



# SAFETY GODOWN COMPANY, LIMITED

## 安全貨倉有限公司

(Incorporated in Hong Kong with limited liability)

(Stock code: 237)

### INTERIM RESULTS ANNOUNCEMENT – 2007/2008

The Board of Directors of Safety Godown Company, Limited (the “Company”) are pleased to announce that the unaudited consolidated profit attributable to shareholders for the six months ended 30 September 2007 was HK\$71,984,000 representing a decrease of 30% against the amount of HK\$102,677,000 for the last corresponding period. Earnings per share for the period were HK53.3 cents (2006: HK76.1 cents). The interim financial report is unaudited, but has been reviewed by Deloitte Touche Tohmatsu in accordance with Hong Kong Standard on Review Engagement 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

#### CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 2007

	Notes	Six months ended	
		30.9.2007 (unaudited) HK\$'000	30.9.2006 (unaudited) HK\$'000
Revenue	3	<u>74,965</u>	<u>47,890</u>
Income from godown operations		13,744	15,760
Income from property investment		31,695	28,133
Gains (losses) on investments			
Fair value gain (loss) on investments held for trading		11,672	(1,918)
Gain on disposals of available-for-sale investments		11,419	–
Interest income		2,844	938
Dividend income		1,146	1,806
Other income		1,404	594
Increase in fair value of investment properties		28,300	95,400
Staff costs		(9,825)	(9,892)
Depreciation of property, plant and equipment		(1,504)	(1,765)
Release of prepaid lease payments		(219)	(220)
Other expenses		<u>(5,269)</u>	<u>(4,506)</u>
Profit before taxation		85,407	124,330
Taxation	4	<u>(13,423)</u>	<u>(21,653)</u>
Profit for the period attributable to shareholders		<u>71,984</u>	<u>102,677</u>
Dividends	5		
Paid		<u>20,250</u>	<u>12,150</u>
Proposed		<u>13,500</u>	<u>9,450</u>
Earnings per share – Basic	6	<u>HK53.3 cents</u>	<u>HK76.1 cents</u>

# CONDENSED CONSOLIDATED BALANCE SHEET

At 30 September 2007

	<i>Notes</i>	<b>30.9.2007</b> <b>(unaudited)</b> <b>HK\$'000</b>	31.3.2007 (audited) HK\$'000
<b>Non-current assets</b>			
Investment properties		1,217,800	1,189,500
Property, plant and equipment		13,940	16,176
Prepaid lease payments		21,056	21,275
Available-for-sale investments		38,539	45,669
		<u>1,291,335</u>	<u>1,272,620</u>
<b>Current assets</b>			
Prepaid lease payments		441	441
Investments held for trading		10,090	21,519
Trade and other receivables	7	10,039	10,359
Tax recoverable		–	1,074
Bank balances and cash		205,455	144,398
		<u>226,025</u>	<u>177,791</u>
<b>Current liabilities</b>			
Other payables		26,683	27,909
Tax payable		3,386	1,653
		<u>30,069</u>	<u>29,562</u>
<b>Net current assets</b>		<u>195,956</u>	<u>148,229</u>
		<u><b>1,487,291</b></u>	<u><b>1,420,849</b></u>
<b>Capital and reserves</b>			
Share capital		135,000	135,000
Reserves		1,215,178	1,157,338
		<u>1,350,178</u>	<u>1,292,338</u>
<b>Non-current liabilities</b>			
Deferred tax liabilities		134,791	126,236
Provision for long service payments		2,322	2,275
		<u>137,113</u>	<u>128,511</u>
		<u><b>1,487,291</b></u>	<u><b>1,420,849</b></u>

NOTES:

**1. BASIS OF PREPARATION**

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

**2. PRINCIPAL ACCOUNTING POLICIES**

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at fair values.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2007.

In the current interim period, the Group has applied, for the first time, the following new standard, amendment and interpretations (“new HKFRSs”) issued by the HKICPA, which are effective for the Group's financial year beginning 1 April 2007.

HKAS 1 (Amendment)	Capital Disclosures <sup>1</sup>
HKFRS 7	Financial Instruments: Disclosures <sup>1</sup>
HK(IFRIC) - Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies <sup>2</sup>
HK(IFRIC) - Int 8	Scope of HKFRS 2 <sup>3</sup>
HK(IFRIC) - Int 9	Reassessment of Embedded Derivatives <sup>4</sup>
HK(IFRIC) - Int 10	Interim Financial Reporting and Impairment <sup>5</sup>
HK(IFRIC) - Int 11	HKFRS 2: Group and Treasury Share Transactions <sup>6</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2007

<sup>2</sup> Effective for annual periods beginning on or after 1 March 2006

<sup>3</sup> Effective for annual periods beginning on or after 1 May 2006

<sup>4</sup> Effective for annual periods beginning on or after 1 June 2006

<sup>5</sup> Effective for annual periods beginning on or after 1 November 2006

<sup>6</sup> Effective for annual periods beginning on or after 1 March 2007

The adoption of these new HKFRSs had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

The Group has not early applied the new and revised standards or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 23 (Revised)	Borrowing Costs <sup>1</sup>
HKFRS 8	Operating Segments <sup>1</sup>
HK(IFRIC) - Int 12	Service Concession Arrangements <sup>2</sup>
HK(IFRIC) - Int 13	Customer Loyalty Programmes <sup>3</sup>
HK(IFRIC) - Int 14	HKAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2009

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2008

<sup>3</sup> Effective for annual periods beginning on or after 1 July 2008

### 3. SEGMENT INFORMATION

For management purposes, the Group is currently organised into three operating divisions - godown operations, property investment and treasury investment. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

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

Business segment information is presented below:

#### For the six months ended 30 September 2007

	<b>Godown operations</b>	<b>Property investment</b>	<b>Treasury investment</b>	<b>Eliminations</b>	<b>Consolidated</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Revenue</b>					
External income	13,744	31,695	29,526	–	74,965
Inter-segment income	–	2,838	–	(2,838)	–
	<u>13,744</u>	<u>34,533</u>	<u>29,526</u>	<u>(2,838)</u>	<u>74,965</u>
<b>Total</b>	<b>13,744</b>	<b>34,533</b>	<b>29,526</b>	<b>(2,838)</b>	<b>74,965</b>
Inter-segment income is charged based on market/concessionary rates					
<b>Segment result</b>	<b>5,062</b>	<b>55,797</b>	<b>26,919</b>	<b>–</b>	<b>87,778</b>
Unallocated corporate expenses					(2,371)
Profit before taxation					85,407
Taxation					(13,423)
Profit for the period attributable to shareholders					<u>71,984</u>

**For the six months ended 30 September 2006**

	Godown operations <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Treasury investment <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<b>Revenue</b>					
External income	15,760	28,133	3,997	–	47,890
Inter-segment income	–	2,838	–	(2,838)	–
Total	<u>15,760</u>	<u>30,971</u>	<u>3,997</u>	<u>(2,838)</u>	<u>47,890</u>
Inter-segment income is charged based on market/concessionary rates					
<b>Segment result</b>	<u>6,868</u>	<u>118,769</u>	<u>749</u>	<u>–</u>	126,386
Unallocated corporate expenses					<u>(2,056)</u>
Profit before taxation					124,330
Taxation					<u>(21,653)</u>
Profit for the period attributable to shareholders					<u>102,677</u>

**4. TAXATION**

	<b>Six months ended</b>	
	<b>30.9.2007</b>	<b>30.9.2006</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
	<b><i>HK\$'000</i></b>	<b><i>HK\$'000</i></b>
The charge comprises:		
Hong Kong Profits Tax:		
Current period	3,710	1,835
Under provision in prior year	–	3
The People's Republic of China ("PRC") Enterprise Income Tax:		
Under provision in prior year	<u>1,158</u>	–
	<b>4,868</b>	1,838
Deferred taxation	<u>8,555</u>	19,815
	<u><b>13,423</b></u>	<u>21,653</u>

Hong Kong Profits Tax is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used is 15.7% for the six months ended 30 September 2007 (six months ended 30.9.2006: 17.4%).

Taxation arising in other jurisdictions is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used is 33% for the six months ended 30 September 2007.

## 5. DIVIDENDS

	<b>Six months ended</b>	
	<b>30.9.2007</b>	30.9.2006
	<b>(unaudited)</b>	(unaudited)
	<b>HK\$'000</b>	HK\$'000
Dividend paid:		
Final dividend paid in respect of the year ended 31 March 2007 of HK7 cents (year ended 31 March 2006: HK7 cents) per ordinary share	<b>9,450</b>	9,450
Special dividend paid in respect of the year ended 31 March 2007 of HK8 cents (year ended 31 March 2006: HK2 cents) per ordinary share	<b>10,800</b>	2,700
	<b><u>20,250</u></b>	<b><u>12,150</u></b>
Dividend proposed:		
Interim dividend: HK7 cents (six months ended 30.9.2006: HK7 cents) per ordinary share	<b>9,450</b>	9,450
Special dividend: HK3 cents (six months ended 30.9.2006: NIL) per ordinary share	<b>4,050</b>	–
	<b><u>13,500</u></b>	<b><u>9,450</u></b>

Subsequent to the balance sheet date, the directors have proposed that an interim dividend of HK7 cents per share (six months ended 30.9.2006: HK7 cents) and a special dividend of HK3 cents per share (six months ended 30.9.2006: NIL) be paid to the shareholders of the Company, whose names appear in the register of members on Friday 4 January 2008. The interim and special dividend will be paid on or about Friday 11 January 2008.

## 6. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit for the period attributable to shareholders of HK\$71,984,000 (six months ended 30.9.2006: HK\$102,677,000) and on 135,000,000 shares (six months ended 30.9.2006: 135,000,000 shares) in issue throughout the period.

No diluted earnings per share have been presented as there were no dilutive potential ordinary shares in issue for both periods.

## 7. TRADE AND OTHER RECEIVABLES

The Group has a policy of allowing credit period of 60 days to its trade customers.

An aged analysis of trade customers is as follows:

	<b>30.9.2007</b> <b>(unaudited)</b> <i>HK\$'000</i>	31.3.2007 (audited) <i>HK\$'000</i>
Trade receivables		
Within 60 days	3,555	4,269
61-90 days	559	102
Over 90 days	656	334
	<hr/>	<hr/>
	4,770	4,705
Other receivables	5,269	5,654
	<hr/>	<hr/>
	<b>10,039</b>	<b>10,359</b>
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## BUSINESS REVIEW

### Godown Operation

Following the strong economic growth in Mainland China last year, especially the increasingly open financial market, Hong Kong's economy continued to grow. However, with the adjustment of export tax refund policy in Mainland China in July 2007, which increased the costs for manufacturers from Hong Kong, most of them remained cautious in the management of their inventory level, thereby affecting the demand for warehousing.

### Property Investment

Benefiting from the relatively thriving market of commercial premises rental and sale in Hong Kong, the Group's major investment property, Lu Plaza, had maintained a high occupancy rate of over 90% during the period under review, and rentals also kept up with the market level. Therefore, the overall rental income increased as compared with the previous year.

## **OUTLOOK**

### **Godown Operation**

In the second half of the year, godown business will continue to be affected by various adverse factors such as high oil prices, weakening US economy, and, in particular, the pending sub-prime mortgage crisis, all of which are affecting the export momentum of Hong Kong. In addition, the appreciation of Renminbi and rising inflation in Mainland China will continue to increase the costs of raw materials and labour. The tightening of export tax refund policy will further narrow the profit margin of yarn fabric export. These are in addition to the increasing trade barriers imposed by the European and American markets on China's textiles products. It is expected that the godown business in Hong Kong will continue to be under pressure.

On the positive side, there is a prosperous stock market driven by the Qualified Domestic Institutional Investors (QDII) Scheme in Mainland China, an improved employment rate, a revitalised property market as well as enhanced purchasing power. With these favourable factors, the Group will proactively explore new sources of business and seek closer cooperation with existing clients by further improving our service quality to maintain stable business performance.

### **Property Investment**

Because of the upcoming significant increase in the supply of office premises upon gradual completion of new commercial buildings in the Kowloon East district, the leasing business of Lu Plaza will be subject to considerable pressure. Marketing efforts will be stepped up accordingly to attract new tenants, whilst our standing principle of 'Customers Come First' will continue to be upheld to retain all existing tenants in order to secure a stable rental income for the Group.

## **FINANCIAL REVIEW**

Total revenue for the Group for the six months period amounted to HK\$74,965,000 (6 months ended 30.9.2006: HK\$47,890,000), representing an increase of 56.5% from that of the last corresponding period. Profit for the period attributable to shareholders was approximately HK\$71,984,000 (6 months ended 30.9.2006: HK\$102,677,000), while profit attributable to shareholders after excluding fair value gain in investment properties and related deferred tax was HK\$48,636,000 (6 months ended 30.9.2006: HK\$23,972,000), representing a growth of 102.9% over the last period which was mainly driven by the growth in income from property and treasury investment during the period.



## **Godown operation**

During the period under review, the godown operation recorded a drop in turnover of 12.8% to HK\$13,744,000 (6 months ended 30.9.2006: HK\$15,760,000) with the segment's profit declined by 26.3% to HK\$5,062,000 (6 months ended 30.9.2006: HK\$6,868,000).

With the reasons mentioned in the business review, the godown business of the group has been under pressure throughout the period. Thanks to the endeavor of our management and staff, Safety Godown was able to maintain an average occupancy rate of over 90% throughout the period while occupancy rate of Chivas Godown show a signal of recession compared with that of last corresponding period.

## **Property investment**

There has been a strong growth in the Group's rental revenue during the period. Rental income from investment properties increased by 12.7% from the last corresponding period to reach HK\$31,695,000 (6 months ended 30.9.2006: HK\$28,133,000). As at 30 September 2007, the investment properties of the Group were revalued at HK\$1,217,800,000 (31.3.2007: HK\$1,189,500,000), reflecting a further increase in value of the Group's investment properties.

Operating profits from the property investment sector excluding the fair value gain on investment properties showed a marked increase of 17.7% to HK\$27,497,000 (6 months ended 30.9.2006: HK\$23,369,000). The growth was mainly attributable to both higher occupancy and rental rates achieved in the Group's core investment property, Lu Plaza, during the period.

## **Treasury investment**

The Group continued to deliver good performance in treasury investment. During the period, the Group realised some of its long term securities investment and reduced its portfolio weighting in trading securities in order to take advantage of the buoyant stock market. Turnover in treasury investment increased substantially to HK\$29,526,000 (6 months ended 30.9.2006: HK\$3,997,000), with profit from this sector surged to HK\$26,919,000 (6 months ended 30.9.2006: HK\$749,000).

As at 30 September 2007, the available-for-sale investment held by the Group amounted to HK\$38,539,000 (31.3.2007: HK\$45,669,000) and investments held for trading amounted to HK\$10,090,000 (31.3.2007: HK\$21,519,000).

## FINANCIAL RESOURCES AND LIQUIDITY

As at 30 September 2007, the net asset value of the Group was HK\$1,350,178,000 or HK\$10 per share (31.3.2007: HK\$1,292,338,000 or HK\$9.6 per share).

We maintained a very strong liquidity position. Cash balance kept at a high level of HK\$205,455,000 (31.3.2007: HK\$144,398,000). The current ratio at the balance sheet date was 7.52 times (31.3.2007: 6.01 times). The Group does not have any borrowings and, accordingly, no finance costs were incurred during the period and in the last corresponding period.

The Group's net cash generated from operating and investing activities during the period was HK\$81,307,000 (6 months ended 30.9.2006: HK\$7,274,000). Cash inflow from disposal of investments held for trading and available-for-sale investment mainly accounted for the increase. Dividend paid out during the period amounted to HK\$20,250,000 (6 months ended 30.9.2006: HK\$12,150,000).

### Financial Risk and Management

We have established internal control system to protect against loss arising through fraud, unauthorised activities, errors and system malfunctions. An external auditor was engaged to perform independent reviews of the internal control systems.

The Group is exposed to securities price risk through its available-for-sale investments and investments held for trading. The management manages this exposure by monitoring closely market fluctuations and maintaining a portfolio of investments with different risk profiles.

In the opinion of the Directors, the credit risk, liquidity risk and the interest rate risk arising from the business operation are not considered as material as the Group does not have any concentration of trade receivables and interest-bearing loan. Investments and cash transactions are executed with counterparties with sound credit ratings.

The Group is exposed to foreign exchange fluctuations for certain bank balances. The Group closely monitors the related exchange rates and, whenever appropriate, takes necessary action to reduce exchange risk.

The Group regularly reviewed its tenant mix and its policies on the collection of rental and outstanding debts. Rental deposits are received in advance from tenants to mitigate the potential default risks.

## **PLEDGE OF ASSETS**

At 30 September 2007, the Group has pledged its investment properties and property, plant and equipment with carrying values of HK\$1,023,000,000 (31.3.2007: HK\$1,015,000,000) and HK\$5,238,000 (31.3.2007: HK\$5,333,000), respectively, to banks to secure general banking facilities to the extent of HK\$72,000,000 (31.3.2007: HK\$72,000,000) granted to the Group. At 30 September 2007, no such facilities were utilised by the Group.

## **EMPLOYEES**

As at 30 September 2007, the Group employed a total of 79 employees. The total staff costs for the period ended 30 September 2007 was kept at HK\$9,825,000 (6 months ended 30.9.2006: HK\$9,892,000).

## **CLOSURE OF MEMBERS REGISTER**

The Register of Members of the Company will be closed from Wednesday 2 January 2008 to Friday 4 January 2008, both days inclusive, during which period no transfer of shares can be registered. In order to qualify for the proposed interim 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, 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong, for registration not later than 4:00 p.m. on Monday 31 December 2007.

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

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

## **AUDIT COMMITTEE**

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

The Audit Committee, together with the management of the Company, have reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including the review of the unaudited consolidated interim financial statements of the Group for the six months ended 30 September 2007.

## **CODE ON CORPORATE GOVERNANCE PRACTICES**

The Company has complied with the code provisions set out in Appendix 14 of the Code on Corporate Governance Practices (the “CG Code”) under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) throughout the six months ended 30 September 2007 except for the deviations from the following code provisions:

Code provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

Mr. Lu Sin is the Chairman and the Chief Executive Officer of the Company. He is the founder and a substantial shareholder of the Company and has considerable industry experience. The Board considers this structure will not impair the balance of power and authority between the Board and the Management of the Group. The balance of power and authority can be ensured as over one-third of the Board members are represented by Independent Non-executive Directors throughout the year. The Board believes that this structure enables the Group to make and implement decisions promptly and efficiently.

The Chairman ensures that all Directors are properly briefed on issues arising at Board meetings. The Chairman is responsible for ensuring that directors receive adequate information in a timely manner.

Code provision A.4.1 stipulates that Non-executive Directors should be appointed for a specific term.

All the Directors (including Non-executive Directors) 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 and code provision A.4.1 of the CG Code.

## **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 its code of conduct regarding directors’ securities transactions. Having made specific enquiry of all Directors of the Company, the Directors have complied with the required standard set out in the Model Code during the six months ended 30 September 2007.

By Order of the Board  
**Wong Leung Wai**  
*Secretary*

Hong Kong, 14 December 2007

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

<b>Executive Director</b>	<b>Non-executive Director</b>	<b>Independent Non-executive Director</b>
Mr. Lu Sin ( <i>Chairman</i> )	Mr. Lu Yong Lee	Mr. Gan Khai Choon
Mr. Lui Chi Lung	Mr. Lee Ka Sze, Carmelo	Mr. Lam Ming Leung
Mr. Oen Min Tjin		Mr. Leung Man Chiu, Lawrence