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SAFETY GODOWN COMPANY, LIMITED
(Incorporated in Hong Kong with limited liability)
(Stock Code: 237)

ANNUAL RESULTS ANNOUNCEMENT FOR 2019/2020

The Board of Directors (the “Board”) of Safety Godown Company, Limited (the “Company”) hereby announces the audited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 March 2020 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2020

	<i>Notes</i>	2020 HK\$'000	2019 HK\$'000
Revenue	3	137,612	142,275
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		(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		(25,102)	(23,755)
 (Loss) profit before taxation	5	(279,277)	290,807
Taxation	6	(13,250)	(11,765)
 (Loss) profit for the year attributable to owners of the Company		(292,527)	279,042

	<i>Notes</i>	2020 HK\$'000	2019 HK\$'000
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	8	<u><u>(HK\$2.17)</u></u>	<u><u>HK\$2.07</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 MARCH 2020

	<i>Notes</i>	2020 HK\$'000	2019 <i>HK\$'000</i>
Non-current assets			
Investment properties		3,351,900	3,635,100
Property, plant and equipment		233,559	188,980
Debt instrument at amortised cost		–	23,244
		<u>3,585,459</u>	<u>3,847,324</u>
Current assets			
Investments held for trading		223,208	292,744
Debt instrument at amortised cost		23,248	–
Trade and other receivables	9	27,689	22,775
Tax recoverable		567	–
Bank deposits		610,190	757,584
Other deposits		26,016	84,150
Bank balances and cash		161,871	17,541
		<u>1,072,789</u>	<u>1,174,794</u>
Current liabilities			
Other payables		30,641	32,249
Tax payable		18,333	20,335
		<u>48,974</u>	<u>52,584</u>
Net current assets		<u>1,023,815</u>	<u>1,122,210</u>
		<u>4,609,274</u>	<u>4,969,534</u>
Capital and reserves			
Share capital		178,216	178,216
Reserves		4,341,239	4,708,893
Equity attributable to owners of the Company		<u>4,519,455</u>	<u>4,887,109</u>
Non-current liabilities			
Long-term tenants' deposits received		18,401	15,662
Deferred tax liabilities		70,586	66,185
Provision for long service payments		832	578
		<u>89,819</u>	<u>82,425</u>
		<u>4,609,274</u>	<u>4,969,534</u>

NOTES:

1. BASIS OF PREPARATION

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

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

The financial information relating to the years ended 31 March 2020 and 2019 included in this preliminary announcement of annual results 2020 do not constitute the Company’s statutory annual consolidated financial statements for those years but is derived from those consolidated financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the CO is as follows.

The Company has delivered the financial statements for the year ended 31 March 2019 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the CO and will deliver the financial statements for the year ended 31 March 2020 in due course.

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

2. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs

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

The Group has applied the following new and amendments to HKFRSs issued by the 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.

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.

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

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.

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. 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
Total income from godown operations	<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>
Types of goods or services (time of revenue recognition):		
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>

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.

(c) Leases

	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
For operating leases:		
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.

4. SEGMENT INFORMATION

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

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

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

For the year ended 31 March 2020

	Godown operations <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Treasury investment <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Segment revenue	<u>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>
	Godown operations <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Treasury investment <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Assets				
Segment assets	173,385	3,435,052	886,718	4,495,155
Bank balances and cash				161,871
Unallocated other assets				<u>1,222</u>
Consolidated total assets				<u>4,658,248</u>
Liabilities				
Segment liabilities	1,757	39,041	1,175	41,973
Tax payable				18,333
Deferred tax liabilities				70,586
Unallocated other liabilities				<u>7,901</u>
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>
Other information				
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	<u>–</u>	<u>906</u>	<u>–</u>	<u>906</u>

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

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 3.

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

5. (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	382	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
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 (<i>note</i>)	46,590	19,783
	<u>46,590</u>	<u>19,783</u>

Note: Amount included in other gains and losses.

6. 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		
Current year	4,401	2,235
	<u>13,250</u>	<u>11,765</u>

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

7. 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” below) (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.

8. 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.

9. TRADE AND OTHER RECEIVABLES

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	<u>4</u>	<u>7</u>
	3,320	5,899
Other receivables	4,546	5,020
Prepayments and deposits	<u>19,823</u>	<u>11,856</u>
	<u><u>27,689</u></u>	<u><u>22,775</u></u>

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.

PROPOSED SHARE SUBDIVISION

The Board has proposed to implement a share subdivision on the basis that every one existing issued 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.

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), 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)).

ANNUAL GENERAL MEETING

The AGM will be held on Friday, 14 August 2020. The notice of AGM will be published on the websites of the Hong Kong Exchanges and Clearing Limited (“HKEx”) at www.hkex.com.hk and the Company at www.safetygodown.com and despatched to the shareholders in due course as required by the Listing Rules.

CLOSURE OF MEMBERS REGISTER

To ascertain the shareholders’ entitlement to attend and vote at the AGM, 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 AGM, 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.

BUSINESS REVIEW

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 were 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.

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 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.

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.

REVIEW OF FINANCIAL RESULTS

FINANCIAL OVERVIEW

For 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) 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.

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.

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.

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.

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).

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.

Total dividends including interim, final and special dividends paid by the Company during the year amounted to HK\$145,800,000 (2019: interim and final dividends amounted to HK\$75,600,000).

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.

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.

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.

PURCHASE, SALE OR REDEMPTION OF SHARES

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

AUDIT COMMITTEE

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

The Audit Committee, together with the management of the Company, have reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including the review of the audited consolidated financial statements of the Group for the year ended 31 March 2020.

CORPORATE GOVERNANCE PRACTICES

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 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 announcement. 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 AGM 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.

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.

OTHER INFORMATION

The annual report of the Company for the year ended 31 March 2020 containing all the information required by the Listing Rules will be published on the websites of the HKEx at www.hkex.com.hk and the Company at www.safetygodown.com and despatched to shareholders in due course.

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

Hong Kong, 26 June 2020

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

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