Annual Report
年報 2017

安全貨倉有限公司
SAFETY GODOWN CO LTD

(Stock code 股份代號: 237)

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Corporate Information

DIRECTORS

Executive Director
Mr. Lu Wing Yee, Wayne

Non-executive Director
Mr. Lee Ka Sze, Carmelo

Independent Non-executive Directors
Mr. Gan Khai Choon
Mr. Lam Ming Leung
Mr. Leung Man Chiu, Lawrence

COMPANY SECRETARY

Mr. Wong Leung Wai

BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Bank of China (Hong Kong) Limited
Bank of Tokyo-Mitsubishi UFJ
Industrial and Commercial Bank of China (Asia) Limited

SOLICITORS

Woo, Kwan, Lee & Lo

AUDITORS

Deloitte Touche Tohmatsu

AUDIT COMMITTEE

Mr. Gan Khai Choon *(Chairman)*
Mr. Lee Ka Sze, Carmelo
Mr. Lam Ming Leung
Mr. Leung Man Chiu, Lawrence

REMUNERATION AND NOMINATION COMMITTEE

Mr. Lam Ming Leung *(Chairman)*
Mr. Lee Ka Sze, Carmelo
Mr. Leung Man Chiu, Lawrence
Mr. Gan Khai Choon

REGISTERED OFFICE

Unit 1801, 18th Floor, Lu Plaza
2 Wing Yip Street
Kwun Tong
Kowloon
Hong Kong

REGISTRARS AND TRANSFER OFFICE

Tricor Standard Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

WEBSITE

http://www.safetygodown.com

STOCK CODE

237

KEY DATES

Final Results Announcement	28 June 2017
Annual General Meeting	18 August 2017
Closure of Register of Members	i) 15 to 18 August 2017 (both days inclusive) ii) 25 to 29 August 2017 (both days inclusive)
Record Date for Final Dividend and Special Dividend	29 August 2017
Payment of Final Dividend and Special Dividend	on or around 12 September 2017

Biographical Information of Directors and Senior Management

EXECUTIVE DIRECTOR

Mr. Lu Wing Yee, Wayne, aged 43, was appointed as an Executive Director of the Company on 12 December 2008. He joined the Group in July 2001, and prior to his appointment as Executive Director has acted as a Group Manager of the Group in charge of day-to-day operation of the Group. He has extensive experience in the field of accounting, auditing, financial management and operations control. Mr. Lu is a member of The American Institute of Certified Public Accountants. He has a master degree in business administration, a bachelor degree of science in business administration and a diploma in risk management. Mr. Lu has previously worked for audit firm, securities and brokerage firm and listed property company. Mr. Lu is a director and shareholder of Kian Nan Financial Limited, which is a substantial shareholder of the Company as defined in Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO"). He is the son of Mr. Lu Sin, the late Chairman of the Company.

NON-EXECUTIVE DIRECTOR

Mr. Lee Ka Sze, Carmelo, JP, aged 57, has been a Director of the Company since 2000. Mr. Lee acted as an Independent Non-executive Director from 1 July 2000 to 28 September 2004 and has been a Non-executive Director since 28 September 2004. Mr. Lee is a partner of Woo Kwan Lee & Lo. He received his Bachelor of Laws degree and the Postgraduate Certificate in Laws from The University of Hong Kong. Mr. Lee is also a Non-executive Director of several listed public companies in Hong Kong, namely CSPC Pharmaceutical Group Limited, Termbray Industries International (Holdings) Limited, Yugang International Limited and Hopewell Holdings Limited. Mr. Lee is also an Independent Non-executive Director of several listed public companies in Hong Kong, namely KWG Property Holding Limited, China Pacific Insurance (Group) Co., Ltd. and Esprit Holdings Limited. Mr. Lee was a non-executive director of Y.T. Realty Group Limited and an independent non-executive director of Ping An Insurance (Group) Company of China, Ltd, public companies listed on the Stock Exchange, from September 2004 to February 2016 and from June 2009 to June 2015 respectively. Mr. Lee is a member of the SFC (HKEC Listing) Committee. Mr. Lee was appointed as a convenor and member of the Financial Reporting Review Panel of the Financial Reporting Council of Hong Kong in July 2016. He served as the chairman of the Listing Committee of the Stock Exchange from 2012 to 2015 after serving as deputy chairman and member of the Listing Committee of the Stock Exchange from 2009 to 2012 and from 2000 to 2003 respectively. He also served as a member of the Disciplinary Panels of the Hong Kong Institute of Certified Public Accountants from 2009 until 1 February 2017.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Gan Khai Choon, aged 71, has been an Independent Non-executive Director of the Company since 1990. He is also the Chairman of HL Global Enterprises Limited (a company listed in Singapore), Director of China Yuchai International Limited (a company listed in New York) and Managing Director of Hong Leong International (Hong Kong) Limited. Mr. Gan has extensive experience in finance, property development, hotel management and international trading.

Mr. Lam Ming Leung, aged 65, has been an Independent Non-executive Director of the Company since 1 January 2004. Mr. Lam was a director and general manager of The National Commercial Bank Limited, Hong Kong Branch.

Mr. Leung Man Chiu, Lawrence, aged 69, has been an Independent Non-executive Director of the Company since 16 June 2006. He is also an Independent Non-executive Director of Pak Fah Yeow International Limited and PFC Device Inc., both listed on The Stock Exchange of Hong Kong Limited. Mr. Leung has been a Non-executive Director of World Super Holdings Limited (which is in the process of applying for a listing of its shares on the GEM board of The Stock Exchange of Hong Kong Limited) since 26 April 2017. Mr. Leung is a fellow member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. He graduated in 1969 from the Hong Kong Technical College (now the Hong Kong Polytechnic University) with a diploma in accountancy and qualified himself as a certified public accountant in 1972. Mr. Leung is a practising certified public accountant and has been in public practice for over 40 years. He has extensive experience in accounting and auditing and had served in listing and auditing projects for a number of Hong Kong public listed companies. He is now practicing as a partner in Tang and Fok.

ASSISTANT GENERAL MANAGER

Mr. Huang Huei Ru, aged 68, was appointed as an Assistant General Manager of the Company on 1 March 2013. Mr. Huang joined the Group since 1976 and was the Chivas Godown Supervisor from 1991 to 2016.

Five Year Financial Summary

	2017	2016	2015	2014	2013
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Consolidated Statement of Profit or Loss and Other Comprehensive Income					
Turnover					
Godown operations	**31,816**	37,456	38,141	38,560	32,752
Property investment	**79,988**	108,612	111,347	96,280	84,030
Treasury investment	**10,600**	7,934	6,928	4,316	2,976
	122,404	154,002	156,416	139,156	119,758
Profit attributable to owners of the Company					
Godown operations	**15,079**	20,354	22,568	22,258	19,090
Property investment	**58,019**	82,241	90,168	81,428	63,590
Treasury investment	**28,451**	21,547	2,928	(10,100)	6,787
(Loss)/Gain on disposal of property, plant and equipment	**(9)**	326,574	–	–	–
Increase in fair value of investment properties	**187,389**	431,651	508,772	132,494	754,508
Other administrative cost	**(6,226)**	(9,208)	(5,930)	(4,585)	(4,863)
Profit before taxation	**282,703**	873,159	618,506	221,495	839,112
Taxation	**(13,073)**	(27,440)	(19,236)	(16,838)	(14,992)
Profit for the year attributable to owners of the Company	**269,630**	845,719	599,270	204,657	824,120
Consolidated Statement of Financial Position					
Total assets	**4,330,794**	4,650,603	3,692,256	3,136,730	2,973,523
Total liabilities	**(133,753)**	(122,091)	(105,154)	(97,385)	(92,462)
Equity attributable to owners of the Company	**4,197,041**	4,528,512	3,587,102	3,039,345	2,881,061
Per Share					
Earnings per share	**HK$2.00**	HK$6.26	HK$4.44	HK$1.52	HK$6.10
Dividends per share	**HK$1.3**	HK$4.22	85 cents	36 cents	35 cents
Dividend payout ratio *(Note 1)*	**213.40%**	76.76%	126.80%	67.35%	67.88%
Net asset value per share	**HK$31.09**	HK$33.54	HK$26.57	HK$22.51	HK$21.34
Ratios					
Return on average shareholder's funds	**6.18%**	20.84%	18.09%	6.91%	33.13%
Current ratio	**18.80:1**	32.62:1	13.17:1	9.90:1	11.08:1
Gearing ratio *(Note 2)*	**–**	–	–	–	–

Notes:

1. The dividend payout ratio is calculated based on the total dividend distribution including the interim dividend paid and final dividend and special dividend proposed for the year and the profit for the year attributable to shareholders after adjusting the effect on unrealised fair value changes in investment properties.

2. Gearing ratio is calculated at the ratio of total interest bearing loans to total assets of the Group at balance sheet date. As there were no borrowings during the past 5 years, the gearing ratio for the 5 years were therefore equal to zero.

Executive Director's Statement

I am pleased to present the annual results of the Company and its subsidiaries (the "Group") for the year ended 31 March 2017.

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.

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.

Executive Director's Statement

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.

Lu Wing Yee, Wayne
Director

Hong Kong, 28 June 2017

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Board of Directors (“the Board”) is committed to achieving and maintaining high standards of corporate governance practices for the purpose of providing a framework and solid foundation for its business 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 Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (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 division of responsibilities between the chairman of the board and the chief executive officer shall be clearly established.

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.

Corporate Governance Report

BOARD OF DIRECTORS

The Board is currently composed of one Executive Director, one Non-executive Director and three Independent Non-executive Directors. Over half of the Board members are Independent Non-executive Directors which enables the Board to exercise independent judgement effectively. An updated list of Directors of the Company and their respective roles and functions have been maintained on the websites of the Company and Hong Kong Exchanges and Clearing Limited. The composition of the Board during the year is shown below.

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

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

	Attended/Number of meetings held during the year	
Composition of the Board	**Board Meetings**	**Annual General Meeting**
Executive Director		
Mr. Lu Wing Yee, Wayne	3/4	1/1
Non-executive Director		
Mr. Lee Ka Sze, Carmelo	4/4	0/1
Independent Non-executive Directors		
Mr. Gan Khai Choon	4/4	0/1
Mr. Lam Ming Leung	4/4	0/1
Mr. Leung Man Chiu, Lawrence	4/4	1/1

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

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

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

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

Each of the Independent Non-executive Directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Board has assessed their independence and concluded that all the Independent Non-executive Directors are independent in accordance with the Listing Rules.

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

DIRECTORS' TRAINING AND PROFESSIONAL DEVELOPMENT

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

The Company has provided funding to encourage the Directors to participate in professional development courses and seminars to develop and refresh their knowledge and skills. During the year ended 31 March 2017, regulatory updates and relevant materials on amendment of Listing Rules were sent to the Directors for their awareness of the latest development on statutory requirements.

The training each Director received during the year ended 31 March 2017 is summarized as below:

Name of Directors	**Reading materials regarding regulatory update and corporate governance matters**
Executive Director	
Mr. Lu Wing Yee, Wayne	√
Non-executive Director	
Mr. Lee Ka Sze, Carmelo	√
Independent Non-executive Directors	
Mr. Gan Khai Choon	√
Mr. Lam Ming Leung	√
Mr. Leung Man Chiu, Lawrence	√

CHAIRMAN AND CHIEF EXECUTIVE

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 division of responsibilities between the chairman of the board and the chief executive officer should be clearly established.

The late Mr. Lu Sin, the founder of the Group, assumed the roles of both the Chairman and Chief Executive Officer of the Company. Following the death of Mr. Lu Sin, the position of the Chairman and the Chief Executive Officer of the Company have not been filled up as at the date of this report. Until the appointment of a new Chairman, the Board collectively focus on the overall strategic planning and development of the Group and effective functioning of the Board. Also until the appointment of a new Chief Executive Officer, the Executive Director will continue to oversee the day-to-day management of the business and operations of the Group.

NON-EXECUTIVE DIRECTORS

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

BOARD COMMITTEES

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

Remuneration and Nomination Committee

The Remuneration and Nomination Committee was established in April 2004. A majority of the members are Independent Non-executive Directors. The Committee is currently comprised of four members including one Non-executive Director and three Independent Non-executive Directors. The Committee is chaired by Mr. Lam Ming Leung. The other members are Mr. Lee Ka Sze, Carmelo, Mr. Leung Man Chiu, Lawrence and Mr. Gan Khai Choon.

BOARD COMMITTEES (Continued)

Remuneration and Nomination Committee (Continued)

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

New Directors are sought mainly through referrals and internal promotions. In evaluating whether an appointee is suitable to act as a director, the Board will review the independence, experience and skills of the appointee as well as personal ethics, integrity and time commitment of the appointee. The emoluments of Directors are based on the skill, knowledge and involvement in the Company's affairs of each Director and are determined by reference to the Company's performance and profitability.

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

Name	Number of meetings attended/held
Mr. Lam Ming Leung	2/2
Mr. Lee Ka Sze, Carmelo	2/2
Mr. Leung Man Chiu, Lawrence	2/2
Mr. Gan Khai Choon	2/2

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

(a) making recommendation to the Board on the re-appointment of Directors;

(b) assessing the independence of the Independent Non-executive Directors;

(c) reviewing and approving the annual salary and bonus for staff of the Group;

(d) reviewing and approving the remuneration to the Executive Director and senior management; and

(e) making recommendation to the Board on the remuneration for Non-executive Directors.

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

Audit Committee

The Audit Committee comprises of three Independent Non-executive Directors and one Non-executive Director. The Committee is chaired by Mr. Gan Khai Choon. The other members are Mr. Lam Ming Leung, Mr. Leung Man Chiu, Lawrence and Mr. Lee Ka Sze, Carmelo. Both Mr. Gan and Mr. Leung possessed appropriate professional qualifications or accounting or related financial management expertise as required by the Listing Rules.

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

Throughout the year under review, the Audit Committee discharged the duties and responsibilities under its terms of reference and the CG Code. The terms of reference of the Audit Committee was revised and approved by the Board on 21 June 2017 to align with the relevant amendments to the CG Code to include the risk management function of Audit Committee. The terms of reference of the Audit Committee are available on the website of the Company and the Stock Exchange.

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

BOARD COMMITTEES (Continued)

Audit Committee (Continued)

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

Name	**Number of meetings attended/held**
Mr. Gan Khai Choon	2/2
Mr. Lee Ka Sze, Carmelo	2/2
Mr. Lam Ming Leung	2/2
Mr. Leung Man Chiu, Lawrence	2/2

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

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

CORPORATE GOVERNANCE FUNCTIONS

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

CONSTITUTIONAL DOCUMENT

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

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

AUDITOR'S REMUNERATION

The Board agrees with the Audit Committee's proposal for the re-appointment of Deloitte Touche Tohmatsu ("Deloitte") as the Group's external auditor for 2018. The recommendation will be presented for the approval of shareholders at the Annual General Meeting to be held on 18 August 2017.

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

Nature of services	**2017** ***HK$***	2016 *HK$*
Review fee for interim results	**141,000**	136,800
Audit fee for final results	**935,000**	869,000
Taxation consultancy services fee	**132,000**	155,400
Consultancy service for Environmental, social and governance reporting	**100,000**	–
Professional services related to circular for disposal of Chivas Godown	**–**	338,000
Total audit and non-audit services	**1,308,000**	1,499,200

ACCOUNTABILITY

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

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

The external auditor has a primary responsibility for auditing and reporting on the financial statements and the Report of the Independent Auditor to the shareholders is set out on pages 33 to 36 of this Annual Report. The management of each business within the Group provides the Directors with such information and explanations necessary to enable them to make an informed assessment of the financial and other information put before the Board for approval.

RISK MANAGEMENT AND INTERNAL CONTROLS

Group Risk Management

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

Risk assessment approach and Risk identification

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

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

Risk evaluation and Risk prioritization

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

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

RISK MANAGEMENT AND INTERNAL CONTROLS (Continued)

Risk reporting, managing and monitoring

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

Handling and dissemination of inside information

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

1. Restrict access to inside information to a limited number of employees on a need-to-know basis;

2. Reminder to employees who are in possession of inside information shall be fully conversant with their obligations to preserve confidentiality;

3. Ensure appropriate confidentiality agreements are in place when the Group enters into significant negotiations or dealings with third party; and

4. Inside information is handled and communicated by designated persons to outside third party.

Internal Audit Function

The professional firm is also appointed as the Group outsourced internal audit function (the "IA Function") and assists the Board in conducting a review of certain key parts of the internal control systems of the Group. Based on the Company's risk assessment results, the IA Function recommended a three-year internal audit plan to the management and endorsed by the Board and Audit Committee. The scope of the internal audit review carried out during the year includes: a) Scoping and planning audit locations as agreed with the Audit Committee and the Board; b) Review of the design of internal control structure by identifying the key controls in place and determining significant gaps within the design of the controls; c) Testing of the key controls; and d) Reporting to and making recommendations to the Audit Committee on the major design weakness in order to enhance the internal control of operation procedures, systems and controls. The report and recommendations have been submitted to the board and follow-up action has been taken based on recommendations, which will be monitored by the Board.

Management's confirmation on risk management

Based on the risk management mechanism and internal audit review activities mentioned in the aforesaid paragraphs, the management made a confirmation to the Board that the Company had maintained an effective risk management mechanism and internal control system during the financial year ended 31 March 2017.

COMMUNICATION WITH SHAREHOLDERS

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

The Company encourages the shareholders to attend annual general meetings and all its other shareholders' meetings to discuss progress and matters. Directors are available at these meetings to answer shareholders' questions. In accordance with Rule 13.39(4) of the Listing Rules, all the resolutions to be proposed at the 2017 Annual General Meeting will be decided on poll. The Company's share registrars in Hong Kong will act as the scrutineer for the vote-taking, the voting results of which will be announced by the Company in accordance with Rule 2.07C of the Listing Rules as soon as possible on the websites of the Stock Exchange and the Company respectively. The Chairman of shareholders' meeting will ensure that any vote of shareholders at the 2017 Annual General Meeting (and any other shareholders' meetings) will be taken by poll in compliance with the said Rule 13.39(4) of the Listing Rules.

SHAREHOLDERS' RIGHTS

(a) General meeting on requisition by shareholders

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

The request:–

(i) must state the general nature of the business to be dealt with at the meeting;

(ii) may include the text of a resolution that may properly be moved and is intended to be moved at the meeting;

(iii) may consist of several documents in like form;

(iv) may be sent in hard copy form or in electronic form; and

(v) must be authenticated by the person or persons making it.

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

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

(b) Procedures for putting forward enquires to the Board

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

Mr. Wong Leung Wai
Safety Godown Co Ltd
Unit 1801, 18/F., Lu Plaza,
2 Wing Yip Street,
Kwun Tong, Kowloon, Hong Kong

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

(c) Putting forward proposal at annual general meeting ("AGM")

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

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

(ii) at least 50 shareholders who have a right to vote on the resolution at the AGM to which the request relates.

SHAREHOLDERS' RIGHTS (Continued)

(c) Putting forward proposal at annual general meeting ("AGM") (Continued)

The request:–

(i) may be sent in hard copy form or in electronic form;

(ii) must identify the resolution of which notice is to be given;

(iii) must be authenticated by the person or persons making it; and

(iv) must be received by the Company not later than 6 weeks before the AGM to which the request relates or if later, the time at which notice is given of that AGM.

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

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

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

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

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

COMPANY SECRETARY

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

INVESTOR RELATIONS

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

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

SOCIAL RESPONSIBILITIES AND SERVICES

Details of social responsibilities and services are set out under Business Review Section of Directors' Report on page 30.

Lu Wing Yee, Wayne
Director

Hong Kong, 28 June 2017

Environmental, Social and Governance Report

Safety Godown Company Limited ("Safety Godown", the "Company", "We", or "Our") established this Environmental, Social and Governance Report ("ESG Report") for the year ended 31 March 2017 ("Reporting Period") in relation to the Company's property investment and warehouse businesses. We have adopted the approach, reporting principles and the "comply or explain" provisions as set out in the Main Board Listing Rule Appendix 27 in this ESG Report.

To determine the materiality and identify material ESG issues of the ESG report, we have engaged and discussed with both internal key stakeholders and independent property management company. The summary of material ESG issues for the Company is listed below:

Summary of Material ESG issues for the Company

A. Environmental

A1 Emissions

- Waste Management
- Emissions

A2 Use of Resources

- Electricity and Water Consumption

A3 The Environment and Natural Resources

- Renovation Work

B. Social

Employment and Labour Practices

B1 Employment

- Labour Practices

B2 Health and Safety

- Workplace Health and Safety

B3 Development and Training

- Employee Development and Training

B4 Labour Standards

- Anti-child and Forced Labour
- Operating Practices

B5 Supply Chain Management

- Responsible Procurement

B6 Product Responsibility

- Service Quality and Customer Data Privacy

B7 Anti-corruption

- Anti-corruption and Money Laundering

B8 Community Investment

- Community Programs, Employee Volunteering and Donation

Environmental, Social and Governance Report

A. Environmental

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

A1 Emissions

Given our nature of business, waste management and emissions control are the core parts of our sustainable development strategy.

For waste management, we monitor our source of waste as well as the waste handling and disposal practice in order to minimize any harmful consequences on the environment and the public. We apply the waste management principles of 3Rs ("Reduce, Reuse, and Recycle"), to the operational procedures of our business. For the purpose of effective implementation of our waste management commitment in the workplace, we focus on raising the environmental awareness of our employees. We adopt double-sided printing and encourage the use of electronic channels for document sharing to reduce average paper usage. In addition, we emphasize the importance of recycling and reusing in our workplace such as setting up paper and battery recycling bins, reusing the pallets in warehouses, and organizing different campaigns with environmental organizations including second-hand books and mooncake box collections to raise the awareness of recycling and reuse avenues.

To reduce the emissions, we have implemented different kinds of measures in warehouses. Majority of the forklifts used in the warehouses are electric, which do not produce emissions during operation, while the remaining forklifts are consuming LPG, which is a clean-burning fossil fuel and produces lower amounts of some harmful emissions from the combustion process. The forklifts are also granted with an approval label by the Environmental Protection Department to make sure their emissions are under control. Furthermore, pedestal mounted fans are used with a view to improving air circulations and avoiding the accumulation of air contaminants in confined spaces.

During the Reporting Period, there was no any case of non-compliance with environmental laws and regulations in Hong Kong.

A2 Use of Resources

We conserve natural resources for the long-term sustainability in the community and aim at improving the efficiency on use of resources. Therefore, we take green measures in reducing the use of resources especially electricity and water, monitoring the resources consumption, and driving behavior changes of employees. Replacement with advanced equipment and considerable technologies to enhance the energy efficiency is our trend of sustainable development. By reducing our resources usage and creating long-term value to our stakeholders, we believe these green moves bring mutual benefits to both the environment and the stakeholders.

To reduce the resources usage, we have developed building environmental management plans with the independent property management company to set improvement targets such as power consumption and general water consumption with concrete measures to achieve the targets. We are also working with the property management company to closely monitor the effectiveness of environmental management plans.

During the Reporting Period, we fully upgraded the lighting equipment at all public areas of Lu Plaza, one of our major properties, to more energy efficient installation such as T5 LED tubes and fully upgraded the central air-conditioning system of Lu Plaza from air-cooled to water-cooled. Lifts were also upgraded in compliance with the "Code of Practice for Energy Efficiency of Building Services Installation" developed by the Electrical and Mechanical Services Department. Moreover, we controlled the supply hours of various electrical installations including air-conditioning, decorative lighting, lighting at public corridors and public carpark, fresh air and exhaust fans so that unnecessary electricity consumption could be significantly decreased.

A. Environmental (Continued)

A3 The Environment and Natural Resources

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

During our renovation work at Lu Plaza, we sought to tighten the controls on noise and smell emission from construction works and a waste management plan was established by our contractor. The purpose of the waste management plan was to ensure that all wastes generated during construction phase were managed on-site, transported and disposed of in a manner which was both environmentally acceptable and in full compliance with statutory and contractual requirements.

B. Social

Employment and Labour Practices

B1 Employment

We value the rights of employees and endeavor to enhance the work satisfaction in all positions. We have established the Employee Handbook to document all procedures related to human resources processes, including compensation and welfare, dismissal, recruitment, working hours and rest periods, etc.

We offer competitive compensation packages for attracting and retaining talents. Employees' compensation is reviewed annually based on a systematic performance evaluation mechanism. To improve the employees' standard of living, we provide our employees with numerous benefits including mandatory provident fund, medical insurance, long service awards, special allowances for marriage and funeral, and double overtime pay.

We promote equal opportunities among the workplace. Opportunities for recruitment, promotion and training must be given on an open and equal basis and we strictly prohibit any form of discrimination in our workplace. Employees are encouraged to report any discrimination case to management with private channels if they find anyone who is treated unfairly or unfavorably because of irrelevant personal characteristics such as age, sex, race, religious belief and physical features.

To strengthen the employees' sense of belonging, we established a recreation group composed of employees from different departments and the recreation group regularly organizes different recreational activities such as Christmas party, hiking, cultural and sports activities.

During the Reporting Period, there was no any case of non-compliance with employment-related laws and regulations in Hong Kong.

B2 Health and Safety

Our employees' health and safety are our top priority. Therefore, not only do we strictly comply with safety regulations, but also implement a number of measures in maintaining a safe workplace.

We make every effort to build a safe working environment to our employees. We are closely working with the property management company to establish objectives and annual plans for building safety management system for the purpose of increasing occupational safety and health awareness and improving the safety levels of working environment. Additionally, we have cooperated with the property management company to perform risk assessment exercises of building occupational safety and health and develop a series of safety and health measures for both warehouse and office operations such as adequate equipment including ladders, trolleys and forklifts in performing godown operations and trainings for employees regarding safety techniques and health tips such as the correct posture when using computers. For godown operations, all machine operators must be well-trained and have the relevant licenses before they are assigned to machine operation tasks.

During the Reporting Period, there was no any case of non-compliance with safety-related laws and regulations in Hong Kong.

B. Social (Continued)

B3 Development and Training

We proactively provide sufficient trainings for employees to ensure employees are equipped with the necessary skills and work competently on their assigned tasks. We believe that the self-enhancement of employees brings mutual benefits to both the Company and the employees so we support employees to undertake further studies or technical courses by granting full education sponsorships and examination leaves.

B4 Labour Standards

We emphasize the human rights protection and no one should be forced to work by any means, such as physical abuse, duress, detention, and any other unethical or unlawful means. Hence, we strictly prohibit any employment of child and forced labour, as defined in local labour laws, in any of our business operations and all our employees sign the contract with us voluntarily and possess a qualified identity documents. If any child or forced labour is inspected, the case must be reported to management for immediate resolution.

During the Reporting Period, there was no any case of non-compliance with child and forced labour-related laws and regulations in Hong Kong.

Operating Practices

B5 Supply Chain Management

We attach much importance to our supply chain and choose the suppliers which are consistent with our principles of corporate social responsibility. So, the property management company we have chosen possesses different accreditations relating to environmental and social risk management such as ISO 14001 for environmental management system and OHSAS 18001 for occupational health and safety management best practice. Apart from property management, our renovation contractors are required to provide the waste management plan to minimize the environmental impacts from the renovation and site safety plan to ensure the safety of the workers and the general public and decrease the possibilities of accidents.

We also focus on how suppliers practice the social responsibility. Hence, we prefer social enterprises or suppliers with “FAIRTRADE Mark” and “Caring Company” certificate which indicate their community involvement. By selecting those suppliers, we can provide supports to the community based organizations in this way.

B6 Product Responsibility

We continuously inspect and enhance the quality of service to provide better quality of service to our customers and pursue high customer satisfaction. For our customer of godown operation business, we deliver high quality warehousing service and efficient logistic services to meet our customers’ needs by maintaining a secure environment in safeguarding the stocks in our warehouses. Measures including locking of warehouse door, 24-hour security guard, installation of closed circuit television (CCTV), recording visitors’ identity, and implementation of tight procedures in controlling stock movement are in place for the purpose of warehouse security.

For our property investment business, we employ high quality property management company to manage our major investment properties. Tenants’ needs and feedbacks are communicated through the property manager from time to time to improve the management service so that tenants’ satisfaction could be maintained. If a tenant has a complaint, the property manager will handle the complaint and the complaint will be investigated by various management personnel. Improvement measures will be designed and discussed to solve the existing problems and mitigate the future occurrence of similar phenomenon.

The protection of customers’ data and tenants’ data is our concern. In order to implement the appropriate measures in data protection, we strictly comply with the Personal Data (Privacy) Ordinance and applied Data Protection Principles from the Ordinance to our operations. General principles include:

- We only collect personal data relevant to conducting our business.
- We will use personal data only for the purpose of which data is collected or for a directly related purpose unless consent with a new purpose is obtained.

B. Social (Continued)

B6 Product Responsibility (Continued)

- We will not transfer or disclose personal data to any entity that is not a member of the Company without consent unless it is required by law or it was previously notified.

- We maintain appropriate security systems and measures to prevent unauthorized access to personal data.

During the Reporting Period, there was no case of non-compliance with service and data privacy-related laws and regulations in Hong Kong.

B7 Anti-corruption

Honesty, probity and fairness are our core values and we do not tolerate corruption, bribery, extortion, money-laundering and other fraudulent activities in connection with any of our business operations. Employees must comply with all local laws and regulations when conducting our business.

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

- Soliciting or accepting an advantage
- Hospitality
- Business records
- Conflict of interest
- Abuse of company assets
- Loan arrangement
- Gambling activities

For any non-compliance with our internal policies, warning will be given and discipline actions will be taken.

During the Reporting Period, there was no case of non-compliance with corruption-related laws and regulations in Hong Kong.

B8 Community Investment

While achieving business growth, we fulfill our social responsibilities in order to reciprocate to the community. Our effort has been recognized by the Hong Kong Council of Social Service and we are granted with the “Ten Plus Caring Company” certificate.

We have continued to sponsor the “Hong Kong Synergy 24 Drum Competition” for more than ten years, and provided venue at the headquarter lobby for their “Outreach program” in promoting Chinese music. Besides, we have supported wholesome sports activity such as sponsoring the annual FIVB Volleyball World Grand Prix in Hong Kong. We encourage employees to participate in annual blood drive sponsored by Red Cross and lent out units at Lu Plaza to World Vision Hong Kong as used book collection center to support their annual “Used Book Recycling Campaign”. Furthermore, we have organized voluntary visits during the Mid-Autumn Festival and Christmas to “Kwong Yum Care Home” to celebrate festive moments with the elderly.

We have long been enthusiastic in supporting the disadvantaged to work by purchasing various goods like mooncake made by the disabled from social enterprises – Caritas “La Vie”, cardboard boxes from the Hong Kong Society for the Blind, and Christmas hampers from “Fairtaste”. We also participated in the fund-raising campaign of World Vision’s “Skip-A-Meal” to care for starving children and took part in the Flag Day organized by the Senior Citizen Home Safety Association (SCHSA).

Directors' Report

The Directors present their annual report and the audited financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 March 2017.

PRINCIPAL ACTIVITIES

The Company is engaged in investment holding, treasury investment and the operation of public godowns. The principal activities of its principal subsidiaries are set out in note 31 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 March 2017 are set out in the consolidated statement of profit or loss and other comprehensive income on page 37.

An interim and special dividends of HK8 cents and HK22 cents per share, amounting to HK$10,800,000 and HK$29,700,000 were paid to the shareholders during the year. The Directors now 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 to the shareholders whose names appear on the register of members on 29 August 2017, and the retention of the remaining profit for the year of HK$94,130,000.

DISTRIBUTABLE RESERVES OF THE COMPANY

At 31 March 2017, the Company's reserves available for distribution to shareholders comprised the retained profits of HK$1,346,296,000 (2016: HK$1,862,364,000).

DIRECTORS

(a) Directors of the Company

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

Executive Director
Mr. Lu Wing Yee, Wayne

Non-executive Director
Mr. Lee Ka Sze, Carmelo

Independent Non-executive Directors

Mr. Gan Khai Choon
Mr. Lam Ming Leung
Mr. Leung Man Chiu, Lawrence

In accordance with Articles 78 and 79 of the Company's Articles of Association, Mr. Lu Wing Yee, Wayne and Mr. Leung Man Chiu, Lawrence shall retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election. Details of the Directors to be re-elected at the 2017 annual general meeting are set out in the circular to the shareholders sent together with this Annual Report.

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

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

DIRECTORS (Continued)

(b) Directors of the Company's subsidiaries

During the year and up to the date of this report Mr. Lu Wing Yee, Wayne is also a director in certain subsidiaries of the Company. Other Directors of the Company's subsidiaries during the year and up to the date of this report are Ms. Chan Koon Fung, Mr. Ng Gei, Mr. Lo Tai On, Mr. Huen Po Wah (resigned on 28 October 2016), Ms. Yuen So Him and Ms. Koo Ching Fan (appointed on 28 October 2016).

DIRECTORS' INTERESTS IN SECURITIES

At 31 March 2017, the interests of the Directors of the Company and their associates in the shares of the Company as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

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

Notes:

1. Mr. Lu Wing Yee, Wayne was deemed to be interested in these 23,440 shares held by a company, which was 100% controlled by himself.
2. Mr. Lu Wing Yee, Wayne was deemed to be interested in these 4,400,000 shares as he was one of the executors of the estate of Mr. Lu Sin (deceased).

Other than as disclosed above, none of the directors, chief executives nor their associates had any interests or short positions in any shares or underlying shares of the Company or its associated corporations as defined in Part XV of the SFO at 31 March 2017.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

Other than as disclosed in note 6(b) to the consolidated financial statements, no transactions, arrangements and contracts of significance to which the Company, or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

MANAGEMENT CONTRACT

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

PERMITTED INDEMNITY PROVISIONS

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

SUBSTANTIAL SHAREHOLDERS

At 31 March 2017, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO showed that, other than the interests of certain Directors disclosed under the section headed "Directors' Interests in Securities" above, the following shareholders had notified the Company of their relevant interests in the issued share capital of the Company:

Name of substantial shareholders	Number of issued ordinary shares held Direct interest	 Indirect interest	Percentage of issued share capital of the Company
Kian Nan Financial Limited	49,203,445	–	36.45%
Earngold Limited	10,350,000	–	7.67%
Ms. Chan Koon Fung	2,989,500	69,953,106 [1]	54.03%

Note:

1. Among these 69,953,106 shares, (a) Ms. Chan Koon Fung was taken to be interested in 10,350,000 shares which were held by Earngold Limited, in which Ms. Chan owned 50%; and (b) she was taken to be interested in 49,203,445 shares which were held by Kian Nan Financial Limited, in which Ms. Chan owned 38.98%; (c) she was taken to be interested in 5,999,661 shares which were held by Lusin And Company Limited, in which Ms. Chan owned 38.75% and (d) she was taken to be interested in 4,400,000 shares as she was one of the executors of the estate of Mr. Lu Sin (deceased).

Other than as disclosed above, at 31 March 2017, no other person was recorded in the register of substantial shareholders required to be kept by the Company under Section 336 of the SFO as having any interests or short positions in the issued share capital of the Company.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group's largest customer accounted for 9% (2016: 13%) of its turnover.

The aggregate revenue attributable to the Group's five largest customers accounted for 28% (2016: 35%) of the Group's total turnover.

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

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

PURCHASE, SALE OR REDEMPTION OF SHARES

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

Directors' Report

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the Independent Non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Company considers all of the Independent Non-executive Directors are independent.

EMOLUMENT POLICY

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

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

SUFFICIENCY OF PUBLIC FLOAT

Based on the information publicly available to the Company and within the knowledge of the Directors, the Company has maintained a sufficient public float throughout the year ended 31 March 2017.

DONATIONS

During the year, the Group made charitable and other donations amounting to HK$700,600.

CORPORATE GOVERNANCE

The Board of the Company are committed to maintain high standards of corporate governance. The Company has complied throughout the year ended 31 March 2017 with the Corporate Governance Code as set out in Appendix 14 of the Listing Rules, with exception of deviation. Detailed information on the Company's corporate governance practices is set out in the Corporate Governance Report contained in pages 7 to 15 of the Annual Report.

BUSINESS REVIEW

A review of the business of the Group during the year and discussion on the Group's future business development are provided in the Executive Director's Statement on pages 5 to 6.

An overview of the Group's business, a review of the financial performance of the Group's business segment, liquidity and financial resources, compliance with regulations, relationships with its key stakeholders, social responsibilities, environmental policy and description of the principal risk and uncertainties that the Group faces are set out below.

All these discussions form part of this Report of the Directors.

OVERVIEW OF THE GROUP'S BUSINESS

Safety Godown Co Ltd founded in 1960, with business focus on godown operations, property leasing and financial investments in Hong Kong. We currently own two major properties-Lu Plaza, situated at No. 2 Wing Yip Street, Kwun Tong and; Safety Godown, situated at 132-140 Kwok Shui Road, Kwai Chung. For the details of the Group's properties, please refer to Particulars of Major Properties section on page 79.

OVERVIEW OF THE GROUP'S BUSINESS (Continued)

Godown operations

Our godown business primary provides public storage space for customers. For the year under review, we operated two godowns in Hong Kong. Safety Godown, which is our owned property, situated at 132-140 Kwok Shui Road, Kwai Chung and Chivas Godown at 60 Ka Yip Street, Chai Wan (which was disposed in December 2015 and lease back for one year up to December 2016). There are 11 storeys in Safety Godown totalling 421,000 square feet, within which 9 storeys are used for godown operations and 2 storeys were leased out to a tenant. Our clientele includes a large variety of companies from different industries. Newspaper customers, constituted about 20% of the total revenue of our godown business, have been our major client. As for Chivas godown operations, that we only operate in 8/F is about 45,000 sq. ft. The Chivas godown operation was ended in December 2016 upon the expiration of 8/F's lease.

The Group's godown business has been running for over 50 years and its strength is the high quality service provided to the customers. This strength builds up a reputation that enables the Company to retain a portfolio of customers. The objective of the business is to provide shareholders a stable stream of fund and make good use of the Group's properties.

Competition in public godown market is keen. We compete with other godown service providers mainly in New Territories and Hong Kong Island in terms of rental charge, quality of service and efficiency. We compete with other godown companies in attracting customers. Such competition could have an adverse effect on our ability to lease storage space and on the amount of godown income that we receive.

Property investment

Our property investment business primary includes leasing of office space and godown space, and some non-core investment properties, etc. The Group's major investment properties includes Lu Plaza situated at No. 2 Wing Yip Street, Kwun Tong, Kowloon, and G/F and 8/F of Safety Godown situated at 132-140 Kwok Shui Road, Kwai Chung. Lu Plaza has 430,000 sq. ft. of office space in total plus over 101 car parking spaces. In general, the tenants of Lu Plaza mainly consist of a large variety of businesses including local and international manufacturing companies, trading firms, and logistics enterprises, etc. We have leased out G/F and 8/F of Safety Godown with total about 74,000 sq. ft. Most of our leases last for two to three years. The remaining non-core properties of the Group include container truck parking space and industrial building units.

To that end, our business goals are to obtain the highest possible rental income and occupancy at our properties in order to maximize our cash flows, net operating income, funds from operations, funds available for distribution to shareholders and other operating measures and results, and ultimately to maximize the values of our properties.

Competition in the office leasing market is intense. Our competitors are commercial real estate landlords particularly those with properties near our properties. Such intense competition includes factors like location and rent. This competition could have a material adverse effect on our ability to lease space and on the amount of rent that we receive.

Treasury investment

Our treasury investment business includes investing surplus cash from operations in listed securities, bonds and mutual funds in Hong Kong and overseas stock market, local and foreign currencies bank deposits, and other financial products. We have invested in a balanced portfolio of listed stocks in Hong Kong included high dividend yield stocks and growth stocks. Foreign currency bank deposits mainly include Australian Dollar and US Dollar. We also invest in bonds to receive interest income and mutual funds. The objectives of our investment are to strike a balance between risk and return and maximize return to shareholders.

Directors' Report

FINANCIAL REVIEW

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.

Methodology of calculating Key Performance Data:

- Definition and calculation: Average occupancy level, being percentage of godown space occupied by goods. Average storage price per cubic meter (CBM), being average storage price charged to customer per CBM of goods received.
- Source of underlying data: Internal company data
- Assumption: Maximum capacity of Safety Godown is 35,500 CBM and that of Chivas Godown is 7,000 CBM
- Purpose: Occupancy level and average storage price per CBM are key drivers for performance
- No changes have been made to the source of data or calculation methods used compared to 2016

FINANCIAL REVIEW (Continued)

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 are 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 gently from HK$15 in 2016 to HK$16, which is attributable to the gentle increase in rental rate during the year.

Methodology of calculating Key Performance Data:

- Definition and calculation: Average occupancy level, being percentage of floor area occupied by tenant. Average monthly rental income per square feet (sq.ft.) being average rental income charged to tenant per sq. ft. of floor area leased.
- Source of underlying data: Internal company data
- Purpose: Occupancy level and average monthly rental income per sq. ft. are key drivers for performance
- No changes have been made to the source of data or calculation methods used compared to 2016

FINANCIAL REVIEW (Continued)

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)

COMPLIANCE WITH REGULATIONS

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

RELATION WITH 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.

RELATION WITH EMPLOYEE, CUSTOMERS AND SUPPLIERS (Continued)

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.

SOCIAL RESPONSIBILITIES AND SERVICES AND ENVIRONMENTAL POLICY

The Group is dedicated to serve the community, and is committed to fulfil its pledge on social responsibilities. The Group has promoted various kinds of non-profit making sports, culture and community caring charitable activities and has actively built a platform for sustainable social development.

Activities relating to arts and culture participated during the year, we continued to sponsor the 14th "Hong Kong Synergy 24 Drum Competition" organised by Hong Kong Chinese Orchestra and provide venue at the headquarter lobby for their "Outreach program" in promoting Chinese music. In sport aspects, we have sponsored the FIVB Volleyball World Grand Prix Competition held annually in Hong Kong for several years and made contribution to Community Chest for running the Community Chest Corporate Challenge, encouraged employees to support blood donation program organised by Hong Kong Red Cross, provided venue at Lu Plaza to World Vision Hong Kong for used book collection center, organised voluntary visits to "Kwong Yam Care Home" during festivals to celebrate festive moments with the elderly, made donation to Senior Citizen Home Safety Association to expand the Call and Care Service to more elderly and senior citizen in need, supported the Po Leung Kuk Child Sponsorship Programme, and participated in Skip Lunch Day organised by The Community Chest to support the "Services for Street Sleepers, Residents in Cage Homes and Cubicles."

The Group positively promotes environmental protection by encouraging employees and tenants to participate in recycling "Chinese new year red pockets", clothing, old computers and electrical appliances. In addition, we persist to enhance energy conservation and paper recycling at our offices. Energy conservation and greening are our priorities, especially in the design of the revitalization of Lu Plaza.

The Hong Kong Council of Social Service has awarded us again for the "Ten Plus Caring Company" logo this year.

PRINCIPAL RISK AND UNCERTAINTY

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

PRINCIPAL RISK AND UNCERTAINTY (Continued)

Godown operations

Global economic condition, especially in Mainland China, Europe and Asia Pacific could have effect on the international trade which in turn could have a significant impact on the godown business. We are primarily engaged in providing godown services to manufacturers, retailers, newspapers and publisher companies and other customers to serve their needs along their supply chains. We are therefore dependent on our customers' business performance and developments in their markets and industries.

Property investment

Financial performance may be materially and adversely affected in the event of a decline in rental or occupancy levels, or difficulties in securing lease renewals or obtaining new tenants. The Group cannot be assured that existing tenants will renew their leases upon expiration or that the Group will be able to find replacement tenants at rental rates equal to or above the current rental rates for tenancies.

The original deadline for the Lu Plaza's revitalization work was set to be completed in March 2017. Most of the material contracts were completed and due to certain improvement works need to be finished at the current standard, more time is required. The final cost could be more than the budgeted cost due to a number of reasons, such as delay of conversion work, inflation, rise of material and labour cost, etc. These could have material adverse effect on the profitability and cash flow of the Group. The Directors will closely monitor the progress and may take remedial plan if necessary.

Treasury investment

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

The Group is exposed to financial risks related to interest rate, foreign currency, equity price, liquidity and credit risks in the normal course of the business. For further details of such risks and relevant management policies, please refer to Note 27 to the Financial Statements from pages 69 to 73.

GROUP'S ABILITY TO FUND CURRENT AND FUTURE OPERATIONS

The Group currently funds its operational wholly by internal bank balance and cash from operations and has no bank borrowing. The management anticipated that no bank borrowing is required to maintain the current and future operations of the Group. The Group has a credit policy to the customers and debt recovery policy and applied consistently for years. Thus the bad debt risk is regarded as low.

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.

For the details of the dividend paid and proposed for the year, please refer to the Dividends section under Executive Directors' Statement on page 5.

PLEDGE OF ASSETS

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

CONTINGENT LIABILITIES

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

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.

AUDITOR

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

On behalf of the Board

Lu Wing Yee, Wayne
Director

Hong Kong, 28 June 2017

Deloitte. 德勤

TO THE MEMBERS OF SAFETY GODOWN COMPANY, LIMITED
(incorporated in Hong Kong with limited liability)

Opinion

We have audited the consolidated financial statements of Safety Godown Company, Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 37 to 78, which comprise the consolidated statement of financial position as at 31 March 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 March 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter

Valuation of investment properties

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

As at 31 March 2017, the Group's investment properties amounted to HK$3,081,000,000, representing approximately 71% of the Group's total assets. During the year, an increase in fair value of investment properties of HK$187,389,000 was recognised in the consolidated statement of profit or loss and other comprehensive income.

The Group's investment properties were carried at fair value based on the valuations mainly performed by the independent qualified professional valuers. Details of the valuation techniques, significant assumptions and key inputs used in the valuations are disclosed in note 12 to the consolidated financial statements. The valuations were dependent on certain key inputs that involve the independent qualified professional valuers' judgments, including capitalisation rates and market unit rents of individual units.

How our audit addressed the key audit matter

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

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

Other Information

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

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

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

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

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

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

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

Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group’s internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors’ use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
28 June 2017

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	4	**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	12	**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	8	**282,703**	873,159
Taxation	9	**(13,073)**	(27,440)
Profit for the year attributable to owners of the Company		**269,630**	845,719
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	11	**HK$2.00**	HK$6.26

Consolidated Statement of Financial Position

At 31 March 2017

	Notes	2017 HK$'000	2016 HK$'000
Non-current assets			
Investment properties	12	**3,081,000**	2,694,200
Property, plant and equipment	13	**87,708**	76,963
Available-for-sale investments	14	**–**	23,155
Held-to-maturity investment	15	**23,239**	–
Derivative financial instrument	16	**15,049**	–
		3,206,996	2,794,318
Current assets			
Held-to-maturity investment	15	**–**	5,946
Investments held for trading	17	**313,621**	197,684
Trade and other receivables	18	**17,095**	16,962
Tax recoverable		**604**	1,219
Bank deposits	19	**563,534**	834,146
Other deposits	19	**13,763**	114,988
Bank balances and cash	19	**215,181**	685,340
		1,123,798	1,856,285
Current liabilities			
Other payables	20	**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	21	**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	22	**60,054**	55,053
Provision for long service payments	23	**412**	961
		73,965	65,176
		4,271,006	4,593,688

The consolidated financial statements on pages 37 to 78 were approved and authorised for issue by the Board of Directors on 28 June 2017 and are signed on its behalf by:

Lu Wing Yee, Wayne
Director

Gan Khai Choon
Director

Consolidated Statement of Changes in Equity

For the year ended 31 March 2017

	Share capital *HK$'000*	Investment revaluation reserve *HK$'000*	Property revaluation reserve *HK$'000*	Retained profits *HK$'000*	Total *HK$'000*
At 1 April 2015	178,216	21,849	63,618	3,323,419	3,587,102
Profit for the year	–	–	–	845,719	845,719
Release upon disposal of properties	–	–	(62,186)	62,186	–
Revaluation surplus on transfer of owner-occupied property to investment properties	–	–	214,389	–	214,389
Fair value gain on available-for-sale investments	–	16,830	–	–	16,830
Release upon disposal of available-for-sale investments	–	(18,078)	–	–	(18,078)
Total comprehensive (expense) income for the year	–	(1,248)	152,203	907,905	1,058,860
Dividends paid *(note 10)*	–	–	–	(117,450)	(117,450)
At 31 March 2016	178,216	20,601	215,821	4,113,874	4,528,512
Profit for the year	–	–	–	269,630	269,630
Release upon disposal of available-for-sale investments	–	(20,601)	–	–	(20,601)
Total comprehensive (expense) income for the year	–	(20,601)	–	269,630	249,029
Dividends paid *(note 10)*	–	–	–	(580,500)	(580,500)
At 31 March 2017	178,216	–	215,821	3,803,004	4,197,041

Consolidated Statement of Cash Flows

For the year ended 31 March 2017

	2017	2016
	HK$'000	*HK$'000*
Operating activities		
Profit before taxation	**282,703**	873,159
Adjustments for:		
Loss (gain) on disposal of property, plant and equipment	**9**	(326,574)
Increase in fair value of investment properties	**(187,389)**	(431,651)
Gain on disposal of available-for-sale investments	**(19,782)**	(62,206)
Unrealised (gain) loss on investments held for trading	**(7,434)**	37,795
Depreciation of property, plant and equipment	**7,156**	6,705
Unrealised loss on derivative financial instrument	**451**	–
Impairment loss recognised on trade receivables	**–**	2
Reversal of provision for long service payments	**(527)**	(5)
Exchange differences	**24**	12
Operating cash flows before movements in working capital	**75,211**	97,237
Increase in trade and other receivables	**(133)**	(6,600)
Increase in investments held for trading	**(108,503)**	(143,278)
Increase in other payables and long-term tenants' deposits received	**19,136**	8,113
Long service payments utilised	**(22)**	(1,292)
Cash used in operations	**(14,311)**	(45,820)
Income tax paid	**(19,383)**	(16,536)
Net cash used in operating activities	**(33,694)**	(62,356)
Investing activities		
Proceeds on disposal of investment properties	**–**	1,197,118
Proceeds on disposal of property, plant and equipment	**–**	336,531
Proceeds on disposal of available-for-sale investments	**22,336**	74,431
Withdrawal of bank deposits	**816,589**	60,238
Additions of bank deposits	**(545,977)**	(792,973)
Decrease (increase) in other deposits	**101,225**	(83,915)
Additions of investment properties	**(199,411)**	(67,267)
Purchase of property, plant and equipment	**(17,910)**	(446)
Redemption of held-to-maturity investment	**5,922**	–
Purchase of held-to-maturity investment	**(23,239)**	–
Purchase of derivative financial instrument	**(15,500)**	–
Net cash from investing activities	**144,035**	723,717
Cash used in financing activity		
Dividends paid	**(580,500)**	(117,450)
Net (decrease) increase in cash and cash equivalents	**(470,159)**	543,911
Cash and cash equivalents at beginning of the year	**685,340**	141,429
Cash and cash equivalents at end of the year	**215,181**	685,340
Analysis of cash and cash equivalents		
Bank balances and cash	**215,181**	685,340

1. GENERAL INFORMATION

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of the registered office and principal place of business of the Company are disclosed in the section headed "Corporate Information" in the annual report.

The Company is engaged in investment holding, treasury investment and the operation of public godowns. The principal activities of its principal subsidiaries are set out in note 31.

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

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

Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("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.

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

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

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

HKFRS 15 *"Revenue from Contracts with Customers"* (Continued)

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. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (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, as explained in the accounting policies set out below.

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

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

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

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

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

The significant accounting policies are set out below:

Basis of consolidation

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

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

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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

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

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity including reserves and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted after re-attribution of the relevant equity component, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (that is, reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer discounts, rebates and other similar allowances.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities as described below.

Godown operations income is recognised on an accrual basis when the godown facilities are utilised and services are rendered.

The accounting policy for income from investment properties is described in the paragraph headed "Leasing" below.

Sale of trading securities is recognised on a trade date basis.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Investment properties

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

On initial recognition, investment properties are measured at cost including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

If an item of property, plant and equipment becomes an investment property because its use has changed as evidenced by the end of owner-occupation, any excess of fair value of that item (including the relevant prepaid lease payments) at the date of change is recognised in other comprehensive income and accumulated in property revaluation reserve. On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to retained profits.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment

Property, plant and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

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

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

Impairment on tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

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

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets

The Group's financial assets are classified into one of the four categories, including financial assets at fair value through profit or loss ("FVTPL"), loans and receivables, held-to-maturity investment and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

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

Interest income is recognised on an effective interest basis for debt instruments.

Financial assets at FVTPL

Financial assets at FVTPL represent financial assets held for trading. A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or

- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade receivables, other receivables, bank and other deposits and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment (see accounting policy on impairment loss on financial assets below).

Held-to-maturity investment

Held-to-maturity investment is non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intention and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investment is measured at amortised cost using the effective interest method, less any impairment (see accounting policy on impairment loss on financial assets below).

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investment.

Equity securities held by the Group that are classified as available-for-sale financial assets and are traded in an active market are measured at fair value at the end of each reporting period. Changes in the carrying amount of available-for-sale monetary financial assets relating to interest income calculated using the effective interest method are recognised in profit or loss. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established. Other changes in the carrying amount of available-for-sale financial assets are recognised in other comprehensive income and accumulated under the heading of investment revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss (see the accounting policy in respect of impairment loss on financial assets below).

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified in profit or loss in the period.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of available-for-sale equity investment, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to impairment loss is recognised in other comprehensive income and accumulated in investment revaluation reserve.

Financial liabilities and equity instruments

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

Equity instruments

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

Financial liabilities

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

Effective interest method

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

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Derecognition

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

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

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

Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income, in which cases, the exchange differences are also recognised directly in other comprehensive income.

Taxation

Taxation represents the sum of the tax currently payable and deferred tax.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

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

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

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

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

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

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

The Group as lessee

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease. Where the leasehold land of the Group qualifies for finance lease classification, it is classified as property, plant and equipment.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Provisions

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

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

Short-term and other long-term employee benefits

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

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

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

4. 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

5. 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

5. SEGMENT INFORMATION (Continued)

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

For the year ended 31 March 2017

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

	Godown operations HK$'000	Property investment HK$'000	Treasury investment HK$'000	Consolidated HK$'000
Assets				
Segment assets	77,802	3,106,384	930,201	4,114,387
Bank balances and cash				215,181
Tax recoverable				604
Unallocated other assets				622
Consolidated total assets				4,330,794
Liabilities				
Segment liabilities	2,474	31,612	24,149	58,235
Tax payable				905
Deferred tax liabilities				60,054
Unallocated other liabilities				14,559
Consolidated total liabilities				133,753

	Godown operations HK$'000	Property investment HK$'000	Treasury investment HK$'000	Segment/ consolidated total HK$'000
Other information				
Amounts included in the measure of segment profit or loss or segment assets:				
Capital expenditure	2,946	214,374	–	217,320
Depreciation of property, plant and equipment	6,995	161	–	7,156
Fair value loss on derivative financial instruments	–	–	39,384	39,384
Fair value gain on investments held for trading	–	–	(46,962)	(46,962)
Reversal of provision for long service payments	(476)	(51)	–	(527)

5. SEGMENT INFORMATION (Continued)

For the year ended 31 March 2016

	Godown operations *HK$'000*	Property investment *HK$'000*	Treasury investment *HK$'000*	Consolidated *HK$'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

	Godown operations *HK$'000*	Property investment *HK$'000*	Treasury investment *HK$'000*	Consolidated *HK$'000*
Assets				
Segment assets	84,771	2,700,443	1,176,764	3,961,978
Bank balances and cash				685,340
Tax recoverable				1,219
Unallocated other assets				2,066
Consolidated total assets				4,650,603
Liabilities				
Segment liabilities	3,374	41,838	497	45,709
Tax payable				12,831
Deferred tax liabilities				55,053
Unallocated other liabilities				8,498
Consolidated total liabilities				122,091

	Godown operations *HK$'000*	Property investment *HK$'000*	Treasury investment *HK$'000*	Segment/ consolidated total *HK$'000*
Other information				
Amounts included in the measure of segment profit or loss or segment assets:				
Capital expenditure	446	67,267	–	67,713
Depreciation of property, plant and equipment	6,700	5	–	6,705
Impairment loss recognised on trade receivables	2	–	–	2
Fair value loss on derivative financial instruments	–	–	21,721	21,721
Fair value loss on investments held for trading	–	–	22,790	22,790
Reversal of provision for long service payments	(5)	–	–	(5)

5. SEGMENT INFORMATION (Continued)

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. 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 4.

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

6. BENEFITS AND INTERESTS OF DIRECTORS

Directors' and chief executive's emoluments

The emoluments paid or payable during the year to each of the five (2016: six) directors and the chief executive were as follows:

	Executive director	Non-executive director	Independent non-executive directors			
Name of directors	**Lu Wing Yee, Wayne**	**Lee Ka Sze, Carmelo**	**Gan Khai Choon**	**Lam Ming Leung**	**Leung Man Chiu, Lawrence**	**Total**
	HK$'000 *(Note)*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2017						
Fees	41	233	261	233	233	1,001
Other emoluments						
Salaries	–	–	–	–	–	–
Discretionary bonus	–	–	–	–	–	–
Retirement benefits scheme contributions	18	–	–	–	–	18
Total emoluments	59	233	261	233	233	1,019

6. BENEFITS AND INTERESTS OF DIRECTORS (Continued)

Directors' and chief executive's emoluments (Continued)

	Executive directors		Non-executive director	Independent non-executive directors			
Name of directors	Lu Wing Yee, Wayne	Oen Min Tjin	Lee Ka Sze, Carmelo	Gan Khai Choon	Lam Ming Leung	Leung Man Chiu, Lawrence	Total
	HK$'000 *(Note)*	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2016							
Fees	61	–	239	263	239	236	1,038
Other emoluments							
Salaries	–	360	–	–	–	–	360
Discretionary bonus	–	68	388	388	388	388	1,620
Retirement benefits scheme contributions	18	–	–	–	–	–	18
Total emoluments	79	428	627	651	627	624	3,036

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

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

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

7. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, no director (2016: one independent non-executive director as disclosed in note 6) was included. The emoluments of the five (2016: four) individuals were as follows:

	2017	2016
	HK$'000	*HK$'000*
Salaries and other benefits	**3,059**	2,405
Discretionary bonus	**229**	714
Retirement benefits scheme contributions	**36**	36
	3,324	3,155

Their emoluments were within the band of HK$nil to HK$1,000,000.

8. 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.

9. 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 *(note 22)*		
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.

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

	2017	2016
	HK$'000	*HK$'000*
Profit before taxation	**282,703**	873,159
Tax at the domestic income tax rate of 16.5% (2016: 16.5%)	**46,646**	144,071
Tax effect of expenses not deductible for tax purpose	**2,217**	2,656
Tax effect of income not taxable for tax purpose	**(35,936)**	(136,976)
Tax effect of tax losses not recognised	**764**	7,478
Tax effect of utilisation of tax losses previously not recognised	**(675)**	(37)
Tax effect of balancing charge upon disposal of properties	**–**	14,459
Reversal of deferred tax liabilities upon disposal of properties	**–**	(3,436)
(Over) underprovision in prior years	**(88)**	4
Others	**145**	(779)
Tax charge for the year	**13,073**	27,440

10. 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.

11. 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.

12. INVESTMENT PROPERTIES

	HK$'000
AT FAIR VALUE	
At 1 April 2015	3,176,400
Transfer from property, plant and equipment	216,000
Additions	67,267
Disposal	(1,197,118)
Increase in fair value recognised in profit or loss	431,651
At 31 March 2016	2,694,200
Additions	199,411
Increase in fair value recognised in profit or loss	187,389
At 31 March 2017	3,081,000

12. INVESTMENT PROPERTIES (Continued)

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

The fair value of the Group's investment properties as at 31 March 2017 amounting to HK$3,052,800,000 (2016: HK$2,694,200,000) have been arrived at on the basis of valuations carried out on that date by Messrs. Jones Lang LaSalle Limited and A A Property Services Limited, Chartered Surveyors, independent qualified professional valuers not connected to the Group.

The fair value of the Group's other investment properties as at 31 March 2017 amounting to HK$28,200,000 (2016: HK$nil) have been determined by the directors of the Company. No valuation has been performed by the independent qualified professional valuers.

The revaluation gave rise to a gain arising from changes in fair value of HK$187,389,000 (2016: HK$431,651,000) which has been included in the consolidated statement of profit or loss and other comprehensive income.

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

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

During the year ended 31 March 2016, the Group disposed of a property to an independent third party with a lease back arrangement from the purchaser for certain portion of the property with a term of one year commencing from the 16 December 2015 at market rental rate of HK$540,000 per month with an option for renewal for a further term of one year at prevailing market rent. Such monthly rental was agreed after arm's length negotiations between the purchaser and the Company having taken into consideration the rentals of comparable premises in the property which were then let out to independent third party tenants by the vendor. The lease was terminated in December 2016 after one year term without further renewal.

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

12. INVESTMENT PROPERTIES (Continued)

Investment properties held by the Group in the consolidated statement of financial position	Fair value		Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable inputs	Relationship of unobservable inputs to fair value	Sensitivity
	2017	2016					
	HK$'000	*HK$'000*					
Industrial/office property in Kwun Tong – Lu Plaza	**2,527,000**	2,372,000	Level 3	Income capitalisation approach: The key inputs are: (i) capitalisation rate (ii) market unit rent	Capitalisation rate, taking into account the capitalisation of rental income potential, nature of the property, prevailing market condition, of 4.2% (2016: 4.3%).	The higher the capitalisation rate, the lower the fair value.	Note (a)
					Market unit rent, taking into account direct market comparables within the property.	The higher the market unit rent, the higher the fair value.	Note (b)
Industrial/godown premises in Kwai Chung – Safety Godown	**240,000**	212,000	Level 3	Income capitalisation approach: The key inputs are: (i) capitalisation rate (ii) market unit rent	Capitalisation rate, taking into account the capitalisation of rental income potential, nature of the property, prevailing market condition, of 5.3% (2016: 6.0%).	The higher the capitalisation rate, the lower the fair value.	Note (a)
					Market unit rent, taking into account direct market comparables within the property.	The higher the market unit rent, the higher the fair value.	Note (b)
Office property in Kwun Tong – One Harbour Square	**193,800**	–	Level 2	Direct comparison approach based on making reference to sales evidence of similar property in the vicinity as available on the market	N/A	N/A	

Notes:

(a) A significant change in the unobservable inputs would result in a significant higher or lower fair value measurement.

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

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

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings of godown premises in Hong Kong	Leasehold improvements, furniture, fixtures and equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
COST				
At 1 April 2015	175,742	15,005	2,668	193,415
Revaluation upon transfer to investment properties	214,389	–	–	214,389
Transfer to investment properties	(221,487)	–	–	(221,487)
Additions	–	446	–	446
Disposals/write off	(39,360)	(171)	(420)	(39,951)
At 31 March 2016	129,284	15,280	2,248	146,812
Additions	14,826	3,084	–	17,910
Disposals/write off	–	(1,396)	–	(1,396)
At 31 March 2017	144,110	16,968	2,248	163,326
DEPRECIATION				
At 1 April 2015	81,424	14,704	2,497	98,625
Transfer to investment properties	(5,487)	–	–	(5,487)
Provided for the year	6,235	299	171	6,705
Eliminated on disposals/write off	(29,403)	(171)	(420)	(29,994)
At 31 March 2016	52,769	14,832	2,248	69,849
Provided for the year	6,142	1,014	–	7,156
Eliminated on disposals/write off	–	(1,387)	–	(1,387)
At 31 March 2017	58,911	14,459	2,248	75,618
CARRYING AMOUNTS				
At 31 March 2017	85,199	2,509	–	87,708
At 31 March 2016	76,515	448	–	76,963

During the year ended 31 March 2016, an owner-occupied property with a carrying value of HK$1,611,000 was transferred to investment properties upon commencement of operating lease to an independent third party. Fair value of the owner-occupied property at the date of transfer amounted to HK$216,000,000, and in a gain on revaluation of HK$214,389,000 was credited to property revaluation reserve.

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

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

Leasehold land and/or buildings of godown premises in Hong Kong	Shorter of the useful life of the buildings or the unexpired term of the land lease
Leasehold improvements, furniture, fixtures and equipment	25% per annum
Motor vehicles	25% per annum

At 31 March 2017, the cost of fully depreciated property, plant and equipment of the Group that is still in use amounted to HK$10,115,000 (2016: HK$12,148,000).

14. AVAILABLE-FOR-SALE INVESTMENTS

	2017	2016
	HK$'000	*HK$'000*
Equity securities listed in Hong Kong, at fair value	**–**	23,155

In the current year, the Group disposed of all equity securities with carrying amount of HK$23,155,000, which has been carried at fair value before the disposal. A gain on disposal of HK$19,782,000 has been recognised in profit or loss for the current year.

15. HELD-TO-MATURITY INVESTMENT

At 31 March 2017, the Group held an unsecured senior note denominated in United States dollar ("US$") with a principal amount of US$3,000,000, equivalent to approximately HK$23,239,000 issued by a financial institution, which bears interest at the rate of 3% per annum receivable semi-annually. The note will mature on 5 April 2020.

At 31 March 2016, the Group held an unsecured senior note denominated in Australian dollar ("A$") with a principal amount of A$1,000,000, equivalent to approximately HK$5,946,000 issued by a financial institution, which bears interest at the rate of 7.75% per annum receivable semi-annually. The note matured on 23 November 2016.

The directors consider that the carrying amounts of the notes as at 31 March 2017 and 31 March 2016 approximate their fair values.

16. DERIVATIVE FINANCIAL INSTRUMENT

	2017	2016
	HK$'000	*HK$'000*
Non-current asset:		
Participatory notes ("Participatory Notes")	**15,049**	–

The Group entered the US$ Participatory Notes, which are linked to The Jupiter Dynamic Bond Fund and issued by Goldman Sachs International, London, with UBS AG Hong Kong Branch during the year.

Major terms of the Participatory Notes are as follows:

Principal amount	**Maturity date**	**Minimum redemption**	**Participation rate**
US$2,000,000	10 February 2020	100%	150%

17. INVESTMENTS HELD FOR TRADING

	2017	2016
	HK$'000	*HK$'000*
Equity securities listed in Hong Kong, at fair value	**313,621**	197,684

18. TRADE AND OTHER RECEIVABLES

	2017	2016
	HK$'000	*HK$'000*
Trade receivables	**5,648**	6,896
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

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
	5,648	6,896

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. Before accepting any new customer, the Group will assess the potential customer's credit quality. Credit limits allowed to customers are reviewed once a year.

The Group has the rights to charge godown business customers and tenants for interest on overdue balance on receivables, as stipulated in account opening agreement, godown warrant and lease agreement. Allowances for doubtful debts are made based on estimated irrecoverable amounts, determined by reference to the age of the debts, customers' current ability to pay, and the economic environment in which the customers operate.

Included in the Group's trade receivables balance are debtors with an aggregate carrying amount of HK$776,000 (2016: HK$796,000) and which are past due by 1 to 60 days at the end of the reporting period for which the Group has not provided for impairment loss. The directors of the Company determined that these receivables are due from customers of good credit quality with no history of default and two to three months deposits are received from these tenants as security for their performance under the tenancy agreements. The Group does not hold any collateral from its other customers.

18. TRADE AND OTHER RECEIVABLES (Continued)

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

Movement in the allowance of doubtful debts

	2017	2016
	HK$'000	*HK$'000*
At beginning of the year	**–**	215
Amounts recovered	**–**	(100)
Impairment loss recognised	**–**	2
Amounts written off as uncollectible	**–**	(117)
At end of the year	**–**	–

19. BANK DEPOSITS/OTHER DEPOSITS/BANK BALANCES AND CASH

The bank deposits are designated for treasury investment purpose.

Bank deposits are carrying interest at varying rates ranging from 0.01% to 5.68% (2016: 0.01% to 6.79%) per annum.

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

	2017	2016
	HK$'000	*HK$'000*
Bank deposits denominated in:		
A$	**1,166**	1,153
US$	**481,580**	207,395
Euro	**–**	87,758

Other deposits represent deposits with security brokers which are carrying interest at 0.1% (2016: at varying rates ranging from 0.1% to 1.3%) per annum.

The bank balances carry prevailing market interest rates.

20. OTHER PAYABLES

	2017	2016
	HK$'000	*HK$'000*
Tenants' deposits	**14,591**	16,856
Receipts in advance	**3,491**	4,771
Payable for acquisition of unsecured senior note	**23,239**	–
Others	**17,562**	22,457
	58,883	44,084

21. SHARE CAPITAL

	Number of shares	Amount *HK$'000*
Issued and fully paid:		
Ordinary shares with no par value		
At 1 April 2015, 31 March 2016 and 31 March 2017	135,000,000	178,216

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

22. DEFERRED TAXATION

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

	Accelerated tax depreciation *HK$'000*	**Tax losses** *HK$'000*	**Total** *HK$'000*
At 1 April 2015	55,787	(268)	55,519
Charge (credit) to profit or loss	2,978	(8)	2,970
Reversal upon disposal of properties	(3,436)	–	(3,436)
At 31 March 2016	55,329	(276)	55,053
Charge (credit) to profit or loss	5,009	(8)	5,001
At 31 March 2017	60,338	(284)	60,054

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

At 31 March 2017, the Group has estimated unused tax losses of HK$71,837,000 (2016: HK$71,255,000) available for offset against future profits that may be carried forward indefinitely. A deferred tax asset has been recognised in respect of HK$1,715,000 (2016: HK$1,669,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK$70,122,000 (2016: HK$69,586,000) due to the unpredictability of future profit streams.

23. PROVISION FOR LONG SERVICE PAYMENTS

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

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

	2017	2016
	HK$'000	*HK$'000*
Balance brought forward	**961**	2,258
Reversal of provision	**(527)**	(5)
Utilisation during the year	**(22)**	(1,292)
Balance carried forward	**412**	961

In addition to the provision for long service payments, the Group has contributed to the Mandatory Provident Fund Scheme for all employees commencing from 1 December 2000 and the amount charged for the year is HK$406,000 (2016: HK$482,000).

24. OPERATING LEASES

The Group as lessor:

Property rental income earned during the year was HK$79,988,000 (2016: HK$108,612,000). The properties held have committed tenants for terms ranging from one month to five years.

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

	2017	2016
	HK$'000	*HK$'000*
Within one year	**66,237**	61,436
In the second to fifth year inclusive	**60,601**	44,158
	126,838	105,594

The Group as lessee:

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2017	2016
	HK$'000	*HK$'000*
Within one year	**–**	4,950

Operating lease payments represented rentals payable by the Group for certain of its warehouse premises. Leases were negotiated for an average term of one year and rentals were fixed at the date of signing of lease agreements for the year ended 31 March 2016. There was no outstanding commitment as at 31 March 2017.

25. RELATED PARTY DISCLOSURES

During the year, the Group and the Company received a reimbursement of expenses amounting to HK$240,000 (2016: HK$240,000) from a company which is taken to be controlled by Ms. Chan Koon Fung (spouse of the late Chairman Mr. Lu Sin) and Mr. Lu Wing Yee, Wayne, Executive Director of the Company. The reimbursement represents a share of the expenses incurred in respect of the occupation of office premises and general administrative services provided to the related company.

The key management personnel of the Group are all directors. Details of their remuneration are disclosed in note 6. The remuneration of directors is determined by the Remuneration and Nomination Committee, having regard to the performance of the individuals and market trends.

The amounts due from/to subsidiaries are disclosed in the Company's statement of financial position in note 30.

26. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of equity of the Company, comprising issued share capital, retained profits and other reserves.

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

27. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	2017	2016
	HK$'000	*HK$'000*
Financial assets		
Loans and receivables	**800,616**	1,644,712
Available-for-sale investments	**–**	23,155
Investments held for trading	**313,621**	197,684
Held-to-maturity investments	**23,239**	5,946
Derivative financial instrument	**15,049**	–
Financial liabilities at amortised cost	**66,678**	46,718

b. Financial risk management objectives and policies

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

27. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Market risk

(i) Currency risk

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

	2017	2016
	HK$'000	*HK$'000*
A$	**1,166**	7,099
US$	**519,868**	207,395
Euro	**–**	87,758

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

The following table details the Group's sensitivity to a 5% (2016: 5%) rate increase or decrease in HK$ against A$ and Euro. 5% (2016: 5%) is the sensitivity rate used which represents management's assessment of a reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% (2016: 5%) change in foreign currency rates. A positive number below indicates an increase in profit for the year where HK$ weakened 5% (2016: 5%) against the relevant currencies. For a 5% (2016: 5%) strengthening of HK$ against the relevant currencies, there would be an equal and opposite impact on the profit for the year, and the balances below would be negative.

	2017	2016
	HK$'000	*HK$'000*
A$	**49**	296
Euro	**–**	3,664

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

27. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Market risk (Continued)

(ii) Interest rate risk

The Group is exposed to cash flow interest rate risk mainly in relation to variable-rate bank deposits (see note 19 for details). The Group is also exposed to fair value interest rate risk in relation to held-to-maturity investment with interest at fixed rate.

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

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

(iii) Other price risk

The Group is exposed to equity price risk through its available-for-sale investments, investments held for trading and derivative financial instrument. The management manages this exposure by monitoring closely market fluctuations and maintaining a portfolio of investments with different risks. The Group's equity price risk is mainly concentrated on equity instruments quoted in the Stock Exchange. In addition, the Group has appointed a special team of personnel to monitor the price risk and will consider hedging the risk exposure should the need arise.

The sensitivity analysis below have been determined based on the exposure to equity price risk at the end of the reporting date. 10% (2016: 10%) is the sensitivity rate used which represents management's assessment of a reasonably possible change in equity price on investments.

If the prices of the investments held for trading had been 10% (2016: 10%) higher/lower, the Group's profit for the year ended 31 March 2017 would increase/decrease by HK$26,187,000 (2016: HK$16,507,000) as a result of the changes in fair value of investments held for trading.

If the prices of the available-for-sale investments had been 10% (2016: 10%) higher/lower, the Group's investment revaluation reserve would increase/decrease by HK$nil (2016: HK$2,316,000) as a result of the changes in fair value of available-for-sale investments.

If the price of the derivative financial instrument had been 10% (2016: 10%) higher/lower, the Group's profit for the year ended 31 March 2017 would increase/decrease by HK$1,257,000 (2016: HK$nil) as a result of the changes in fair value of derivative financial instrument.

27. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Credit risk

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

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31 March 2017 in relation to each class of recognised financial assets is the carrying amount of those assets in the consolidated statement of financial position. The Group's credit risk is primarily attributable to its held-to-maturity investment, bank and other deposits, bank balances and trade and other receivables. The amounts carried in the consolidated statement of financial position are net of allowances for doubtful receivables estimated by management based on the age of the debts, their knowledge of customers' credit-worthiness and current ability to pay, management's prior experience and their assessment of the current economic environment in which the customers operate. The management reviews the recoverable amounts of significant trade receivables regularly to ensure that adequate allowances for doubtful debts are recognised if considered appropriate. The Group does not have any concentration of credit risk in their trade receivables as there is a large number of customers.

The credit risk on the Group's bank and other deposits and bank balances is limited because the counterparties have high credit ratings.

Liquidity risk

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

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

	Non-interest bearing	
	2017	2016
	HK$'000	*HK$'000*
0-1 year	**53,180**	37,556
1-2 years	**3,937**	5,179
2-5 years	**9,561**	3,983
Total undiscounted cash flows	**66,678**	46,718
Carrying amounts	**66,678**	46,718

27. FINANCIAL INSTRUMENTS (Continued)

c. Fair value measurements of financial instruments

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

Financial assets	Fair value as at 31 March		Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable inputs
	2017	2016			
	HK$'000	*HK$'000*			
Listed available-for-sale investments	**–**	23,155	Level 1	Quoted bid prices in an active market.	N/A
Listed investments held for trading	**313,621**	197,684	Level 1	Quoted bid prices in an active market.	N/A
Participatory notes as derivative financial instrument	**15,049**	–	Level 3	Discounted cash flow. Future cash flows are estimated based on probability-adjusted fund prices and volatility discounted at a rate that reflects the credit risk of various counterparties.	Volatility of underlying fund prices. *(Note)*

Note: An increase in the volatility used in isolation would result in an increase in fair value measurement of the participatory notes, and vice versa.

The directors of the Company consider that the carrying amounts of other financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values. The fair values of financial assets and liabilities included in the Level 3 category have been determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

There were no transfers between Level 1 and Level 2 in the current and prior year.

28. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

28. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Critical judgments in applying accounting policies

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

Deferred taxation on investment properties

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

Key sources of estimation uncertainty

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

a. *Fair value of investment properties*

At the end of the reporting period, the Group's investment properties are carried at a total fair value of HK$3,081,000,000 (2016: HK$2,694,200,000) based on the valuations performed by independent qualified professional valuers and the directors of the Company. The valuations were arrived at by reference to market evidence of recent transaction prices for similar properties and/or on the basis of discounted cash flow projections based on estimates of future rental income from properties using current market rentals and yields as inputs. In relying on the valuation, management has exercised their judgment and is satisfied that the method of valuation is reflective of the current market conditions. Favourable or unfavourable changes to these assumptions would result in changes in the fair value of the Group's investment properties and corresponding adjustments to the amount of gain or loss reported in profit or loss.

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

The management determines the estimated useful lives and related depreciation charges for its property, plant and equipment with a carrying amount of HK$87,708,000 (2016: HK$76,963,000). This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. The management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down assets that have been abandoned or sold.

c. *Estimated provision for impairment of trade and other receivables*

The Group makes impairment loss for doubtful debts based on an assessment of the recoverability of trade receivables with a carrying amount of HK$5,648,000 (2016: HK$6,896,000). Provisions are applied to trade receivables where events or changes in circumstances indicate that the balances may not be collectible/ recoverable. The identification of doubtful debts requires the use of estimates based on the credit history of the customers and the current market conditions. Where the expectation is different from the original estimate, such difference will impact the carrying value of receivables and doubtful debt expenses in the period in which such estimate has been changed.

28. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Key sources of estimation uncertainty (Continued)

d. Fair value measurements and valuation processes

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

The Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain investment properties and financial instruments. Note 12 provides detailed information about the valuation techniques, inputs and key assumptions used in the determination of the fair value of certain investment properties. Note 27(c) provides detailed information about the valuation techniques and key inputs used in the determination of the fair value of financial instruments.

29. CAPITAL COMMITMENTS

	2017	2016
	HK$'000	*HK$'000*
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of:		
– refurbishment of investment properties	**36,283**	124,601
– acquisition of property, plant and equipment	**3,976**	–
	40,259	124,601

30. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2017	2016
	HK$'000	*HK$'000*
Non-current assets		
Property, plant and equipment	**1,941**	125
Investments in subsidiaries	**42,882**	41,133
Amounts due from subsidiaries	**513,448**	415,455
Available-for-sale investments	**–**	23,155
	558,271	479,868
Current assets		
Investments held for trading	**4,160**	5,244
Trade and other receivables	**622**	2,066
Amounts due from subsidiaries	**1,119,154**	1,048,136
Bank deposits	**4,566**	163,145
Bank balances and cash	**23,791**	547,433
	1,152,293	1,766,024
Current liabilities		
Other payables	**13,999**	8,033
Amounts due to subsidiaries	**30,762**	35,455
	44,761	43,488
Net current assets	**1,107,532**	1,722,536
	1,665,803	2,202,404
Capital and reserves		
Share capital	**178,216**	178,216
Reserves *(Note)*	**1,487,409**	2,024,078
	1,665,625	2,202,294
Non-current liability		
Provision for long service payments	**178**	110
	1,665,803	2,202,404

Approved and authorised for issue by the Board of Directors on 28 June 2017 and are signed on its behalf by:

Lu Wing Yee, Wayne
Director

Gan Khai Choon
Director

30. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note: Reserves

	Investment revaluation reserve *HK$'000*	Retained profits *HK$'000*	Total *HK$'000*
At 1 April 2015	21,849	560,459	582,308
Release upon disposal of available-for-sale investments	(18,078)	–	(18,078)
Fair value gain on available-for-sale investments	16,830	–	16,830
Profit for the year	–	1,560,468	1,560,468
Total comprehensive (expense) income for the year	(1,248)	1,560,468	1,559,220
Dividends paid *(note 10)*	–	(117,450)	(117,450)
At 31 March 2016	20,601	2,003,477	2,024,078
Release upon disposal of available-for-sale investments	(20,601)	–	(20,601)
Profit for the year	–	64,432	64,432
Total comprehensive (expense) income for the year	(20,601)	64,432	43,831
Dividends paid *(note 10)*	–	(580,500)	(580,500)
At 31 March 2017	–	1,487,409	1,487,409

31. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Particulars of principal subsidiaries at 31 March 2017 and 31 March 2016 are as follows:

Name of company	Place of incorporation/ registration	Paid-up capital	Proportion of nominal value of issued capital held by the Company		Principal activities
			2017	2016	
Safety Logistics Services Limited	Hong Kong	HK$10,000,000 Ordinary shares	**100%**	100%	operating godown
Chi Kee Investment Company Limited	Hong Kong	HK$500,000 Ordinary shares	**100%**	100%	Property investment
Chivas Godown Company Limited	Hong Kong	HK$10,000,000 Ordinary shares	**100%**	100%	Property investment and holding godown
Gaylake Limited	Hong Kong	HK$1,000 Ordinary shares	**100%**	100%	Property investment and holding godown
Genlink Development Limited	Hong Kong	HK$2 Ordinary shares	**100%**	100%	Property investment
Good Ready Investment Limited	Hong Kong	HK$2 Ordinary shares	**100%**	100%	Property investment
Magic Aim Enterprises Limited	Hong Kong	HK$1 Ordinary shares	**100%**	–	Property investment
Rich China Development Limited	Hong Kong	HK$2 Ordinary shares	**100%**	100%	Securities trading

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

All the subsidiaries have no debt securities subsisting at the end of the year or at any time during the year.

Particulars of Major Properties

Particulars of major properties which were held by the Group at 31 March 2017 are as follows:

(a) Industrial/godown premises in Hong Kong:

Location	Lease term	Effective interest held	Approximate floor area attributable to the Group *sq.ft.*	Type
The whole of Safety Godown (except G/F and 8/F) 132-140 Kwok Shui Road, Kwai Chung, New Territories, Hong Kong	Medium-term lease	100%	347,000	Industrial/godown premises

(b) Investment properties in Hong Kong:

Location	Lease term	Effective interest held	Approximate floor area attributable to the Group *sq.ft.*	Type
2 Wing Yip Street, Kwun Tong, Kowloon Hong Kong	Medium-term lease	100%	430,000 and 101 car-parking spaces	Industrial/office
G/F and 8/F of Safety Godown 132-140 Kwok Shui Road, Kwai Chung, New Territories, Hong Kong	Medium-term lease	100%	74,000	Industrial/godown premises
One Harbour Square No. 181 Hoi Bun Road, Kwun Tong, Kowloon Hong Kong	Medium-term lease	100%	18,314 and 8 car-parking spaces	Office

安全貨倉 集團

SAFETY GODOWN GROUP

香港九龍觀塘榮業街2號振萬廣場18樓1801室

Unit 1801, 18/F., Lu Plaza, 2 Wing Yip Street, Kwun Tong, Kowloon, Hong Kong.