GFA of Office and Warehouse	Total	Per Staff	Per GFA of Office and Warehouse
<b>Energy Consumption</b>										
Unleaded Petrol	L	3,343	95.51	0.01	3,962	107.08	0.01	3,989	113.97	0.01
Electricity	kWh	180,716	5,163.31	0.59	173,030	4,676.49	0.54	199,754	5,707.26	0.62
LPG	kg	1,440	41.14	0.00	1,520	41.08	0.00	2,320	66.29	0.01
<b>Water Consumption<sup>1</sup></b>										
Water	m <sup>3</sup>	1,500.99	42.89	0.00	1,099.00	29.70	0.00	894.00	25.54	0.00
<b>Greenhouse Gas (GHG) Emission<sup>2</sup></b>										
Scope 1	tonnes CO <sub>2</sub> e	13.40	0.38	0.000043	15.31	0.41	0.000047	17.8	0.51	0.000055
Scope 2	tonnes CO <sub>2</sub> e	90.36	2.58	0.000293	88.25	2.39	0.000273	101.87	2.91	0.000315
Scope 3	tonnes CO <sub>2</sub> e	6.16	0.18	0.000020	5.47	0.15	0.000017	5.48	0.16	0.000017
Total GHG Emissions	tonnes CO <sub>2</sub> e	109.91	3.14	0.000356	109.03	2.95	0.000337	125.15	3.58	0.000387
<b>Air Emission<sup>3</sup></b>										
Nitrogen Oxides (NOx)	kg			1.49			2.05			2.36
Sulphur Oxides (SOx)	kg			0.05			0.06			0.06
Particulate Matter (PM)	kg			0.09			0.13			0.14
<b>Hazardous/Non-hazardous Waste Disposed</b>										
General Waste <sup>4</sup>	tonnes			14.07			22.44			25.96
<b>Recycled Waste<sup>5</sup></b>										
Recycled Paper	tonnes			0.01			–			–
Recycled Wooden Pallets	tonnes			8.47			–			–
<b>Packaging Material<sup>5</sup></b>										
Plastic Wrap	kg			81			–			–

1 Since all water usage within our properties is provided through centralized city pipelines, we did not note any issue regarding sourcing water that is fit for purpose during the Reporting Period.

2 The calculation of total GHG emissions was in accordance with the HKEx ESG Guideline Appendix 2: Reporting Guidance on Environmental KPIs.

3 The calculation of air emissions was in accordance with HKEx ESG Guideline Appendix 2: Reporting Guidance on Environmental KPIs.

4 General wastes including the general domestic wastes, wastepaper and wooden pallets.

5 We enhanced the data collection method to introduce new reporting items in 2020. Therefore, the performance statistics in 2019 and 2018 are not available.

# Directors' Report

The directors present their annual report and the audited financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 March 2020.

## PRINCIPAL ACTIVITIES

The Company is engaged in investment holding and treasury investment. The principal activities of its principal subsidiaries are set out in note 30 to the consolidated financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 March 2020 are set out in the consolidated statement of profit or loss and other comprehensive income on page 51.

An interim dividend of approximately HK2.67 cents per share calculated based on the total of 405,000,000 shares of the Company in issue immediately after the Share Subdivision becomes effective (or equivalent to HK8 cents per share calculated based on the total of 135,000,000 shares of the Company in issue immediately prior to the share subdivision (i.e. on the basis that every one existing issued share of the Company be subdivided into three subdivided shares of the Company (the "Share Subdivision") becoming effective on 18 August 2020), amounting to HK\$10,800,000, was paid to the shareholders during the year. The directors now recommend the payment of a final dividend of HK3 cents per share after the Share Subdivision (equivalent to HK9 cents per share if the Share Subdivision does not become effective), amounting to HK\$12,150,000, to shareholders whose names appear on the register of members of the Company on 27 August 2020.

## DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 March 2020, the Company's reserves available for distribution to shareholders comprised the retained profits of HK\$1,079,642,000 (2019: HK\$1,183,083,000).

## DIRECTORS

### (a) Directors of the Company

The directors of the Company during the year and up to the date of this report were:

#### *Executive director*

Mr. Lu Wing Yee, Wayne

#### *Non-executive director*

Mr. Lee Ka Sze, Carmelo

#### *Independent non-executive directors*

Mr. Gan Khai Choon

Mr. Lam Ming Leung

Mr. Leung Man Chiu, Lawrence

As announced by the Company on 19 June 2020, Mr. Gan Khai Choon has tendered his resignation as an independent non-executive director of the Company with effect from 17 August 2020.

In accordance with Articles 78 and 79 of the Company's Articles of Association, Mr. Lu Wing Yee, Wayne and Mr. Lam Ming Leung shall retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election. Details of the directors to be re-elected at the 2020 annual general meeting are set out in a circular to the shareholders sent together with this Annual Report.

No director of the Company proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

The term of office for each non-executive director and independent non-executive director is the period up to his retirement by rotation in accordance with the Company's Articles of Association.

# Directors' Report

## DIRECTORS (Continued)

### (b) Directors of the Company's subsidiaries

During the year and up to the date of this report, Mr. Lu Wing Yee, Wayne is also a director in certain subsidiaries of the Company. Other directors of the Company's subsidiaries during the year and up to the date of this report are Ms. Chan Koon Fung, Mr. Ng Gei, Mr. Lo Tai On (resigned on 27 August 2019), Ms. Koo Ching Fan (resigned on 27 August 2019), Mr. Huang Huei Ru and Mr. Wong Hung Chin.

## DIRECTORS' INTERESTS IN SECURITIES

As at 31 March 2020, the interests of the directors of the Company and their associates in the shares of the Company as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Name of directors	Personal interests	Number of issued ordinary shares of the Company held (long position)			Total interests	Percentage to the issued shares of the Company <sup>3</sup>
		Family interests	Corporate interests	Other interests		
Mr. Lu Wing Yee, Wayne	9,410,420	–	23,440 <sup>1</sup>	4,400,000 <sup>2</sup>	13,833,860	10.25%
Mr. Lam Ming Leung	10,000	–	–	–	10,000	0.0074%

#### Notes:

1. Mr. Lu Wing Yee, Wayne was deemed to be interested in these 23,440 shares held by a company, which was 100% controlled by himself.
2. Mr. Lu Wing Yee, Wayne was deemed to be interested jointly with Ms. Chan Koon Fung in these 4,400,000 shares as he was one of the executors of the estate of Mr. Lu Sin (deceased).
3. Calculated based on the total of 135,000,000 shares of the Company in issue as at 31 March 2020.

Other than as disclosed above, none of the directors, chief executives nor their associates had any interests or short positions in any shares or underlying shares of the Company or its associated corporations as defined in Part XV of the SFO at 31 March 2020.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate. In addition, none of the directors, or their spouses or children under the age of 18 had any right to subscribe for the securities of the Company or had exercised any such right during the year.

## DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

Other than as disclosed in note 7 to the consolidated financial statements, no transactions, arrangements and contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

# Directors' Report

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

### Directors' Interests in a Competing Business

During the year and up to the date of this report, none of the directors of the Company had any interest in a business which is considered to compete or is likely to compete, either directly or indirectly, with the businesses of the Group pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

## MANAGEMENT CONTRACT

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

## PERMITTED INDEMNITY PROVISIONS

The Company's Articles of Association provides that every director, managing director, auditor, company secretary and other officer for the time being of the Company shall be indemnified out of the assets of the Company against any liability incurred by him in relation to the Company in defending any proceedings, whether civil or criminal, in which judgment is given in his favour or in which he is acquitted or in connexion with any application as specified therein in which relief is granted to him by the court.

## SUBSTANTIAL SHAREHOLDERS

As at 31 March 2020, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO showed that, other than the interests of certain directors disclosed under the section headed "Directors' Interests in Securities" above, the following shareholders had notified the Company of their relevant interests in the issued shares of the Company:

Name of substantial shareholders	Capacity	Number of issued ordinary shares held (Long Position)		Percentage to the issued shares of the Company <sup>3</sup>
		Direct interest	Indirect interest	
Kian Nan Financial Limited	Beneficial interest	49,203,445	–	36.45%
Eargold Limited	Beneficial interest	10,350,000	–	7.67%
Chelton Trading Limited	Interest of controlled corporation	–	10,350,000 <sup>1</sup>	7.67%
Gladiator Investments Co.	Interest of controlled corporation	–	10,350,000 <sup>1</sup>	7.67%
Ms. Chan Koon Fung	Beneficial owner/Interest of controlled corporation/Trustee	2,989,500	69,953,106 <sup>2</sup>	54.03%

### Notes:

1. The shares were held by Eargold Limited. Each of Chelton Trading Limited and Gladiator Investments Co. owned as to 50% of Eargold Limited and, therefore, they were taken to be interested in 10,350,000 shares held by Eargold Limited.
2. Among these 69,953,106 shares, (a) Ms. Chan Koon Fung was taken to be interested in 10,350,000 shares through Eargold Limited which was held by Chelton Trading Limited (directly owned 50%) and Gladiator Investments Co. (directly owned 50%), in both of which Ms. Chan directly owned 50%; (b) she was taken to be interested in 49,203,445 shares which were held by Kian Nan Financial Limited, in which Ms. Chan owned 38.98%; (c) she was taken to be interested in 5,999,661 shares which were held by Lusin And Company Limited, in which Ms. Chan owned 38.75% and (d) she was taken to be interested jointly with Mr. Lu Wing Yee, Wayne in 4,400,000 shares as she was one of the executors of the estate of Mr. Lu Sin (deceased).
3. Calculated based on the total of 135,000,000 shares of the Company in issue as at 31 March 2020.

# Directors' Report

## **SUBSTANTIAL SHAREHOLDERS (Continued)**

Other than as disclosed above, as at 31 March 2020, no other person was recorded in the register of substantial shareholders required to be kept by the Company under Section 336 of the SFO as having any interests or short positions in the issued shares of the Company.

## **EQUITY-LINKED AGREEMENTS**

No equity-linked agreements were entered into during the year or subsisted at the end of the year.

## **RELATED PARTY TRANSACTIONS**

Details of the related party transactions are set out in note 25 to the consolidated financial statements. Those related party transactions did not constitute connected transactions or continuing connected transactions and/or constituted exempted connected transactions or exempted continuing connected transactions under the Listing Rules.

## **CHANGES IN DIRECTORS' AND CHIEF EXECUTIVES' INFORMATION**

Pursuant to Rule 13.51B(1) of the Listing Rules, change of information of the Directors is set out as below:

Independent Non-Executive Director – Mr. Leung Man Chiu, Lawrence

On 2 June 2020, SMC Electric Ltd., of which Mr. Leung is an independent non-executive director, listed on the Main Board of The Stock Exchange of Hong Kong Limited (stock code: 2381).

## **MAJOR CUSTOMERS AND SUPPLIERS**

During the year, the Group's largest customer accounted for 9% (2019: 9%) of its turnover.

The aggregate revenue attributable to the Group's five largest customers accounted for 29% (2019: 26%) of the Group's total turnover.

In addition, the nature of the activities of the Group is such that no major supplier contributed significantly to the Group's purchases.

At no time during the year did the directors, their associates or any shareholders (which to the knowledge of the directors own more than 5% of the Company's issued shares) have any interest in any of the Group's five largest customers.

## **PURCHASE, SALE OR REDEMPTION OF SHARES**

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

## **INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS**

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the Independent Non-executive Directors are independent.

## **EMOLUMENT POLICY**

The emolument policy of the employees of the Group is set up and reviewed from time to time by the Remuneration and Nomination Committee on the basis of their merit, qualifications and competence.

The emoluments of the directors of the Company are reviewed by the Remuneration and Nomination Committee, having regard to the Company's operating results, individual performance and market comparables.

# Directors' Report

## SUFFICIENCY OF PUBLIC FLOAT

Based on the information publicly available to the Company and within the knowledge of the directors, the Company has maintained a sufficient public float throughout the year ended 31 March 2020.

## DONATIONS

During the year, the Group made charitable and other donations amounting to HK\$363,000.

## CORPORATE GOVERNANCE

The Board of the Company is committed to achieving and maintaining high standards of corporate governance. The Company has complied throughout the year ended 31 March 2020 with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules, with exception of certain deviations. Detailed information on the Company's corporate governance practices and certain deviations are set out in the Corporate Governance Report contained in pages 14 to 27 of the Annual Report.

## BUSINESS REVIEW AND PERFORMANCE

Review on the business of the Group, discussion and analysis on the performance of the Group during the year, significant factors affecting performance and financial position (including the analysis from the usage of financial key ratio) and the Group's future business development were set out in pages 6 to 8 of the Executive Director's Statement and pages 9 to 13 of the Management Discussion and Analysis.

An overview on the financial performance of the Group's business and business segment, financial resources, compliance with regulations, relationships with its key stakeholders and the principal risk and uncertainties are set out in pages 9 to 13 of the Management Discussion and Analysis while social responsibilities and environmental protection policies were set out in pages 14 to 41 of the Corporate Governance Report and the Environmental, Social and Governance Report.

The different parts of this Annual Report contain relevant laws and regulations that the Group has complied with and has significant influence on them. The Environmental, Social and Governance Report also contains information on environmental policy and performance and the relationship between the Group and its major business stakeholders.

Discussion on the above-mentioned issues provided from the Executive Director's Statement, Management Discussion and Analysis, Corporate Governance Report and Environmental, Social and Governance Report which form part of this Directors' Report.

## AUDITOR

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

**Lu Wing Yee, Wayne**  
*Executive Director*

Hong Kong, 26 June 2020

# Independent Auditor's Report

**Deloitte.**

德勤

**TO THE MEMBERS OF SAFETY GODOWN COMPANY, LIMITED**

*(incorporated in Hong Kong with limited liability)*

## **OPINION**

We have audited the consolidated financial statements of Safety Godown Company, Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 51 to 103, which comprise the consolidated statement of financial position as at 31 March 2020, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 March 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

## **BASIS FOR OPINION**

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



# Independent Auditor's Report

## KEY AUDIT MATTER

Key audit matter is the matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements of the current period. This matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

### Key audit matter

### How our audit addressed the key audit matter

#### Valuation of investment properties

We identified the valuation of investment properties as a key audit matter due to the significance of the balance to the consolidated financial statements as a whole, combined with significant judgments associated with determining the fair value.

As at 31 March 2020, the Group's investment properties amounted to HK\$3,351,900,000, representing approximately 72% of the Group's total assets. During the year, a decrease in fair value of investment properties of HK\$307,600,000 was recognised in the consolidated statement of profit or loss and other comprehensive income.

The Group's investment properties were carried at fair value based on the valuations performed by the independent qualified professional valuers. Details of the valuation techniques, significant assumptions and key inputs used in the valuations are disclosed in note 13 to the consolidated financial statements. The valuations were dependent on certain key inputs that involve the management's judgments, including capitalisation rates and market unit rents of individual units.

Our procedures in relation to the valuation of investment properties included:

- Evaluating the competence, capabilities and objectivity of the independent qualified professional valuers;
- Understanding the independent qualified professional valuers' valuation process and methodologies, the performance of the property markets, significant assumptions adopted, critical judgmental areas and key inputs used in the valuations;
- Evaluating the reasonableness of the methodology and assumptions applied in valuation by comparing with industry norms; and
- Assessing the reasonableness of key inputs used in the valuations by comparing to relevant market information on market unit rents achieved and capitalisation rates adopted in other comparable properties in the neighbourhood.

## OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

# Independent Auditor's Report

## RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

# Independent Auditor's Report

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- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Keung To Wai, David.

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*

Hong Kong  
26 June 2020

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 March 2020

	Notes	2020 HK\$'000	2019 HK\$'000
Revenue	5	<u>137,612</u>	<u>142,275</u>
Income from godown operations		19,958	24,411
Income from property investment		96,651	93,947
Interest income		16,672	16,866
Dividend income		4,331	7,051
Other gains and losses		(46,271)	(19,280)
Exchange loss, net		(19)	(4,537)
Gain on disposal of property, plant and equipment		8	7
(Decrease) increase in fair value of investment properties	13	(307,600)	227,873
Staff costs		(16,087)	(15,493)
Depreciation of property, plant and equipment		(19,320)	(16,283)
Impairment loss on trade receivables		(906)	–
Impairment loss on other receivables		(1,592)	–
Other expenses		<u>(25,102)</u>	<u>(23,755)</u>
(Loss) profit before taxation	9	(279,277)	290,807
Taxation	10	<u>(13,250)</u>	<u>(11,765)</u>
(Loss) profit for the year attributable to owners of the Company		<u>(292,527)</u>	<u>279,042</u>
Other comprehensive income for the year			
<i>Item that will not be reclassified to profit or loss:</i>			
Revaluation surplus on transfer of owner-occupied properties to investment properties		<u>70,673</u>	<u>110,121</u>
Total comprehensive (expense) income for the year attributable to owners of the Company		<u>(221,854)</u>	<u>389,163</u>
Basic (loss) earnings per share	12	<u>(HK\$2.17)</u>	<u>HK\$2.07</u>

# Consolidated Statement of Financial Position

At 31 March 2020

	<i>Notes</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
<b>Non-current assets</b>			
Investment properties	13	3,351,900	3,635,100
Property, plant and equipment	14	233,559	188,980
Debt instrument at amortised cost	15	–	23,244
		<u>3,585,459</u>	<u>3,847,324</u>
<b>Current assets</b>			
Investments held for trading	16	223,208	292,744
Debt instrument at amortised cost	15	23,248	–
Trade and other receivables	17	27,689	22,775
Tax recoverable		567	–
Bank deposits	18	610,190	757,584
Other deposits	18	26,016	84,150
Bank balances and cash	18	161,871	17,541
		<u>1,072,789</u>	<u>1,174,794</u>
<b>Current liabilities</b>			
Other payables	19	30,641	32,249
Tax payable		18,333	20,335
		<u>48,974</u>	<u>52,584</u>
<b>Net current assets</b>		<u>1,023,815</u>	1,122,210
		<u>4,609,274</u>	<u>4,969,534</u>
<b>Capital and reserves</b>			
Share capital	20	178,216	178,216
Reserves		4,341,239	4,708,893
<b>Equity attributable to owners of the Company</b>		<u>4,519,455</u>	4,887,109
<b>Non-current liabilities</b>			
Long-term tenants' deposits received		18,401	15,662
Deferred tax liabilities	21	70,586	66,185
Provision for long service payments	22	832	578
		<u>89,819</u>	<u>82,425</u>
		<u>4,609,274</u>	<u>4,969,534</u>

The consolidated financial statements on pages 51 to 103 were approved and authorised for issue by the Board of Directors on 26 June 2020 and are signed on its behalf by:

**Lu Wing Yee, Wayne**  
*Director*

**Lee Ka Sze, Carmelo**  
*Director*

# Consolidated Statement of Changes in Equity

For the year ended 31 March 2020

	Share capital <i>HK\$'000</i>	Property revaluation reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2018	178,216	293,913	4,101,417	4,573,546
Profit for the year	–	–	279,042	279,042
Revaluation surplus on transfer of owner-occupied properties to investment properties	–	110,121	–	110,121
Total comprehensive income for the year	–	110,121	279,042	389,163
Dividends paid ( <i>note 11</i> )	–	–	(75,600)	(75,600)
At 31 March 2019	178,216	404,034	4,304,859	4,887,109
Loss for the year	–	–	(292,527)	(292,527)
Revaluation surplus on transfer of owner-occupied properties to investment properties	–	70,673	–	70,673
Total comprehensive income (expense) for the year	–	70,673	(292,527)	(221,854)
Dividends paid ( <i>note 11</i> )	–	–	(145,800)	(145,800)
At 31 March 2020	178,216	474,707	3,866,532	4,519,455

# Consolidated Statement of Cash Flows

For the year ended 31 March 2020

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
<b>Operating activities</b>		
(Loss) profit before taxation	(279,277)	290,807
Adjustments for:		
Unrealised loss on investments held for trading	21,995	5,694
Gain on disposal of property, plant and equipment	(8)	(7)
Decrease (increase) in fair value of investment properties	307,600	(227,873)
Addition of provision for long service payments	372	166
Exchange differences	(4)	(3)
Depreciation of property, plant and equipment	19,320	16,283
Impairment loss on trade receivables	906	–
Impairment loss on other receivables	1,592	–
	<hr/>	<hr/>
Operating cash flows before movements in working capital	72,496	85,067
(Increase) decrease in trade and other receivables	(7,412)	5,831
Decrease in investments held for trading	47,541	85,781
Increase in other payables and long-term tenants' deposits received	802	3,194
Long service payment utilised	(118)	–
	<hr/>	<hr/>
Cash from operations	113,309	179,873
Income tax paid	(11,418)	(5,133)
	<hr/>	<hr/>
<b>Net cash from operating activities</b>	<b>101,891</b>	<b>174,740</b>
	<hr/>	<hr/>
<b>Investing activities</b>		
Withdrawal of bank deposits	1,495,911	3,521,692
Additions of bank deposits	(1,348,517)	(3,967,372)
Withdrawal of other deposits	967,976	522,305
Additions of other deposits	(909,842)	(321,175)
Additions of investment properties	–	(13,027)
Purchase of property, plant and equipment	(17,626)	(5,335)
Proceeds from disposal of property, plant and equipment	8	7
	<hr/>	<hr/>
<b>Net cash from (used in) investing activities</b>	<b>187,910</b>	<b>(262,905)</b>
	<hr/>	<hr/>
<b>Cash used in a financing activity</b>		
Dividends paid	(145,471)	(75,464)
	<hr/>	<hr/>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>144,330</b>	<b>(163,629)</b>
<b>Cash and cash equivalents at beginning of the year</b>	<b>17,541</b>	<b>181,170</b>
	<hr/>	<hr/>
<b>Cash and cash equivalents at end of the year</b>	<b>161,871</b>	<b>17,541</b>
	<hr/> <hr/>	<hr/> <hr/>
<b>Analysis of cash and cash equivalents</b>		
Bank balances and cash	161,871	17,541
	<hr/> <hr/>	<hr/> <hr/>

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

## 1. GENERAL INFORMATION

Safety Godown Company, Limited (the “Company”) is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). Its ultimate controlling party is Ms. Chan Koon Fung, who is also the director of the Company’s subsidiaries. The address of the registered office and principal place of business of the Company are disclosed in the section headed “Corporate Information” in the annual report.

The Company is engaged in investment holding and treasury investment. The principal activities of its principal subsidiaries are set out in note 30.

The consolidated financial statements are presented in Hong Kong dollar (“HK\$”), which is also the functional currency of the Company.

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

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

The Group has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) for the first time in the current year:

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
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 year has had no material impact on the Group’s financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

### ***HKFRS 16 “Leases”***

The Group has applied HKFRS 16 for the first time in the current year. HKFRS 16 superseded HKAS 17 “Leases” (“HKAS 17”), and the related interpretations.

### ***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.



# Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

### New and Amendments to HKFRSs that are mandatorily effective for the current year (Continued)

#### *Definition of a lease (Continued)*

##### *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 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 a straight-line basis over the extended lease term.
- (b) Before the 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 “Revenue from Contracts with Customers” (“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 consolidated financial statements of the Group for the current year.

##### *As a lessee*

Upon the application of HKFRS 16, the Group recategorised the carrying amount of leasehold land in property, plant and equipment amounting to HK\$89,444,000 as right-of-use assets.

Based on the assessment by the directors of the Company, other than the recategorisation of certain property, plant and equipment, the transition to HKFRS 16 as a lessor and lessee had no material impact on the Group’s consolidated financial statements as at 1 April 2019.

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

### New and amendments to HKFRS in issue but not yet effective

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

HKFRS 17	Insurance Contracts <sup>1</sup>
Amendments to HKFRS 16	Covid-19-Related Rent Concessions <sup>5</sup>
Amendments to HKFRS 3	Definition of a Business <sup>2</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>3</sup>
Amendments to HKAS 1 and HKAS 8	Definition of Material <sup>4</sup>
Amendments to HKAS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform <sup>4</sup>

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

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

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 2020.

5 Effective for annual periods beginning on or after 1 June 2020.

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, “the Amendments to References to the Conceptual Framework in HKFRS Standards”, will be effective for annual periods beginning on or after 1 January 2020.

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

### Conceptual Framework for Financial Reporting 2018 (the “New Framework”) and the Amendments to References to the Conceptual Framework in HKFRS Standards

The New Framework:

- reintroduces the terms stewardship and prudence;
- introduces a new asset definition that focuses on rights and a new liability definition that is likely to be broader than the definition it replaces, but does not change the distinction between a liability and an equity instrument;
- discusses historical cost and current value measures, and provides additional guidance on how to select a measurement basis for a particular asset or liability;
- states that the primary measure of financial performance is profit or loss, and that only in exceptional circumstances other comprehensive income will be used and only for income or expenses that arise from a change in the current value of an asset or liability; and
- discusses uncertainty, derecognition, unit of account, the reporting entity and combined financial statements.

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSS”) (Continued)

Consequential amendments have been made so that references in certain HKFRSs have been updated to the New Framework, whilst some HKFRSs are still referred to the previous versions of the framework. These amendments are effective for annual periods beginning on or after 1 January 2020, with earlier application permitted. Other than specific standards which still refer to the previous versions of the framework, the Group will rely on the New Framework on its effective date in determining the accounting policies especially for transactions, events or conditions that are not otherwise dealt with under the accounting standards.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by 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 and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain investment properties and financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 “Share-based Payment”, leasing transactions that are accounted for in accordance with HKFRS 16 (since 1 April 2019) or HKAS 17 (before application of HKFRS 16), and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 “Inventories” or value in use in HKAS 36 “Impairment of Assets”.

A fair value measurement of a non-financial asset takes into account a market participant’s ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

For financial instruments and investment properties which are transacted at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that the results of the valuation technique equals the transaction price.

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

### Revenue from contracts with customers

The Group 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.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Revenue from contracts with customers (Continued)

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

### *Contracts with multiple performance obligations (including allocation of transaction price)*

For contracts that contain more than one performance obligations, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis.

The stand-alone selling price of the distinct good or service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell a promised good or service separately to a customer. If a stand-alone selling price is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

### Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values adjusted to exclude any prepaid or accrued operating lease income. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

### Property, plant and equipment

Property, plant and equipment including buildings, leasehold land and buildings held for use in the production or supply of goods or services, or for administrative purposes (other than property, plant and equipment under construction as described below) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Property, plant and equipment (Continued)

Property, plant and equipment in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

### *Ownership interests in leasehold land and building*

When the Group makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "right-of-use assets" (upon application of HKFRS 16) or "property, plant and equipment" (before application of HKFRS 16) in the consolidated statement of financial position, except for those that are classified and accounted for as investment properties under the fair value model. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

If a property becomes an investment property because its use has changed as evidenced by the end of owner-occupation, any difference between the carrying amount and the fair value of that item (including the relevant leasehold land under HKFRS 16 or prepaid lease payments under HKAS 17) at the date of transfer is recognised in other comprehensive income and accumulated in property revaluation reserve. On the subsequent sale or retirement of the property, the relevant revaluation reserve will be transferred directly to retained profits.

Depreciation is recognised so as to write off the cost of assets other than property, plant and equipment under construction using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

### Impairment on property, plant and equipment

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount of property, plant and equipment are estimated individually. When it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Impairment on property, plant and equipment (Continued)

In testing a cash-generating unit for impairment, corporate assets are allocated to the relevant cash-generating unit when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be established. The recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of the relevant cash-generating unit or group of cash-generating units.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro rata basis based on the carrying amount of each asset in the unit or the group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of cash-generating units. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit or a group of cash-generating units) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash generating unit or a group of cash-generating units) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

### Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest and dividend income which are derived from the Group's ordinary course of business are presented as revenue.

### Financial assets

#### *Classification and subsequent measurement of financial assets*

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by selling and collecting contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application of HKFRS 9 "Financial Instruments"/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 "Business Combinations" applies.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling in the near term;
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.



# Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

#### *Financial assets (Continued)*

#### *Classification and subsequent measurement of financial assets (Continued)*

In addition, the Group may irrevocably designate a financial asset that are required to be measured at amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

(ii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the “other gains and losses” line item.

#### *Impairment of financial assets*

The Group performs impairment assessment under the expected credit loss (“ECL”) model on financial assets (including debt instrument at amortised cost, trade and other receivables, bank deposits, other deposits and bank balances). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL (“12m ECL”) represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessments are done based on the Group’s historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables. The ECL on these assets is assessed collectively using a provision matrix with appropriate groupings.

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

#### *Financial assets (Continued)*

#### *Impairment of financial assets (Continued)*

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

#### (i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, for example, a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definitions.

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

#### *Financial assets (Continued)*

#### *Impairment of financial assets (Continued)*

(i) Significant increase in credit risk (Continued)

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- (a) significant financial difficulty of the issuer or the borrower;
- (b) a breach of contract, such as a default or past due event;
- (c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- (e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

#### *Financial assets (Continued)*

#### *Impairment of financial assets (Continued)*

#### (v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (that is the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (that is the Group's trade and other receivables are each assessed as a separate group; bank deposits, other deposits and bank balances are assessed for expected credit losses on an individual basis);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

#### *Derecognition of financial assets*

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

#### *Financial liabilities and equity*

##### *Classification as debt or equity*

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

##### *Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

##### *Financial liabilities at amortised cost*

Financial liabilities (including other payables and long-term tenants' deposits received) are subsequently measured at amortised cost, using the effective interest method.

##### *Derecognition of financial liabilities*

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

### Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items and on the retranslation of monetary items are recognised in profit or loss in the period in which they arise.

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit/loss before tax because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary differences arise from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Taxation (Continued)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied on the same taxable entity by the same taxation authority.

Current and deferred taxes are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred taxes are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

### Leases

#### *Definition of a lease (upon application of HKFRS 16 in accordance with transitions in note 2)*

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 or arising from business combinations 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, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

#### *The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 2)*

##### *Right-of-use assets*

The cost of a right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Except for those that are classified as investment properties and measured under fair value model, right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Leases (Continued)

#### *The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 2) (Continued)*

##### *Right-of-use assets (Continued)*

The Group presents right-of-use assets that do not meet the definition of investment property or inventory in “property, plant and equipment”, the same line item within which the corresponding underlying assets would be presented if they were owned. Right-of-use assets that meet the definition of investment property are presented within “investment properties”.

#### *The Group as a lessor*

##### *Classification and measurement of leases*

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset, and such costs are recognised as an expense on a straight-line basis over the lease term except for investment properties measured under the fair value model. When a lease contract contains a specific clause that provides for rent reduction or suspension of rent in the event that the underlying assets (or any part thereof) are affected by adverse events beyond the control of the Group and the lessee so as to render the underlying assets unfit or not available for use, the relevant rent reduction or suspension of rent resulting from the specific clause is accounted for as part of the original lease and not as a lease modification. Such rent reduction or suspension of rent is recognised in profit or loss in the period in which the event or condition that triggers those payments to occur.

Interest and rental income which are derived from the Group's ordinary course of business are presented as revenue.

#### *The Group as a lessor (upon application of HKFRS 16 in accordance with transitions in note 2)*

##### *Allocation of consideration to components of a contract*

When a contract includes both leases and non-lease components, the Group applies 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 for under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.



# Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Leases (Continued)

*The Group as a lessor (upon application of HKFRS 16 in accordance with transitions in note 2)  
(Continued)*

#### *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.

### Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

### Retirement benefit costs

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

### Short-term and other long-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date. Any changes in the liabilities' carrying amounts resulting from service cost, interest and remeasurements are recognised in profit or loss except to the extent that another HKFRS requires or permits their inclusion in the cost of an asset.

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

## 4. CRITICAL ACCOUNTING JUDGMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

### **Critical judgment in applying accounting policies**

The following is the critical judgment, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that has the most significant effect on the amounts recognised in the consolidated financial statements.

#### ***Deferred taxation on investment properties***

For the purposes of measuring deferred tax arising from investment properties that are measured using the fair value model, the directors of the Company have reviewed the Group's investment property portfolio and concluded that the Group's investment properties are not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time. Therefore, in determining the Group's deferred taxation on investment properties, the directors of the Company have determined that the presumption that the carrying amounts of investment properties measured using the fair value model are recovered entirely through sale is not rebutted. The Group has not recognised any deferred tax on changes in fair value of investment properties as the Group is not subject to any income taxes on the fair value changes of the investment properties on disposal.

### **Key sources of estimation uncertainty**

The followings are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

#### **a. *Fair value of investment properties***

At the end of the reporting period, the Group's investment properties are carried at a total fair value of HK\$3,351,900,000 (2019: HK\$3,635,100,000) which substantially based on the valuations performed by independent qualified professional valuers. The valuations were arrived at by reference to market evidence of recent transaction prices for similar properties and/or on the basis of discounted cash flow projections based on estimates of future rental income from properties using current market rentals and yields as inputs. In relying on the valuation, management has exercised their judgment and is satisfied that the method of valuation is reflective of the current market conditions. Favourable or unfavourable changes to these assumptions would result in changes in the fair value of the Group's investment properties and corresponding adjustments to the amount of gain or loss reported in profit or loss.

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

## 4. CRITICAL ACCOUNTING JUDGMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

### Key sources of estimation uncertainty (Continued)

#### *b. Useful lives of property, plant and equipment*

The management determines the estimated useful lives and related depreciation charges for its property, plant and equipment with a carrying amount of HK\$233,559,000 (2019: HK\$188,980,000). This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. The management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down assets that have been abandoned or sold.

#### *c. Fair value measurements and valuation processes*

Some of the Group's assets are measured at fair value for financial reporting purposes. In estimating the fair value of an asset, the Group uses market-observable data to the extent they are available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The management works closely with the independent qualified professional valuers to establish the appropriate valuation techniques and inputs to the model. The management reports the findings to the board of directors of the Company half yearly to explain the cause of fluctuations in the fair value.

The Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain investment properties and financial instruments. Note 13 provides detailed information about the valuation techniques, inputs and key assumptions used in the determination of the fair value of certain investment properties.

#### *d. Provision of ECL for credit-impaired trade and other receivables*

Trade and other receivables which are credit-impaired are assessed for ECL individually. The measurement of ECL is a function of the probability of default, loss given default (that is the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade and other receivables are disclosed in notes 27 and 17, respectively.

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

## 5. REVENUE

The amount represents the following revenue recognised during the year:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Income from godown operations (note a)	19,958	24,411
Income from property investment	96,651	93,947
Dividend income from listed investments	4,331	7,051
Bank interest income	14,683	16,189
Other interest income	1,989	677
	<u>137,612</u>	<u>142,275</u>

Notes:

(a) Total income from godown operations

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Inward and outward coolie income	2,052	2,538
Transportation income and other income	594	552
Storage service income	17,312	21,321
	<u>19,958</u>	<u>24,411</u>

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
<b>Types of goods or services (time of revenue recognition):</b>		
Inward and outward coolie income (recognised at a point in time)	2,052	2,538
Transportation income and other income (recognised at a point in time)	594	552
Storage service income (recognised over time)	17,312	21,321
	<u>19,958</u>	<u>24,411</u>

**Geographical market:**

Hong Kong	<u>19,958</u>	<u>24,411</u>
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For contracts entered into with customers on inward and outward coolie income and transportation and other income, the relevant services specified in the contracts are based on customer's specifications with no alternative use and the Group does not have an enforceable right to payment prior to the completion of relevant services to customers. Revenue from inward and outward coolie income and transportation and other income are therefore recognised at a point in time when the physical possession of the asset is transferred, being at the point that the services are completed and the Group has the present right to payment and collection of the consideration is probable.

Revenue from storage service income is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation, as the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs. The Group bills a fixed amount for each day of service provided. The Group elected to apply the practical expedient by recognising revenue in the amount to which the Group has the right to invoice. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

## 5. REVENUE (Continued)

Notes: (Continued)

### (c) Leases

	2020 HK\$'000	2019 HK\$'000
<b>For operating leases:</b>		
Lease payments that are fixed or depend on an index or a rate		
Income from property investment	<u>96,651</u>	<u>93,947</u>

None (2019: none) of the lease income is derived from variable lease payments that do not depend on an index or a rate.

## 6. 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 2020

	Godown operations HK\$'000	Property investment HK\$'000	Treasury investment HK\$'000	Consolidated HK\$'000
Segment revenue	<u>19,958</u>	<u>96,651</u>	<u>21,003</u>	<u>137,612</u>
Segment profit (loss)	<u>3,562</u>	<u>63,509</u>	<u>(29,042)</u>	38,029
Decrease in fair value of investment properties				(307,600)
Central administrative costs				<u>(9,706)</u>
Loss before taxation				<u>(279,277)</u>

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

## 6. SEGMENT INFORMATION (Continued)

For the year ended 31 March 2020 (Continued)

	Godown operations <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Treasury investment <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<i>Assets</i>				
Segment assets	173,385	3,435,052	886,718	4,495,155
Bank balances and cash				161,871
Unallocated other assets				1,222
Consolidated total assets				<u>4,658,248</u>
<i>Liabilities</i>				
Segment liabilities	1,757	39,041	1,175	41,973
Tax payable				18,333
Deferred tax liabilities				70,586
Unallocated other liabilities				7,901
Consolidated total liabilities				<u>138,793</u>
	Godown operations <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Treasury investment <i>HK\$'000</i>	Consolidated total <i>HK\$'000</i>
<i>Other information</i>				
Amounts included in the measure of segment profit or loss or segment assets:				
Capital expenditure	13,032	4,594	–	17,626
Depreciation of property, plant and equipment	15,496	3,824	–	19,320
Fair value loss on investments held for trading	–	–	46,590	46,590
Impairment loss on trade receivables	–	906	–	906

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

## 6. SEGMENT INFORMATION (Continued)

For the year ended 31 March 2019

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

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

## 6. SEGMENT INFORMATION (Continued)

The accounting policies adopted to arrive at the segment information are as disclosed in note 3. Segment profit/loss represents the profit earned/loss incurred by each segment without allocation of increase/decrease in fair value of investment properties, other administrative costs, which include directors' fees, other expenses that are not directly related to the core businesses and income tax expenses. This is the measure reported to the chief operating decision maker for the purposes of resources allocation and performance assessment.

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

- all assets are allocated to operating segments other than the Group's corporate assets and bank balances and cash; 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 29% (2019: 26%) of the Group's total revenue. The revenue attributable to the largest customer (included in both godown operations and property investment segments) in the current year amounted to HK\$12,615,000 (2019: HK\$12,634,000) which accounted for 9% (2019: 9%) of the Group's total revenue, and the revenue attributed to each of the remaining four customers are less than 8% (2019: 9%) of the Group's total revenue.

### Revenue from major services and investments

Analysis of the Group's revenue from its major services and investments are set out in note 5.

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



# Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

## 7. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The emoluments paid or payable during the year to each of the five (2019: five) directors and the chief executive were as follows:

Name of directors	Executive director	Non-executive director	Independent non-executive directors			Total HK\$'000
	Lu	Lee	Gan	Lam	Leung	
	Wing Yee, Wayne HK\$'000 (Note)	Ka Sze, Carmelo HK\$'000	Khai Choon HK\$'000	Ming Leung HK\$'000	Man Chiu, Lawrence HK\$'000	
<b>2020</b>						
Fees	38	264	297	264	264	<b>1,127</b>
Other emoluments						
Salaries	–	–	–	–	–	–
Discretionary bonus	–	–	–	–	–	–
Retirement benefits scheme contributions	18	–	–	–	–	<b>18</b>
Total emoluments	<b>56</b>	<b>264</b>	<b>297</b>	<b>264</b>	<b>264</b>	<b>1,145</b>
Name of directors	Executive director	Non-executive director	Independent non-executive directors			Total HK\$'000
	Lu	Lee	Gan	Lam	Leung	
	Wing Yee, Wayne HK\$'000 (Note)	Ka Sze, Carmelo HK\$'000	Khai Choon HK\$'000	Ming Leung HK\$'000	Man Chiu, Lawrence HK\$'000	
<b>2019</b>						
Fees	32	229	280	249	249	1,039
Other emoluments						
Salaries	–	–	–	–	–	–
Discretionary bonus	–	–	–	–	–	–
Retirement benefits scheme contributions	18	–	–	–	–	<b>18</b>
Total emoluments	<b>50</b>	<b>229</b>	<b>280</b>	<b>249</b>	<b>249</b>	<b>1,057</b>

Note: Mr. Lu Wing Yee, Wayne has been taking sick leave since October 2011 and has voluntarily agreed to have payment of his salaries suspended. He gradually recovered from illness, and resumed part of his duties currently.

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

## 7. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (Continued)

The executive director's emoluments shown above was for his services in connection with the management of the affairs of the Company and the Group. The emoluments of the non-executive director and independent non-executive directors shown above were for their services as directors of the Company.

Other than the above, there was no arrangement under which a director waived or agreed to waive any remuneration during the year.

The late Chairman Mr. Lu Sin was the Chief Executive of the Company. Following the death of Mr. Lu Sin on 5 April 2015, the position of the Chief Executive of the Company has been vacant and has not been filled up to the date of this report.

## 8. FIVE HIGHEST PAID EMPLOYEES

Of the five individuals with the highest emoluments in the Group, no one was a director for both years. The emoluments of the five (2019: five) highest paid individuals were as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Salaries and other benefits	3,633	3,123
Discretionary bonus	452	492
Retirement benefits scheme contributions	51	36
	<u>4,136</u>	<u>3,651</u>

Each of their emoluments were within the band of nil to HK\$1,000,000.

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

## 9. (LOSS) PROFIT BEFORE TAXATION

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
(Loss) profit before taxation has been arrived at after charging (crediting):		
Auditor's remuneration		
– audit service	1,020	1,000
– non-audit services	472	358
Depreciation	19,320	16,283
Exchange loss, net	19	4,537
Gross rental income from investment properties	(96,651)	(93,947)
Less: direct operating expenses for investment properties that generated rental income during the year	9,757	8,253
direct operating expenses for investment properties that did not generate rental income during the year	1,030	635
	<u>(85,864)</u>	<u>(85,059)</u>
Net rental income	(85,864)	(85,059)
Dividend income from listed investments		
– investments held for trading	(4,331)	(7,051)
Bank interest income	(14,683)	(16,189)
Interest income from debt instrument at amortised cost	(1,989)	(677)
Fair value loss on investments held for trading (note)	46,590	19,783
	<u>46,590</u>	<u>19,783</u>

*Note:* Amount included in other gains and losses.

## 10. TAXATION

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
The charge comprises:		
Hong Kong Profits Tax		
Current year	8,674	9,715
Under-(over-)provision in prior years	175	(185)
	<u>8,849</u>	<u>9,530</u>
Deferred taxation (note 21)		
Current year	4,401	2,235
	<u>4,401</u>	<u>2,235</u>
	<u>13,250</u>	<u>11,765</u>

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

## 10. TAXATION (Continued)

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

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

The taxation for the year can be reconciled to the (loss) profit before taxation per the consolidated statement of profit or loss and other comprehensive income as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
(Loss) profit before taxation	<u>(279,277)</u>	<u>290,807</u>
Tax (credit) charge at the domestic income tax rate of 16.5% (2019: 16.5%)	(46,081)	47,983
Tax effect of expenses not deductible for tax purpose	58,638	2,037
Tax effect of income not taxable for tax purpose	(6,095)	(42,759)
Tax effect of tax losses not recognised	6,097	4,700
Tax effect of utilisation of tax losses previously not recognised	–	(22)
Under-(over-)provision in prior years	175	(185)
Others	516	11
Taxation for the year	<u>13,250</u>	<u>11,765</u>

## 11. DIVIDENDS

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Interim dividend paid in respect of 2020 – HK8 cents (2019: HK28 cents) per ordinary share	10,800	37,800
Final dividend paid in respect of 2019 – HK12 cents (2018: HK28 cents) per ordinary share	16,200	37,800
Special dividend paid in respect of 2019 – HK88 cents (2018: nil) per ordinary share	118,800	–
	<u>145,800</u>	<u>75,600</u>

A final dividend of HK3 cents per share after the Share Subdivision (as defined in section headed "Proposed Share Subdivision" set out in page 6 of the Executive Director's Statement) (or equivalent to HK9 cents per share if the Share Subdivision does not become effective), amounting to HK\$12,150,000 has been proposed by the directors of the Company and is subject to the approval by shareholders in the forthcoming annual general meeting.

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

## 12. BASIC (LOSS) EARNINGS PER SHARE

The calculation of basic (loss) earnings per share is based on loss for the year attributable to owners of the Company of HK\$292,527,000 (2019: profit of HK\$279,042,000) and on 135,000,000 (2019: 135,000,000) shares in issue throughout both years.

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

## 13. INVESTMENT PROPERTIES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
<b>AT FAIR VALUE</b>		
At beginning of the year	3,635,100	3,398,200
Additions	–	13,027
Transfer from property, plant and equipment	71,000	123,000
Transfer to property, plant and equipment	(46,600)	(127,000)
(Decrease) increase in fair value recognised in profit or loss	(307,600)	227,873
	<u>3,351,900</u>	<u>3,635,100</u>
At end of the year	<u>3,351,900</u>	<u>3,635,100</u>

The Group leases out various offices, godown premises and carparks under operating leases with rentals receivable monthly. The leases typically run for an initial period of one to four years, with unilateral rights to extend the lease beyond the initial period granted to lessees. A majority of the lease contracts contain market condition review clauses in an event the lessee exercises the option to extend.

The Group is not exposed to foreign currency risk as a result of the lease arrangements, as all leases are denominated in the respective functional currencies of group entities. The lease contracts do not contain a residual value guarantee or an lessee's option to purchase the property at the end of lease term.

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

During the year, an owned-property has become an investment property because the Group had rented out the property to an independent third party to earn rentals and/or for capital appreciation. Accordingly, the carrying amount of the owned-property has been transferred from property, plant and equipment to investment properties. The fair value at the date of transfer of HK\$71,000,000 (2019: HK\$123,000,000) had been arrived at on the basis of valuation carried out by AA Property Services Limited, Chartered Surveyors, an independent qualified professional valuer not connected with the Group. The valuation was arrived at by reference to market evidence of recent transaction prices for similar properties. The surplus of the fair value of that owned-property over the carrying amount at the date of transfer of HK\$70,673,000 (2019: HK\$110,121,000) is recognised in property revaluation reserve.

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

## 13. INVESTMENT PROPERTIES (Continued)

Certain investment properties had become property, plant and equipment because the Group had commenced to self-occupy those properties. The properties' deemed cost for subsequent accounting period were their fair values at the date of change in use. The fair value at the dates of transfers of HK\$46,600,000 had been arrived at on the basis of valuations carried out by AA Property Services Limited. The valuations were arrived at by reference to market evidence of recent transaction prices for similar properties.

The fair values of the Group's investment properties as at 31 March 2020 amounting to HK\$3,351,900,000 (2019: HK\$3,635,100,000) have been arrived at on the basis of valuations carried out on that date by Messrs. Jones Lang LaSalle Limited and AA Property Services Limited, Chartered Surveyors, independent qualified professional valuers not connected to the Group. The directors of Messrs. Jones Lang LaSalle Limited and AA Property Services Limited, Chartered Surveyors, who carried out the valuations, are members of the Hong Kong Institute of Surveyors. The fair values of the investment properties were determined based on the income approach or market comparison approach, where appropriate. For the income approach, the valuations were arrived on the basis of capitalisation of the rental income receivable and reversionary income potential by adopting appropriate capitalisation rates. For the market comparison approach, the valuations were arrived at by reference to the comparable sale transactions as available in the relevant market. This approach rests on the wide acceptance of the market transactions as the best indicator and presupposes that evidence of relevant transactions in the market place can be extrapolated to similar properties, subject to allowances for variable factors.

The revaluations gave rise to a loss arising from changes in fair value of HK\$307,600,000 (2019: HK\$227,873,000) which has been included in the consolidated statement of profit or loss and other comprehensive income.

In determining the fair value of the investment properties, the Group engages independent qualified professional valuers to perform valuation. The management works closely with the independent qualified professional valuers to establish the appropriate techniques and inputs to the model. The management reports the valuation reports and findings to the board of directors of the Company half yearly to explain the cause of fluctuations in the fair value of the investment properties.

There has been no change from the valuation technique used in prior year. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

## 13. INVESTMENT PROPERTIES (Continued)

The following table gives information about how the fair values of the major investment properties are determined (in particular, the valuation techniques and key inputs used), as well as the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements are observable.

Investment properties held by the Group in the consolidated statement of financial position	Fair value		Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable inputs	Relationship of unobservable inputs to fair value	Sensitivity
	2020	2019					
	HK\$'000	HK\$'000					
Industrial/office property in Kwun Tong – Lu Plaza	2,739,000	3,014,000	Level 3	Income capitalisation approach:  The key inputs are:  (i) capitalisation rate  (ii) market unit rent	Capitalisation rate, taking into account the capitalisation of rental income potential, nature of the property, prevailing market conditions, of 3.75% (2019: 3.6%).  Market unit rent, taking into account direct market comparables within the property.	The higher the capitalisation rate, the lower the fair value.  The higher the market unit rent, the higher the fair value.	Note (a)  Note (b)
Industrial/godown premises in Kwai Chung – Safety Godown	497,000	453,000	Level 3	Income capitalisation approach:  The key inputs are:  (i) capitalisation rate  (ii) market unit rent	Capitalisation rate, taking into account the capitalisation of rental income potential, nature of the property, prevailing market conditions, of 4.2% (2019: 4%).  Market unit rent, taking into account direct market comparables within the property.	The higher the capitalisation rate, the lower the fair value.  The higher the market unit rent, the higher the fair value.	Note (a)  Note (b)

*Notes:*

- (a) A significant change in the unobservable inputs would result in a significant higher or lower fair value measurement.
- (b) There is no indication that any slight change in the unobservable input would result in a significant higher or lower fair value measurement.

There were no transfers into or out of Level 3 during the year.

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

## 14. PROPERTY, PLANT AND EQUIPMENT

	Right-of-use assets – leasehold lands <i>HK\$'000</i>	Owned- properties <i>HK\$'000</i>	Leasehold improvements, furniture, fixtures and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>COST</b>						
At 1 April 2018	–	141,739	21,388	2,696	–	165,823
Additions	–	–	5,335	–	–	5,335
Transfer from investment properties	–	127,000	–	–	–	127,000
Transfer to investment properties	–	(21,500)	–	–	–	(21,500)
Disposal/written off	–	–	–	(1,551)	–	(1,551)
At 31 March 2019	–	247,239	26,723	1,145	–	275,107
Adjustments upon application of HKFRS 16	101,958	(101,958)	–	–	–	–
At 1 April 2019 (restated)	101,958	145,281	26,723	1,145	–	275,107
Additions	–	–	5,030	–	12,596	17,626
Transfer from investment properties	36,200	10,400	–	–	–	46,600
Transfer to investment properties	(616)	(1,016)	–	–	–	(1,632)
Disposal/written off	–	–	(15)	–	–	(15)
At 31 March 2020	137,542	154,665	31,738	1,145	12,596	337,686
<b>DEPRECIATION</b>						
At 1 April 2018	–	63,538	14,118	2,360	–	80,016
Provided for the year	–	12,539	3,632	112	–	16,283
Transfer to investment properties	–	(8,621)	–	–	–	(8,621)
Eliminated on written off	–	–	–	(1,551)	–	(1,551)
At 31 March 2019	–	67,456	17,750	921	–	86,127
Adjustments upon application of HKFRS 16	12,514	(12,514)	–	–	–	–
At 1 April 2019 (restated)	12,514	54,942	17,750	921	–	86,127
Provided for the year	4,443	10,275	4,490	112	–	19,320
Transfer to investment properties	(289)	(1,016)	–	–	–	(1,305)
Eliminated on disposal/written off	–	–	(15)	–	–	(15)
At 31 March 2020	16,668	64,201	22,225	1,033	–	104,127
<b>CARRYING AMOUNTS</b>						
At 31 March 2020	<u>120,874</u>	<u>90,464</u>	<u>9,513</u>	<u>112</u>	<u>12,596</u>	<u>233,559</u>
At 31 March 2019	<u>–</u>	<u>179,783</u>	<u>8,973</u>	<u>224</u>	<u>–</u>	<u>188,980</u>



# Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

## 14. PROPERTY, PLANT AND EQUIPMENT (Continued)

During the year, the Group's owner-occupied properties, including the underlying leasehold lands, with net carrying amount of HK\$327,000 (2019: HK\$12,879,000) were transferred to investment properties upon commencement of an operating lease to an independent third party. Fair value of the owner-occupied property at the date of transfer amounted to HK\$71,000,000 (2019: HK\$123,000,000), and a surplus on revaluation of HK\$70,673,000 (2019: HK\$110,121,000) is credited to property revaluation reserve.

The above items of property, plant and equipment, except for construction in progress, are depreciated on a straight-line basis at the following rates per annum:

Leasehold lands	The unexpired term of the land lease
Owned-properties	Shorter of the useful life of the buildings or the unexpired term of the land lease (3% to 7% per annum)
Leasehold improvements, furniture, fixtures and equipment	25% per annum
Motor vehicles	25% per annum

The Group owns several godown premises, where its godown facilities are primarily located. The Group is the registered owner of these property interests, including the underlying leasehold lands. Lump sum payments were made upfront to acquire these property interests. The leasehold land components of these owned properties are presented separately only if the payments made can be allocated reliably.

At 31 March 2020, the cost of fully depreciated property, plant and equipment of the Group that is still in use amounted to HK\$10,927,000 (2019: HK\$8,880,000).

## 15. DEBT INSTRUMENT AT AMORTISED COST

At 31 March 2020 and 31 March 2019, the Group held an unsecured senior note denominated in United States dollar ("US\$") with a principal amount of US\$3,000,000 issued by a financial institution, which bears interest at the rate of 3% per annum receivable semi-annually (the "Note"). The Note matured on 5 April 2020.

The directors consider that the carrying amount of the Note as at 31 March 2020 and 31 March 2019 approximate its fair value.

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

## 16. INVESTMENTS HELD FOR TRADING

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Equity investments, at fair value:		
Listed in:		
Hong Kong	71,510	73,286
Switzerland	–	18,185
United Kingdom	–	2,071
United States	–	50,501
Germany	874	–
	<u>72,384</u>	<u>144,043</u>
Unlisted, investment funds at fair value	111,904	110,591
Unlisted, debt instruments at fair value	38,920	38,110
	<u>223,208</u>	<u>292,744</u>

## 17. TRADE AND OTHER RECEIVABLES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Trade receivables	4,226	5,899
Less: allowance for credit losses	(906)	–
	<u>3,320</u>	<u>5,899</u>
Other receivables	4,546	5,020
Prepayments and deposits	19,823	11,856
	<u>27,689</u>	<u>22,775</u>

As at 31 March 2020 and 2019 and 1 April 2018, trade receivables from contracts with customers amounted to HK\$2,118,000, HK\$3,522,000 and 2,426,000, respectively.

The following is an ageing analysis of trade receivables (net of allowance for credit losses) of the Group presented based on the billing date:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Within 30 days	2,313	4,428
31-60 days	731	1,393
61-90 days	272	71
Over 90 days	4	7
	<u>3,320</u>	<u>5,899</u>

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

## 17. TRADE AND OTHER RECEIVABLES (Continued)

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

As at 31 March 2020, included in the Group's trade receivables balance are debtors with an aggregate carrying amount of HK\$388,000 (2019: HK\$85,000) which were past due as at the reporting date. Out of the past due balances, none (2019: HK\$7,000) had been past due for 90 days or more and they were not considered as in default. In the opinion of the directors of the Company, the trade receivables which were past due but not impaired are considered to be collectable based on historical experience and related repayment history. The Group does not hold any collateral from its other customers.

Trade receivables that are neither past due nor impaired are assessed to have good credit quality and low default rate based on internal credit assessment performed by the management of the Group.

Details of impairment assessment of trade and other receivables are set out in note 27(b).

## 18. BANK DEPOSITS/OTHER DEPOSITS/BANK BALANCES AND CASH

The bank deposits are designated for treasury investment purpose.

Bank deposits are carrying interest at variable rates ranging from 0.05% to 3.5% (2019: 0.1% to 3.25%) per annum.

Other deposits represent deposits with security brokers which are carrying interest ranging from 0.001% to 0.05% (2019: at 0.01% to 0.79%) per annum.

The bank balances carry prevailing market interest rates.

As at the end of the reporting period, the Group has the following bank deposits, other deposits and bank balances and cash denominated in foreign currencies:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Bank deposits, other deposits and bank balances and cash denominated in:		
US\$	668,557	605,408
EURO ("EUR")	1,490	–
Swiss Franc ("CHF")	900	–
	<u>670,947</u>	<u>605,408</u>

The Group performed impairment assessments on bank deposits, other deposits and bank balances and concluded that the probability of default of the counterparties are insignificant and accordingly, no allowance for credit losses is provided.

Details of impairment assessment of bank deposits, other deposits and bank balances are set out in note 27(b).

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

## 19. OTHER PAYABLES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Tenants' deposits	15,510	18,154
Receipts in advance	2,119	2,830
Dividend payable	5,463	5,134
Others	7,549	6,131
	<u>30,641</u>	<u>32,249</u>

## 20. SHARE CAPITAL

	Number of shares <i>'000</i>	Amount <i>HK\$'000</i>
Issued and fully paid:		
Ordinary shares with no par value		
At 1 April 2018, 31 March 2019 and 31 March 2020	<u>135,000</u>	<u>178,216</u>

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meeting of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

## 21. DEFERRED TAXATION

The followings are the major deferred tax liabilities (assets) recognised by the Group and movements during the current and prior years:

	Accelerated tax depreciation <i>HK\$'000</i>	Tax losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2018	64,241	(291)	63,950
Charge to profit or loss	<u>2,216</u>	<u>19</u>	<u>2,235</u>
At 31 March 2019	66,457	(272)	66,185
Charge (credit) to profit or loss	<u>4,468</u>	<u>(67)</u>	<u>4,401</u>
At 31 March 2020	<u>70,925</u>	<u>(339)</u>	<u>70,586</u>

For the purpose of presentation in the consolidated statement of financial position, the above deferred tax assets and liabilities have been offset.

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

## 21. DEFERRED TAXATION (Continued)

At 31 March 2020, the Group has estimated unused tax losses of HK\$124,407,000 (2019: HK\$87,051,000) available for offset against future profits that may be carried forward indefinitely. A deferred tax asset has been recognised in respect of HK\$2,055,000 (2019: HK\$1,650,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK\$122,352,000 (2019: HK\$85,401,000) due to the unpredictability of future profit streams.

## 22. PROVISION FOR LONG SERVICE PAYMENTS

The Group did not have any formal retirement scheme before participating in the Mandatory Provident Fund Scheme, but makes provision for long service payments on an annual basis. The directors are of the opinion that the provision at the end of the reporting period is sufficient to cover the Group's probable obligations. The level of such provision will be reviewed on an annual basis and adjusted as appropriate.

Movements in the provision for long service payments during the year are as follows:

	2020 HK\$'000	2019 HK\$'000
Balance brought forward	578	412
Addition	372	166
Utilisation during the year	(118)	–
Balance carried forward	<u>832</u>	<u>578</u>

In addition to the provision for long service payments, the Group has contributed to the Mandatory Provident Fund Scheme for all employees commencing from 1 December 2000 and the amount charged for the year is HK\$425,000 (2019: HK\$410,000).

## 23. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or the future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Dividend payable HK\$'000
At 1 April 2018	4,998
Non-cash changes – Dividends declared ( <i>note 11</i> )	75,600
Changes from financing cash flows – Dividends paid	<u>(75,464)</u>
At 31 March 2019	5,134
Non-cash changes – Dividends declared ( <i>note 11</i> )	145,800
Changes from financing cash flows – Dividends paid	<u>(145,471)</u>
At 31 March 2020	<u>5,463</u>

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

## 24. OPERATING LEASES

### The Group as lessor

Property rental income earned during the year is HK\$96,651,000 (2019: HK\$93,947,000). The properties held for rental purpose have committed leases for the next one month to four years (2019: ten months to five years).

Minimum lease payments receivable on leases are as follows:

	2020 HK\$'000
Within one year	88,671
In the second year	53,850
In the third year	6,705
In the fourth year	16
	<hr/>
	<b>149,242</b>

At the end of the reporting period, the Group had contracted with tenants for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	2019 HK\$'000
Within one year	79,617
In the second to fifth year inclusive	87,650
	<hr/>
	<b>167,267</b>

## 25. RELATED PARTY DISCLOSURES

During the year, the Group and the Company received a reimbursement of expenses amounting to HK\$240,000 (2019: HK\$240,000) from a company which is taken to be controlled by Ms. Chan Koon Fung (spouse of the late Chairman Mr. Lu Sin) and Mr. Lu Wing Yee, Wayne, executive director of the Company as he is one of executors of the estate of Mr. Lu Sin. The reimbursement represents a share of the expenses incurred in respect of the occupation of office premises and general administrative services provided to the related company.

Details of the directors' remuneration, representing the key management personnel of the Group, are disclosed in note 7. The remuneration of directors is determined by the Remuneration and Nomination Committee, having regard to the performance of the individuals and market trends.

The amounts due from/to subsidiaries are disclosed in the Company's statement of financial position in note 29.

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

## 26. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of equity of the Company, comprising issued share capital, retained profits and property revaluation reserve.

The management of the Group reviews the capital structure on a regular basis. As part of this review, the management of the Group considers the cost of capital and the risks associated with issued share capital and will balance its overall capital structure through payment of dividend and issuing new shares.

## 27. FINANCIAL INSTRUMENTS

### a. Categories of financial instruments

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
<b>Financial assets</b>		
Financial assets at amortised cost	805,943	870,194
Investments held for trading	223,208	292,744
Debt instrument at amortised cost	<u>23,248</u>	<u>23,244</u>
<b>Financial liabilities</b>		
Amortised cost	<u>41,824</u>	<u>42,234</u>

### b. Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, bank and other deposits, bank balances and cash, investments held for trading, debt instrument at amortised cost, other payables and long-term tenants' deposits received. Details of the financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

## 27. FINANCIAL INSTRUMENTS (Continued)

### b. Financial risk management objectives and policies (Continued)

#### Market risk

##### (i) Currency risk

Certain bank and other deposits, debt instrument at amortised cost and investments held for trading of the Group are denominated in foreign currencies, and therefore the Group is exposed to foreign currency risk. The Group currently does not have a foreign currency hedging policy. However, the management of the Group regularly monitors the Group's foreign exchange exposure and will consider hedging significant foreign exchange exposure should the need arise. The carrying amounts of the Group's foreign currency denominated monetary assets at the end of the reporting period are as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
EUR	2,364	–
US\$	846,206	850,032
CHF	900	–
	<u>                    </u>	<u>                    </u>

The HK\$ is pegged to US\$ and the management is of the opinion that the foreign exchange risk of the financial instruments denominated in US\$ is insignificant.

The following table details the Group's sensitivity to a 5% (2019: 5%) rate increase or decrease in HK\$ against EUR and CHF. 5% (2019: 5%) is the sensitivity rate used which represents management's assessment of a reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% (2019: 5%) change in foreign currency rates. A positive number below indicates a decrease in loss (2019: increase in profit) for the year where HK\$ weakened 5% (2019: 5%) against the relevant currencies. For a 5% (2019: 5%) strengthening of HK\$ against the relevant currencies, there would be an equal and opposite impact on the loss for the year, and the balances below would be negative.

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
EUR	99	–
CHF	38	–
	<u>                    </u>	<u>                    </u>

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.



# Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

## 27. FINANCIAL INSTRUMENTS (Continued)

### b. Financial risk management objectives and policies (Continued)

#### *Market risk (Continued)*

##### *(ii) Interest rate risk*

The Group is exposed to cash flow interest rate risk mainly in relation to variable-rate bank deposits (see note 18 for details). The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of interest rates on bank deposits. The Group is also exposed to fair value interest rate risk in relation to debt instrument at amortised cost with interest at fixed rate.

The management monitors the cash flow and fair value interest rate risk exposures and will take appropriate action should the need arise.

In view of the current low-interest rate environment, the management is of the opinion that the interest rate risk on bank deposits is insignificant.

##### *(iii) Other price risk*

The Group is exposed to equity price risk through its investments held for trading. The management manages this exposure by monitoring closely market fluctuations and maintaining a portfolio of investments with different risks. The Group's equity price risk is mainly concentrated on equity instruments quoted in the Stock Exchange, New York Stock Exchange and the Frankfurt Stock Exchange (2019: the Stock Exchange, the New York Exchange and the SIX Swiss Exchange and the London Stock Exchange). In addition, the Group has appointed a special team of personnel to monitor the price risk and will consider hedging the risk exposure should the need arise.

The sensitivity analyses below have been determined based on the exposure to equity price risk at the end of the reporting date. 10% (2019: 10%) is the sensitivity rate used which represents management's assessment of a reasonably possible change in equity price on investments.

If the prices of the investments held for trading had been 10% (2019: 10%) higher/lower, the Group's loss (2019: profit) for the year ended 31 March 2020 would decrease/increase by HK\$18,638,000 (2019: increase/decrease by HK\$24,444,000) as a result of the changes in fair value of investments held for trading.

#### *Credit risk and impairment assessment*

The Group is exposed to credit risk that the counterparty to a financial instrument will cause a financial loss for the Group by failing to discharge its obligations.

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations in relation to each class of recognised financial assets is the carrying amount of those assets in the consolidated statement of financial position. The Group's credit risk is primarily attributable to its debt instrument at amortised cost, bank and other deposits, bank balances and trade and other receivables.

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

## 27. FINANCIAL INSTRUMENTS (Continued)

### b. Financial risk management objectives and policies (Continued)

#### *Credit risk and impairment assessment (Continued)*

##### *Debt instrument at amortised cost*

The credit risk on debt instrument at amortised cost is limited as the counterparty is a bank with high credit ratings assigned by international credit-rating agencies.

##### *Bank deposits, other deposits and bank balances*

The credit risk on the Group's bank and other deposits and bank balances is limited as the counterparties have high credit ratings assigned by international credit-rating agencies.

##### *Trade receivables*

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and credit approvals. Before accepting any new customer, the Group uses an internal credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed once a year. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model upon application of HKFRS 9 "Financial Instruments" on trade balances individually or based on provision matrix. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

##### *Other receivables*

The credit risk on the Group's other receivables is limited as the counterparties do not have any past due amounts and have low risk based on internal credit risk grading assessment.

The Group's internal credit risk grading assessment comprises the following categories:

<b>Internal credit rating</b>	<b>Description</b>	<b>Trade receivables</b>	<b>Other financial assets</b>
Low risk	The counterparty has a low risk of default and does not have any past-due amounts	Lifetime ECL – not credit-impaired	12m ECL
Watch list	Debtor frequently repays after due dates but usually settle in full	Lifetime ECL – not credit-impaired	12m ECL
Doubtful	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL – not credit-impaired	Lifetime ECL – not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

## 27. FINANCIAL INSTRUMENTS (Continued)

### b. Financial risk management objectives and policies (Continued)

#### Credit risk and impairment assessment (Continued)

The table below details the credit risk exposures of the Group's financial assets which are subject to ECL assessment:

	Notes	External credit rating		Internal credit rating		12m or lifetime ECL		Gross carrying amount	
		2020	2019	2020	2019	2020	2019	2020	2019
								HK\$'000	HK\$'000
<b>Debt instrument at amortised cost</b>									
Senior note	15	A1	A2	N/A	N/A	12m ECL	12m ECL	23,248	23,244
<b>Financial assets at amortised cost</b>									
Trade receivables	17	N/A	N/A	Note i	Note i	Lifetime ECL (provision matrix)	Lifetime ECL (provision matrix)	3,320	5,899
		N/A	N/A	Loss	N/A	Credit-impaired	N/A	906	–
Other receivables	17	N/A	N/A	Note ii	Note ii	12m ECL	12m ECL	4,546	5,020
		N/A	N/A	Loss	N/A	Credit-impaired	N/A	1,592	–
Bank deposits	18	A1 – Aa3	A1 – Aa2	N/A	N/A	12m ECL	12m ECL	610,190	757,584
Other deposits	18	Baa3 – Aa2	Baa3 – Aa2	N/A	N/A	12m ECL	12m ECL	26,016	84,150
Bank balances	18	A1 – Aa1	A1 – Aa1	N/A	N/A	12m ECL	12m ECL	161,855	17,523

#### Notes:

- i. For trade receivables, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. Except for debtors with significant outstanding balances or credit-impaired, the Group determines the expected credit losses on these items by using a provision matrix, grouped by ageing analysis.

During the year ended 31 March 2020 and 2019, no impairment allowance on trade receivables is provided based on a provision matrix as the amount is considered insignificant. Impairment allowance of HK\$906,000 (2019: nil) was made on a credit-impaired debtor.

- ii. For other receivables, the Group measures the loss allowance equal to 12m ECL. The Group applies internal credit risk management to assess whether credit risks has increased significantly since initial recognition, in which case the Group recognises lifetime ECL. Impairment allowance of HK\$1,592,000 (2019: nil) was made on a credit-impaired debtor. The credit risk on the remaining balances is limited having considered the credit quality of the counterparties and the probability of default is negligible. Therefore, no impairment allowances are made on these balances.

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

## 27. FINANCIAL INSTRUMENTS (Continued)

### b. Financial risk management objectives and policies (Continued)

#### *Credit risk and impairment assessment (Continued)*

The following table shows the movement in lifetime ECL (credit-impaired) that has been recognised for trade receivables under the simplified approach and other receivables.

	Trade receivables <i>HK\$'000</i>	Other receivables <i>HK\$'000</i>
At 1 April 2018 and 31 March 2019	–	–
Impairment loss recognised	906	1,592
At 31 March 2020	906	1,592

The change in the loss allowance for trade and other receivables for the year ended 31 March 2020 are due to a debtor with gross carrying amounts of HK\$906,000 (2019: nil) and HK\$1,592,000 (2019: nil), respectively, defaulted and considered as credit-impaired.

#### *Liquidity risk*

The ultimate responsibility for liquidity risk management rests with the directors of the Company, who have built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity requirements. The Group manages liquidity risk by maintaining adequate working capital, available banking facilities by continuously monitoring forecast and actual cash flows and matching profiles of financial assets and liabilities.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

	Non-interest-bearing	
	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
0-1 year	23,423	26,571
1-2 years	7,948	7,553
2-5 years	10,453	8,110
Total undiscounted cash flows	41,824	42,234
Carrying amounts	41,824	42,234

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

## 27. FINANCIAL INSTRUMENTS (Continued)

### c. Fair value measurements of financial instruments

#### (i) Fair value of the Group's financial assets that are measured at fair value on a recurring basis

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation techniques and inputs used).

Financial assets	Fair value as at		Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable inputs
	2020 HK\$'000	2019 HK\$'000			
<b>Investments held for trading</b>					
Listed equity investments	<b>72,384</b>	144,043	Level 1	Quoted bid prices in an active market.	N/A
Unlisted investment funds	<b>111,904</b>	110,591	Level 2	Redemption values quoted by the relevant investment funds with reference to the underlying assets of funds.	N/A
Unlisted debt instruments	<b>38,920</b>	38,110	Level 2	Quoted prices provided by brokers/ financial institutions.	N/A

There were no transfers between Level 1 and 2 from/to 3 during the year.

#### (ii) Fair value of the Group's financial assets and financial liabilities that are not measured at fair value on a recurring basis

The directors of the Company consider that the carrying amounts of other financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values. The fair values of these financial assets and liabilities have been determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

## 28. CAPITAL COMMITMENTS

	2020 HK\$'000	2019 HK\$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of:		
– refurbishment of investment properties	10,073	14,554
– acquisition of property, plant and equipment	7,734	567
	<b>17,807</b>	<b>15,121</b>

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

## 29. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
<b>Non-current assets</b>		
Property, plant and equipment	293	1,036
Investments in subsidiaries	81,883	81,882
Amounts due from subsidiaries	365,294	414,899
	<u>447,470</u>	<u>497,817</u>
<b>Current assets</b>		
Trade and other receivables	644	575
Amounts due from subsidiaries	865,314	1,044,766
Bank deposits	82,160	55,000
Bank balances and cash	89,487	10,913
	<u>1,037,605</u>	<u>1,111,254</u>
<b>Current liabilities</b>		
Other payables	7,257	7,947
Amounts due to subsidiaries	62,204	82,064
Tax payable	16,387	16,387
	<u>85,848</u>	<u>106,398</u>
<b>Net current assets</b>	<u>951,757</u>	<u>1,004,856</u>
	<u>1,399,227</u>	<u>1,502,673</u>
<b>Capital and reserve</b>		
Share capital	178,216	178,216
Retained profits (note)	1,220,755	1,324,196
	<u>1,398,971</u>	<u>1,502,412</u>
<b>Non-current liability</b>		
Provision for long service payments	256	261
	<u>1,399,227</u>	<u>1,502,673</u>

The Company's statement of financial position was approved and authorised for issue by the Board of Directors on 26 June 2020 and is signed on its behalf by:

**Lu Wing Yee, Wayne**  
*Director*

**Lee Ka Sze, Carmelo**  
*Director*

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

## 29. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note: Movement of retained profits

	Retained profits HK\$'000
At 1 April 2018	1,400,247
Loss and total comprehensive expense for the year	(451)
Dividends paid ( <i>note 11</i> )	(75,600)
	<hr/>
At 31 March 2019	1,324,196
Profit and total comprehensive income for the year	42,359
Dividends paid ( <i>note 11</i> )	(145,800)
	<hr/>
At 31 March 2020	<u>1,220,755</u>

## 30. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Particulars of principal subsidiaries at 31 March 2020 and 2019 are as follows:

Name of company	Place of incorporation/ registration/ operations	Paid-up capital	Proportion of nominal value of issued capital held by the Company		Principal activities
			2020	2019	
Safety Logistics Services Limited	Hong Kong	HK\$10,000,000 Ordinary shares	100%	100%	Operating godown
Chi Kee Investment Company Limited	Hong Kong	HK\$500,000 Ordinary shares	100%	100%	Property investment
Chivas Godown Company Limited	Hong Kong	HK\$10,000,000 Ordinary shares	100%	100%	Securities trading
Evertime Resources Limited ( <i>note i</i> )	British Virgin Islands/ Hong Kong	US\$1 Ordinary share	–	100%	Securities trading
Foshan Investment Limited ( <i>note i</i> )	British Virgin Islands/ Hong Kong	US\$1 Ordinary share	–	100%	Securities trading
Gaylake Limited	Hong Kong	HK\$1,000 Ordinary shares	100%	100%	Property investment and holding godown

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

## 30. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Continued)

Name of company	Place of incorporation/ registration/ operations	Paid-up capital	Proportion of nominal value of issued capital held by the Company		Principal activities
			2020	2019	
Genlink Development Limited	Hong Kong	HK\$2 Ordinary shares	100%	100%	Property investment
Good Ready Investment Limited	Hong Kong	HK\$2 Ordinary shares	100%	100%	Property investment
Rich China Development Limited	Hong Kong	HK\$2 Ordinary shares	100%	100%	Securities trading
Tonichi Investment Limited	British Virgin Islands/ Hong Kong	US\$1 Ordinary shares	100%	100%	Securities trading
Cofine Investment Limited (note ii)	British Virgin Islands/ Hong Kong	US\$1 Ordinary shares	100%	–	Securities trading

*Notes:*

- i. The subsidiary is dissolved during the year.
- ii. The subsidiary is newly incorporated during the year.

The above table lists the major subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length. A complete list of all the Company's subsidiaries will be annexed to the next annual return of the Company.

None of the subsidiaries had issued any debt securities at the end of the year or at any time during the year.

## 31. EVENTS AFTER THE END OF THE REPORTING PERIOD

The potential impact of the novel coronavirus, or known as the COVID-19, on the global economy is tremendous but still uncertain. Concerns about the impact from COVID-19 heighten and these weigh on the corporate earnings and the global economic outlook.

The negative effect resulting from COVID-19 is largely dependent on the situation and duration of the epidemic development. Future adverse changes in economic conditions would negatively affect the Group's financial position and performance, and the financial effects will be reflected in the Group's future financial statements when the Group remeasures the fair value of its financial assets and investment properties and reassesses the expected credit loss on financial assets. The Group will continue to monitor the development and volatile market conditions.



# Particulars of Major Properties

Particulars of major properties which were held by the Group at 31 March 2020 are as follows:

(a) Industrial/godown premises in Hong Kong:

Location	Lease term	Effective interest held	Approximate floor area attributable to the Group <i>sq. ft.</i>	Type
The whole of Safety Godown (except G/F, M/F, 5/F and Portion A on 6/F) 132-140 Kwok Shui Road, Kwai Chung, New Territories, Hong Kong	Medium-term lease	100%	338,000	Industrial/godown premises

(b) Investment properties in Hong Kong:

Location	Lease term	Effective interest held	Approximate floor area attributable to the Group <i>sq. ft.</i>	Type
2 Wing Yip Street, Kwun Tong, Kowloon Hong Kong	Medium-term lease	100%	430,000 and 191 car-parking spaces	Office
G/F, M/F, 5/F and Portion A on 6/F of Safety Godown 132-140 Kwok Shui Road, Kwai Chung, New Territories, Hong Kong	Medium-term lease	100%	83,000	Industrial/godown premises