安全貨倉有限公司

SAFETY GODOWN CO LTD

(Incorporated in Hong Kong with limited liability)

(Stock Code: 237)

ANNUAL RESULTS ANNOUNCEMENT – 2016/2017

The Board of Directors of Safety Godown Company, Limited (the "Company") is pleased to announce that the audited results of the Company and its subsidiaries (the "Group") for the year ended 31 March 2017 are as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2017

	NOTES	**2017**	2016
		HK$'000	*HK$'000*
Revenue	*3*	**122,404**	154,002
Income from godown operations		**31,816**	37,456
Income from property investment		**79,988**	108,612
Gain on disposal of available-for-sale investments		**19,782**	62,206
Interest income		**3,367**	2,813
Dividend income		**7,233**	5,121
Other gains and losses		**8,994**	(43,758)
(Loss) gain on disposal of property, plant and equipment		**(9)**	326,574
Increase in fair value of investment properties		**187,389**	431,651
Staff costs		**(12,705)**	(18,550)
Depreciation of property, plant and equipment		**(7,156)**	(6,705)
Other expenses		**(35,996)**	(32,261)
Profit before taxation	*5*	**282,703**	873,159
Taxation	*6*	**(13,073)**	(27,440)
Profit for the year attributable to owners of the Company		**269,630**	845,719

	NOTES	2017	2016
		HK$'000	*HK$'000*
Other comprehensive (expense) income			
Item that will not be reclassified to profit or loss:			
Revaluation surplus on transfer of owner-occupied property to investment properties		–	214,389
Items that may be reclassified subsequently to profit or loss:			
Fair value gain on available-for-sale investments		–	16,830
Investment revaluation reserve released upon disposal of available-for-sale investments		**(20,601)**	(18,078)
Other comprehensive (expense) income for the year		**(20,601)**	213,141
Total comprehensive income for the year attributable to owners of the Company		**249,029**	1,058,860
Earnings per share-Basic	*8*	**HK$2.00**	HK$6.26

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 MARCH 2017

	NOTE	**2017** **HK$'000**	2016 HK$'000
Non-current assets			
Investment properties		**3,081,000**	2,694,200
Property, plant and equipment		**87,708**	76,963
Available-for-sale investments		–	23,155
Held-to-maturity investment		**23,239**	–
Derivative financial instrument		**15,049**	–
		3,206,996	2,794,318
Current assets			
Held-to-maturity investment		–	5,946
Investments held for trading		**313,621**	197,684
Trade and other receivables	*9*	**17,095**	16,962
Tax recoverable		**604**	1,219
Bank deposits		**563,534**	834,146
Other deposits		**13,763**	114,988
Bank balances and cash		**215,181**	685,340
		1,123,798	1,856,285
Current liabilities			
Other payables		**58,883**	44,084
Tax payable		**905**	12,831
		59,788	56,915
Net current assets		**1,064,010**	1,799,370
		4,271,006	4,593,688
Capital and reserves			
Share capital		**178,216**	178,216
Reserves		**4,018,825**	4,350,296
Equity attributable to owners of the Company		**4,197,041**	4,528,512
Non-current liabilities			
Long-term tenants' deposits received		**13,499**	9,162
Deferred tax liabilities		**60,054**	55,053
Provision for long service payments		**412**	961
		73,965	65,176
		4,271,006	4,593,688

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 2017 and 2016 included in this preliminary announcement of annual results 2017 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 2016 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 2017 in due course.

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

2. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs

Amendments to HKFRSs that are mandatorily effective for the current year

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

Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations

The application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
HKFRS 16	Leases[2]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 7	Disclosure Initiative[4]
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[4]
Amendments to HKAS 40	Transfers of Investment Property[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2014-2016 Cycle[5]

[1] Effective for annual periods beginning on or after 1 January 2018.
[2] Effective for annual periods beginning on or after 1 January 2019.
[3] Effective for annual periods beginning on or after a date to be determined.
[4] Effective for annual periods beginning on or after 1 January 2017.
[5] Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate.

HKFRS 9 "Financial Instruments"

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

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

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

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

Based on the Group's financial instruments and risk management policies as at 31 March 2017, application of HKFRS 9 in the future may have a material impact on the classification and measurement of the Group's financial assets. The Group's available-for-sale investments, including those currently stated at cost less impairment, will either be measured as fair value through profit or loss or be designated as FVTOCI (subject to fulfillment of the designation criteria). In addition, the expected credit loss model may result in early provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised cost.

HKFRS 15 "Revenue from Contracts with Customers"

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

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

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

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

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

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

HKFRS 16 "Leases"

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 "Leases" and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Under the HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows.

Under HKAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

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

3. Revenue

The amount represents the following revenue recognised during the year:

	2017	2016
	HK$’000	*HK$’000*
Income from godown operations	**31,816**	37,456
Income from property investment	**79,988**	108,612
Dividend income from listed investments	**7,233**	5,121
Bank interest income	**3,083**	2,382
Other interest income	**284**	431
	122,404	154,002

4. SEGMENT INFORMATION

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

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

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

For the year ended 31 March 2017

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

For the year ended 31 March 2016

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

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

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

- all assets are allocated to operating segments other than the Group's corporate assets, bank balances and cash and tax recoverable; and

- all liabilities are allocated to operating segments other than the Group's corporate liabilities, tax payable and deferred tax liabilities.

Information about major customers

The aggregate revenue attributable to the Group's five largest customers accounted for 28% (2016: 35%) of the Group's total turnover. The revenue attributable to the largest customer (included in both godown operations and property investment segments) in the current year amounted to HK$11,395,000 which accounted for 9% (2016: 13%) of the Group's total turnover, and the revenue attributed to each of the remaining four customers are less than 8% of the Group's total turnover for both years.

Revenue from major services and investments

Analysis of the Group's revenue from its major services and investments are set out in note 3.

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

5. PROFIT BEFORE TAXATION

	2017	2016
	HK$'000	*HK$'000*
Profit before taxation has been arrived at after charging (crediting):		
Auditor's remuneration		
– audit service	**935**	869
– non-audit services	**373**	630
Exchange loss, net	**6,220**	983
Impairment loss recognised on trade receivables	**–**	2
Gross rental income from investment properties	**(79,988)**	(108,612)
Less: direct operating expenses for investment properties that generated rental income	**8,858**	9,316
Net rental income	**(71,130)**	(99,296)
Dividend income from listed investments		
– available-for-sale investments	**–**	(701)
– investments held for trading	**(7,233)**	(4,420)
Bank interest income	**(3,083)**	(2,382)
Interest income from held-to-maturity investment	**(284)**	(431)
Fair value loss on derivative financial instruments *(Note)*	**39,384**	21,721
Fair value (gain) loss on investments held for trading *(Note)*	**(46,962)**	22,790

Note: Amount included in other gains and losses.

6. TAXATION

	2017	2016
	HK$'000	*HK$'000*
The charge comprises:		
Hong Kong Profits Tax		
Current year	**8,160**	27,902
(Over) underprovision in prior years	**(88)**	4
	8,072	27,906
Deferred taxation		
Current year	**5,001**	(466)
	13,073	27,440

Hong Kong Profits Tax is calculated at 16.5% (2016: 16.5%) of the estimated assessable profit for the year. During the year ended 31 March 2016, an income tax expense of HK$14,459,000 had been recognised in respect of the balancing charge of HK$87,630,000 upon disposal of properties.

7. DIVIDENDS

	2017	2016
	HK$'000	*HK$'000*
Interim dividend paid in respect of 2017 - HK8 cents (2016: HK7 cents) per ordinary share	**10,800**	9,450
Special dividend paid in respect of 2017 - HK22 cents (2016: HK15 cents) per ordinary share	**29,700**	20,250
Final dividend paid in respect of 2016 - HK12 cents (2015: HK10 cents) per ordinary share	**16,200**	13,500
Special dividend paid in respect of 2016 - HK$3.88 (2015: HK55 cents) per ordinary share	**523,800**	74,250
	580,500	117,450

A final dividend of HK12 cents per share, amounting to HK$16,200,000 and a special dividend of HK88 cents per share, amounting to HK$118,800,000 for the year have been proposed by the directors and is subject to the approval by shareholders in the forthcoming annual general meeting.

8. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit for the year attributable to owners of the Company of HK$269,630,000 (2016: HK$845,719,000) and on 135,000,000 shares in issue throughout both years.

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

9. TRADE AND OTHER RECEIVABLES

The age analysis of trade customers of the Group presented based on the billing date, which approximates revenue recognition date, is as follows:

	2017	2016
	HK$'000	*HK$'000*
Within 60 days	**4,872**	6,100
61 - 90 days	**322**	535
Over 90 days	**454**	261
Less: allowance for doubtful debts	**–**	–
	5,648	6,896
Other receivables	**2,490**	3,342
Prepayments and deposits	**8,957**	6,724
	17,095	16,962

DIVIDENDS

The Board of Directors has resolved to recommend the payment of a final dividend of HK12 cents per share, amounting to HK$16,200,000 and a special dividend of HK88 cents per share, amounting to HK$118,800,000 for the year ended 31 March 2017, to shareholders whose names appear on the register of members on 29 August 2017 subject to the approval of shareholders at the forthcoming Annual General Meeting. The proposed final dividend and special dividend will be despatched to shareholders on or around 12 September 2017. Together with the interim dividend of HK8 cents per share and special dividend of HK22 cents per share already paid, the total distribution for the year ended 31 March 2017 will be HK$1.3 per share. Total distribution for the previous year was HK$4.22 per share.

ANNUAL GENERAL MEETING

The Annual General Meeting of the Company will be held on Friday, 18 August 2017. The notice of Annual General Meeting will be published on the website of the Hong Kong Exchanges and Clearing Limited ("HKEx") at www.hkex.com.hk and on the website of the Company at www.safetygodown.com and despatched to the shareholders in due course as required by the Listing Rules.

CLOSURE OF MEMBERS REGISTER

To ascertain the shareholders' entitlement to attend and vote at the meeting, the Register of Members will be closed from Tuesday, 15 August 2017 to Friday, 18 August 2017, both days inclusive, during which period no transfer of shares can be registered. In order to be eligible to attend and vote at the meeting, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's Share Registrars, Tricor Standard Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:00 p.m. on Monday, 14 August 2017.

To ascertain the shareholders' entitlement to the proposed final dividend and special dividend, the Register of Members will be closed from Friday, 25 August 2017 to Tuesday, 29 August 2017, both days inclusive, during which period no transfer of shares can be registered. In order to qualify for the final dividend and special dividend, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's Share Registrars, Tricor Standard Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:00 p.m. on Thursday, 24 August 2017.

BUSINESS REVIEW

During the period under review, the accelerated interest rate hiking cycle of the US and substantial volatility in the market having been weighing on investor sentiments. In the second half of last year, improvement in the Mainland's economic fundamentals outperformed expectations and drove up the Hong Kong stock market. The Hong Kong property market as a result has been hitting new highs and it is difficult to predict when the market trend will reverse. In view of the external economic factors, and the rapid development of the logistics industry in China, an increase in transhipment of cargos directly to China ports is witnessed in recent years, coupled with the change in consumer shopping pattern, Hong Kong's warehousing and logistics industry is facing fierce competition amidst a declining industry growth. The outlook for the industry is not optimistic.

Subsequent to the Group's sale of Chivas Godown in December 2015, which generated profits of HK$618,542,000, the total rental income from investment properties decreased 26.4% to approximately HK$80,000,000 due to the loss of rental income from Chivas Godown. Our godown business suffered from unfavourable external economic factors leading to a reduction in revenue of 15.1% to approximately HK$31,820,000. Revenue from treasury investment grew 33.6% to HK$10,600,000 compared with last year, with segment profit reaching HK$28,451,000 (2016: revenue was HK$7,934,000 with segment profit of HK$21,547,000), together with the unrealised fair value gain on investment properties of HK$187,389,000 (2016: HK$103,533,000), making the profit attributable to shareholders HK$269,630,000 (2016: HK$845,719,000), decreased by HK$576,089,000 compared with last year.

The revitalization scheme of Lu Plaza was scheduled to be completed by March 2017. However, additional time was needed for further improvement works in order to meet the latest statutory requirements imposed by the government. Thanks to the efforts committed by all parties, major works have almost been completed and we anticipate to pass the final site inspection by third quarter this year. As for the shops on the ground floor, our leasing department is actively looking for suitable tenants. Lu Plaza will soon be transformed into a brand new commercial tower.

OUTLOOK

As interest rates in the US and Hong Kong are expected to go up and the government is continuously putting forward policies to restrain property purchase and sale activities, investors are being put off and the market is expected to cool down. Since there will be a shift in the macro-economic environment in the second half of the year, the overall sentiment of the stock market is expected to be moderate.

Trump's presidency was initially expected to cause a stock market downturn but it has turned out to be a positive impetus to the market. In view of the current high level of property and stock prices, the Group will be more cautious when making decisions on new investments.

The "Belt and Road Initiative" actively promoted by the Central Government will be a stimulus for Hong Kong economic growth. The local warehousing and logistics industries can make use of our edge in technology to elevate quality of service, and strive to benefit from the opportunity by making use of the complementary advantages of the two areas to strengthen cooperation with the Mainland.

As regards godown business development, the Group will make new investments in both software and hardware to raise our logistics service level, aim at expanding our client base and maintaining solid competitiveness.

We believe that the rental income from investment property will steadily increase after the completion of the Lu Plaza revitalization plan.

REVIEW OF FINANCIAL RESULTS

Financial overview

The Group's financial results for the year under review, as expected, reflected a much lower profit from godown operation and property investment than last year as a result of the disposal of Chivas Godown property last year. Profit attributable to shareholders for the year ended 31 March 2017 fell by 68.12% to HK$269,630,000 (2016: HK$845,719,000) which included unrealised gain on investment property revaluation in the amount of HK$187,389,000 (2016: HK$103,533,000). Last year's profit also included gain on disposal of Chivas Godown of HK$618,542,000. Total revenue decreased by 20.52% to HK$122,404,000 (2016: HK$154,002,000).

During the year, the Company paid dividends and special dividends in the total amount of HK$580,500,000 (2016: HK$117,450,000). The consolidated shareholders fund as at 31 March 2017 amounted to HK$4,197,041,000 (31 March 2016: HK$4,528,512,000), with the net asset value per share of the Company valued at HK$31.09 (31 March 2016: HK$33.54). Earning per share for the year registered at HK$2.00 (2016: HK$6.26).

Godown operations

The godown industry faced considerable challenges. The slugglish domestic economic growth, the unsteady global economic environment and the intensified market competition negatively affected the growth of Hong Kong godown industry. After selling Chivas Godown in December 2015, we scaled down the operation by only leasing back 8/F. of Chivas Godown for operation for one year. Our revenue generated from godown operation dropped by 15.06% to HK$31,816,000 (2016: HK$37,456,000) and segment profit decreased by 25.92% to HK$15,079,000 (2016: HK$20,354,000) mainly because of the loss in contribution resulted from the scale down and termination of Chivas Godown's operation.

Net contribution margin in godown operation dropped in current year by 6% to 48% (2016: 54%) mainly due to the increase in warehouse rental expenses which arose from the lease back arrangement with the purchaser for the 8/F. of Chivas Godown for one year commencing from 16 December 2015. The lease expired on 15 December 2016 without further renewal.

During the year, warehouse demand remained stable. The average storage occupancy level of the godown improved from 69% to around 73% while the average storage rentals decreased by 5% to around HK$74 (2016: HK$78) per cubic meter. The reason for the changes: more lower-margin sources of goods having been received compensating the loss of higher-margin goods.

Property investment

Kowloon East has been going through profound changes and is now in the process of developing into the second central business district in Hong Kong. However, office rent in Kowloon East has been under pressure given a large volume of new supply making the market even more competitive. In order to remain competitive in the market, Lu Plaza has been undertaking revitalization works since 2015 to transform the building into a high quality commercial building. The works is expected to be completed in the 3rd quarter of 2017.

Total rental income generated from property investment amounted to HK$79,988,000 (2016: HK$108,612,000), a drop of 26.35% comparing to last year. Segment profit delivered from property investment amounted to HK$58,019,000 (2016: HK$82,241,000), representing a decrease of 29.45% for the corresponding period last year. The decline in revenue and profit is mainly due to the sale of Chivas Godown which resulted in reduction of leasing space. With the completion of revitalization works in Lu Plaza later this year, we believe rental income from property investment will rebound.

During the year, the Group acquired an office property with carparks at One Harbour Square, No. 181 Hoi Bun Road, Kwun Tong at the cost of around HK$88,950,000 for rental income purposes. The fair value of the Group's investment properties as at 31 March 2017 amounted to HK$3,081,000,000 (31 March 2016: HK$2,694,200,000) with an unrealised fair value gain of HK$187,389,000 (2016: HK$103,533,000) which has been recognised in profit or loss this year.

The average occupancy level of the Group's major investment properties dropped from 84% in 2016 to 81% in current year. The drop in occupancy rate was mainly attributable to the disposal of Chivas Godown in December 2015, which is 100% occupied before disposal. The disposal of Chivas Godown drag down the overall average occupancy rate to 81% even though there were no significant changes in the occupancy rate of the remaining properties. The average monthly rental income per square feet increased from HK$15 in 2016 to HK$16, which is attributable to the gentle increase in rental rate during the year.

Treasury investment

Despite many worrying developments, in particular, the uncertainties over the U.S. interest rate hike timetable, the global economic outlook and Brexit earlier this year, the Hong Kong stock market rallied during the second half of the year as investors sentiment improved on easing concerns about the mainland's economy and the improving liquidity in Hong Kong stock market. The Hang Seng Index closed at 24,112 in the first quarter of 2017, up 16.05% against the beginning of the year under review.

During the year, the Group disposed all its available-for-sale investments which were held for long term purposes and realised a gain on disposal of HK$19,782,000 (2016: HK$62,206,000). Portfolio in securities investments held for trading, however, increased. As at 31 March 2017, the securities investments held for trading valued at HK$313,621,000 (31 March 2016: HK$197,684,000), increased by 58.65%.

Fair value gain on investments held for trading amounted to HK$46,962,000 (2016: loss of HK$22,790,000). The investments held for trading mainly comprise securities listed in Hong Kong stock market. Fair value loss on derivative financial instruments amounted to HK$39,384,000 (2016: HK$21,721,000). The derivative financial instruments include Hang Sang Index Futures, Hang Sang Index Options and US dollars Participatory Notes. Income generated from treasury investment included interest income and dividend income. During the year, interest income, mainly from bank deposits, increased by 19.69% to HK$3,367,000 (2016: HK$2,813,000) while dividend income rose by 41.24% to HK$7,233,000 (2016: HK$5,121,000).

During the year, an exchange loss of HK$6,220,000 (2016: HK$983,000) was recorded which mainly arised from converting Euro dollars bank deposits to US dollars deposits in order to reduce foreign currency risk. An unsecured senior note denominated in US dollars in the amount of HK$23,239,000 was also acquired which bears interest of 3% p.a. this year. As the Hong Kong dollar is pegged to U.S. dollars, the Group's exposure to foreign exchange risk as at 31 March 2017 is not significant.

OPERATING COSTS

Major components of operating costs of the Group are staff costs, repairs and maintenance and other administrative costs including building management fee and securities brokers fees for securities transactions. In addition, warehouse rental cost was incurred in these two years as a result of the lease back arrangement of 8/F. of Chivas Godown after disposal of the property. Hence, total other expenses increased by 11.58% to HK$35,996,000 (2016: HK$32,261,000). Total staff costs for the year reduced substantially by 31.51% from HK$18,550,000 to HK$12,705,000 as the Group dispatched an one-off special bonus to the Directors and staff last year because of disposal of Chivas Godown.

LIQUIDITY AND FINANCIAL RESOURCES

The Group continued to adopt a prudent financial management policy and maintained a strong cash position. Total cash and bank balance as at 31 March 2017 amounted to HK$792,478,000 (31 March 2016: HK$1,634,474,000). Most of the bank deposits were denominated in Hong Kong or U.S. dollars. The strong cash position offers protection against tough times and it also gives the Group more options for future investments. The Group has sufficient financial resources to finance its operations.

The Group financed its operation mainly by its strong cash flows generated from operation. Recurring net cash flow from operating activities before movement in working capital amounted to HK$75,211,000 (2016: HK$97,237,000), fell 22.65% mainly due to the loss of godown income and rental income arising from disposal of Chivas Godown. As at 31 March 2017, net current assets amounted to HK$1,064,010,000 (31 March 2016: HK$1,799,370,000) with a liquidity ratio (ratio of current assets to current liabilities) of 18.80 times (31 March 2016: 32.62 times).

The Group did not have any kind of loan or borrowings throughout the year, the gearing ratio was zero. Notwithstanding the continuous payment of generous dividends to shareholders over the past years, the net asset value of the Group continues to maintain at high level. As at 31 March 2017, the Group had net asset value of HK$4,197,041,000 (31 March 2016: HK$4,528,512,000)

DIVIDEND POLICY

It is the Group's intention to provide shareholders with relatively consistent dividend income over the long term. In the past 10 years, the Group had provided shareholders with relatively generous dividend payments. The management will try to maintain the dividend payment at a satisfactory level based on the business environment and the performance of the Group.

Total dividends including interim, final and special dividends paid by the Company during the year amounted to HK$580,500,000 (2016: HK$117,450,000).

PLEDGE OF ASSETS

As at 31 March 2017, the Group did not have any pledge of assets.

RELATION WITH EMPLOYEE, CUSTOMERS AND SUPPLIERS

The Group considers its employees the key to sustainable business growth and is committed to provide all employees a safe and harassment free work environment with equality opportunities in relation to employment, reward management, training and career development. Workplace safety is on top priority of the Group. This is of paramount importance that health and safety measures are followed by employees in performing their duties to reduce work injuries. The Group has in place a fair and effective performance appraisal system and incentive bonus schemes designed to motivate and reward employees at all levels to deliver their best performance and achieve business performance targets. For continuous development, the Group offers job-related trainings and provides sponsorship/subsidies to employees who are committed to personal development and learning.

As at 31 March 2017, the Group employed 37 (31 March 2016: 44) employees. Total staff cost reduced by 31.51% to HK$12,705,000 (2016: HK$18,550,000) because of a one-off special bonus issued last year arising from disposal of Chivas Godown. The remuneration policies are reviewed periodically on the basis of the nature of job, market trend, company performance and individual performance. The Group does not have any share option scheme for employees.

Relationship is the fundamentals of business. The Group fully understands this principal and thus maintain close relationship with customers to fulfil their immediate and long-term need. For our customer of godown operation business, we deliver high quality logistics service and meet our customers' need. For our property investment business, we employed high quality property management company to manage our major investment properties. Tenant's need and feedback are communicated through the property manager from time to time to improve the management service so that tenants' satisfaction could be maintained.

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

CONTINGENT LIABILITIES

As at 31 March 2017, the Group did not have any significant contingent liabilities.

PURCHASE, SALE OR REDEMPTION OF SHARES

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

AUDIT COMMITTEE

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

The Audit Committee, together with the management of the Company, have reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including the review of the audited consolidated financial statements of the Group for the year ended 31 March 2017.

CORPORATE GOVERNANCE

The Board of Directors ("the Board") is committed to achieving and maintaining high standards of corporate governance practices for the purpose of providing a framework and solid foundation for its business operation and development. Effective corporate governance provides probity, 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 2017 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 (i) that the roles of chairman of the board and chief executive officer should be separate and should not be performed by the same individual and (ii) the role and responsibility of the chairman of the board and the chief executive officer.

The late Mr. Lu Sin assumed the roles of both the Chairman and the Chief Executive Officer of the Company. Following the death of Mr. Lu Sin on 5 April 2015, the position of the Chairman and the Chief Executive Officer of the Company have been vacant and have not been filled up as at the date of this report.

The Board has kept review of its current structure from time to time. If any candidate with suitable skills and experiences is identified within or outside the Group, the Company will make necessary appointment to fill these positions in due course.

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.

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. However, the Company did not have formal letters of appointment for directors. In fact, all the Directors (including Non-executive Directors) of the Company are subject to retirement by rotation once every three years and are subject to re-election in accordance with the Company's Articles of Association. The Board considers that such requirements are sufficient to meet the underlying objectives of the relevant code provisions.

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

Since the death of Mr. Lu Sin (the late Chairman), the position of the Chairman of the Board has been vacant, Mr. Lu Wing Yee, Wayne, the Executive Director, has been elected and acted as chairman of the annual general meeting of the Company held on 18 August 2016 in accordance with the Articles of Association of the Company.

CG Code Provision F.1.3 stipulates that the company secretary should report to the chairman of the board and/or the chief executive.

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

The Board will continuously review and improve the corporate governance practices and standards of the Company to ensure that business activities and decision making processes are regulated in a proper and prudent manner.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as the Company's code of conduct governing dealing by all directors in the securities of the Company. All the Directors have confirmed in writing that they had complied with the required standard as set out in the Model Code throughout the year ended 31 March 2017.

OTHER INFORMATION

The annual report of the Company for the year ended 31 March 2017 containing all the information required by the Listing Rules will be published on the websites of the HKEx at www.hkex.com.hk and the Company at www.safetygodown.com and despatched to shareholders in due course.

By Order of the Board
Wong Leung Wai
Company Secretary

Hong Kong, 28 June 2017

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

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