



Interim Report  
中期報告 2017/18

安全貨倉有限公司

SAFETY GODOWN CO LTD

(Stock code 股份代號: 237)

## **CORPORATE RESULTS**

For the six months ended 30 September 2017, Safety Godown Company, Limited (the “Company”, together with its subsidiaries, collectively, the “Group”) recorded profit attributable to shareholders of approximately HK\$208,965,000 (six months ended 30 September 2016: HK\$146,051,000), representing an increase of 43.08% as compared to the corresponding period in 2016. Total revenue decreased slightly by 3.54% from HK\$63,028,000 to HK\$60,799,000 mainly due to drop of revenue from godown operations. The Group’s underlying profit excluding fair value gain on investment properties grew by 10.39% to HK\$57,380,000.

Total comprehensive income for the period attributable to shareholders increased by 128.82% to HK\$287,057,000 while the earning per share for the period rose by 43.52% from HK\$1.08 to HK\$1.55.

## **INTERIM DIVIDENDS**

The Directors have declared an interim dividend of HK28 cents (six months ended 30 September 2016: HK8 cents and a special dividend of HK22 cents) per share be paid to the shareholders of the Company, whose names appear in the register of members on 22 December 2017. The interim dividend will be paid on or around 12 January 2018.

## **BUSINESS REVIEW**

During the period under review, the U.S. economy witnessed moderate growth. Salaries were gradually pushed up by the pressures of tight human resources, inflation entered an upward trend, the progressive increase in the interest rate is expected to continue, but the increment could be milder. Hong Kong has been fortunate to be supported by its motherland, combined with good timing and good infrastructure, transport facilities and advantages in international trade, the economy has sustained steady growth.

The performance of the Group’s godown business dropped slightly in the first half of the year. To respond to new market development and to maintain the robust operation of traditional warehousing, the Group is planning to strengthen its godown and logistics business services. To date, a few million dollars have already been invested to upgrade the hardware configuration of the Safety Logistics (Kwai Chung). We hope the upgrade will bring about improved efficiency and hopefully reducing operating costs.

Revenue generated from godown business in the first half of the year was HK\$11,249,000 (six months ended 30 September 2016: HK\$17,854,000), segment profits were HK\$5,976,000 (six months ended 30 September 2016: HK\$8,193,000). The reduction was mainly due to the selling of Chivas Godown.

Rental income from property investment business recorded at HK\$40,659,000 (six months ended 30 September 2016: HK\$39,118,000), while profits registered at HK\$26,467,000 (six months ended 30 September 2016: HK\$29,294,000). The slightly lower profits are the result of the higher repair and maintenance cost associated with the revitalization work in Lu Plaza.

In the treasury investment, interest income and dividend income totalled HK\$8,891,000 (six months ended 30 September 2016: HK\$6,056,000), while profit generated from treasury investment reached HK\$33,945,000 (six months ended 30 September 2016: HK\$24,430,000), marking a slight increase over last year.

The revitalization project work of Lu Plaza has been completed and approval has been successfully obtained following stringent inspection by relevant authorities. The leasing department is actively identifying suitable tenants and recruiting retail, food and beverage outlets and shops, striving to create a commercial image for the property and to further enhance the quality of services for tenants.

## **OUTLOOK**

The possible increase in the interest rates of the debts in the U.S. and the major economies may have a significant impact on the economy in the future. Amidst various economic challenges, Hong Kong must make use of its advantages in e-commerce and cross-border e-commerce, as well as the mega Chinese economy as its hinterland, in order to grow further. Now that Hong Kong has been integrated into the bigger picture of national development, the warehousing and logistics sectors, which have traditionally been part of the four pillar industries of Hong Kong, may expect to uncover business opportunities in the “Belt and Road” initiative and the construction of the Guangdong-Hong Kong-Macau Bay Greater Area.

As for the leasing business in the Lu Plaza commercial building, rental income is expected to increase upon completion of its revitalization project.

## **FINANCIAL REVIEW**

### **Godown operations**

Slowing mainland economy and weak global trade markets together with the intense competition from across the border continued to set a challenging backdrop for Hong Kong’s godown industry. Customers reduces its inventory holding level in order to cut costs which led to general reduction in demand for godown services. As the sale and lease back arrangement of 8th Floor Chivas Godown terminated in December last year, the godown space reduced. Accordingly, the godown income recorded a drop of 36.99% to HK\$11,249,000 compare to last corresponding period. Segment profit in effect fell 27.06% to HK\$5,976,000 (six months ended 30 September 2016: HK\$8,193,000).

The lagged effects of the weak external trading environment continued to weigh on the warehouse rents. Average warehouse rent dropped from HK\$74 per cubic meter for the six months ended 30 September 2016 to HK\$69 per cubic meter, while average occupancy level reduced from 77% for the six months ended 30 September 2016 to 66% during the period under review.

### **Property investment**

Rents in Kowloon East experienced a minor rebound. Being supported by renewals of existing tenants, leasing activities in Lu Plaza picked up slightly during the period with rental income from investment properties rose by 3.94% to HK\$40,659,000 (six months ended 30 September 2016: HK\$39,118,000), while the segment profit dropped to HK\$26,467,000 (six months ended 30 September 2016: HK\$29,294,000). The drop in segment profit was mainly due to increase in repair and maintenance cost in Lu Plaza and commission paid to property agents for introducing new tenants. Occupancy rate in Lu Plaza during the third quarter 2017 delivered an increase to approximately 83%. Given a large volume of new supply of office space in Kowloon East in the coming years, we anticipate rents in Kowloon East will remain subdued.

## **FINANCIAL REVIEW (continued)**

### **Property investment (continued)**

The persistence of negative real interest rates continue to support property investment activity in Hong Kong. The office property market has enjoyed a robust in the first 9 months of the year. On 18 July 2017, the Group entered into the Sale and Purchase Agreement to sell its wholly owned subsidiaries, Topgrade Enterprises Limited and Magic Aim Enterprises Limited, having the net asset value of approximately HK\$102,600,000 as at 30 September 2017, which own the property comprising the entire 8th Floor and 8 carpark spaces of One Harbour Square at 181 Hoi Bun Road, Kwun Tong at the sale consideration of HK\$196,000,000 with completion date on 17 November 2017. Details of the disposal was disclosed in the Announcement dated 18 July 2017. The property had been reclassified as assets held for sale at 30 September 2017 in the condensed consolidated statement of financial position.

During the period, the Group recorded a fair value gain on investment properties of HK\$151,585,000 (six months ended 30 September 2016: HK\$94,074,000) which has been included in the condensed consolidated statement of profit or loss and other comprehensive income. In addition, certain properties with a carrying value of HK\$908,000 have been transferred to investment properties for rental income purposes. The fair value gain on such transfer in the amount of HK\$78,092,000 was recognised in property revaluation reserve and other comprehensive income.

### **Treasury investment**

The Group continued to deliver good results in treasury investment. Profits from treasury investment climbed by 38.95% to HK\$33,945,000 (six months ended 30 September 2016: HK\$24,430,000). Dividend and interest income totaled HK\$8,891,000 (six months ended 30 September 2016: HK\$6,056,000), edged by 46.81%. Fair value gain on trading securities amounted to HK\$26,217,000 (six months ended 30 September 2016: HK\$35,912,000) while fair value gain on derivative financial instrument amounted to HK\$110,000 (six months ended 30 September 2016: loss of HK\$34,559,000).

In order to maintain a diversified investment portfolio, the Group had broadened the investment portfolio to include U.S. equities, worldwide equity funds and bonds, etc. As at 30 September 2017, securities investment held for trading increased by 35.35% to HK\$424,488,000 (31 March 2017: HK\$313,621,000), which represents 9.76% (31 March 2017: 7.47%) of the net assets of the Group. The Group will continue to adopt a prudent investment approach in treasury investment.

## **LIQUIDITY AND FINANCIAL RESOURCES**

As at 30 September 2017, the Group had cash and bank balances in the total amount of HK\$608,490,000 (31 March 2017: HK\$792,478,000), while the total payables under current liabilities amounted to HK\$53,840,000 (31 March 2017: HK\$59,788,000). Current ratio stood at 22.91 times (31 March 2017: 18.80 times) and the Group had no bank borrowing.

Net assets of the Group ended higher by 3.62% to HK\$4,349,098,000 (31 March 2017: HK\$4,197,041,000) with net asset value per share increased to HK\$32.22 (31 March 2017: HK\$31.09) per share.

## **OPERATING AND ADMINISTRATIVE EXPENSES**

Other expenses reduced by 7.5% to HK\$14,694,000 (six months ended 30 September 2016: HK\$15,885,000), mainly because of the termination of lease back arrangement of Chivas Godown after its sale last year.

## **EMPLOYEES**

As at 30 September 2017, the Group had a total of 34 (31 March 2017: 37) employees. Remuneration is determined on the basis of qualifications, experience, responsibilities and performance. Staff cost (including Directors' emoluments) decreased by 1.18% to HK\$6,299,000 (six months ended 30 September 2016: HK\$6,374,000).

The remuneration policies are reviewed periodically on the basis of the nature of job, market trend, company performance and individual performance. The Group also provides internal training to staff and provides bonuses based on staff performance and results of the Group. The Group does not have any share option scheme for employees.

Miss Yuen So Him, Phoebe, manager of the Company, unfortunately passed away in November this year after medical treatment failure. She joined Chivas Godown Company Limited, the Group's wholly owned subsidiary, in 1988. During her tenure with our Group, Miss Yuen was responsible for various functions including accounting, purchasing and personnel etc. with excellent performance, and she was gradually promoted as manager of the Company. Miss Yuen was very dedicated, devoted and committed to her work, and was highly appreciated by the Founder late Chairman Mr. Lu Sin, fellow directors and her colleagues. She was an asset to our Group, and her death is a great loss to the Company and her colleagues. We all miss her and would like to express our deepest condolences to her family.

## **EXPOSURE TO FOREIGN EXCHANGE**

The Group's foreign currency exposure principally related to its investment in U.S. dollar securities and deposits and Australian dollar deposits. Since the Hong Kong dollar is pegged to U.S. dollar, the management is of the opinion that the foreign exchange risk of financial instruments denominated in U.S. dollar is insignificant. During the period, the Group recorded exchange gain of HK\$609,000 (six months ended 30 September 2016: exchange loss of HK\$1,249,000). As at 30 September 2017, the total value of the Australian dollar deposits amounted to approximately HK\$7,995,000 (31 March 2017: HK\$1,166,000).

## **CONTINGENT LIABILITIES**

As at 30 September 2017, the Group did not have any significant contingent liabilities (31 March 2017: nil).

## **PLEDGE OF ASSETS**

As at 30 September 2017, the Group did not have any pledge of assets (31 March 2017: nil).

## DIRECTORS' INTERESTS IN SECURITIES

At 30 September 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:

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

*Notes:*

1. Mr. Lu Wing Yee, Wayne was deemed to be interested in these 23,440 shares held by a company, which was 100% controlled by himself.
2. Mr. Lu Wing Yee, Wayne was deemed to be interested 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 30 September 2017.

## SUBSTANTIAL SHAREHOLDERS

At 30 September 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 shareholder	Number of issued ordinary shares held		Percentage of issued share capital of the Company
	Direct interest	Indirect interest	
Kian Nan Financial Limited	49,203,445	–	36.45%
Eargold Limited	10,350,000	–	7.67%
Ms. Chan Koon Fung	2,989,500	69,953,106 <sup>1</sup>	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 Eargold 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 30 September 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.

## **CLOSURE OF MEMBERS REGISTER**

The Register of Members of the Company will be closed from Wednesday, 20 December 2017 to Friday, 22 December 2017, both days inclusive, during which period no transfer of shares can be registered. In order to qualify for the proposed interim dividend, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's Share Registrars, Tricor Standard Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:00 p.m. on Tuesday, 19 December 2017.

## **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 period under review.

## **REVIEW OF RESULTS**

The Group's condensed consolidated financial statements for the six months ended 30 September 2017 (the "Financial Statements") have not been audited but have been reviewed by Deloitte Touche Tohmatsu ("DTT"), Certified Public Accountants, the external independent auditor of the Company, whose review report is contained on page 8 of this Interim Report.

The Audit Committee has reviewed with the management and DTT the Company's unaudited consolidated Financial Statements and interim report for the period, including the accounting policies and practices adopted by the Group.

## **CORPORATE GOVERNANCE**

The Board of Directors ("the Board") is committed to achieving and maintaining high standards of corporate governance practices for the purpose of providing a framework and solid foundation for its business operation and development. Effective corporate governance provides probity, transparency, accountability which contributes to the corporate success and enhancement of shareholder value.

The Company has complied with all the code provisions set out in the Corporate Governance Code ("CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the period ended 30 September 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 interim 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 2017 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.

## **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 six months ended 30 September 2017.

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

Hong Kong  
28 November 2017

**REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
TO THE BOARD OF DIRECTORS OF SAFETY GODOWN COMPANY, LIMITED**  
*(incorporated in Hong Kong with limited liability)*

**INTRODUCTION**

We have reviewed the condensed consolidated financial statements of Safety Godown Company, Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 9 to 19, which comprise the condensed consolidated statement of financial position as of 30 September 2017 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

**SCOPE OF REVIEW**

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

**CONCLUSION**

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*  
Hong Kong  
28 November 2017

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*For the six months ended 30 September 2017*

		<b>Six months ended</b>	
	<i>Notes</i>	<b>30.9.2017</b>	<b>30.9.2016</b>
		(unaudited)	(unaudited)
		<i>HK\$ '000</i>	<i>HK\$ '000</i>
Revenue	3	<u>60,799</u>	<u>63,028</u>
Income from godown operations		11,249	17,854
Income from property investment		40,659	39,118
Interest income		2,131	1,524
Dividend income		6,760	4,532
Gain on disposal of available-for-sale investments		–	19,782
Other gains and losses		26,955	1,432
Increase in fair value of investment properties		151,585	94,074
Staff costs		(6,299)	(6,374)
Depreciation of property, plant and equipment		(3,788)	(3,506)
Other expenses		<u>(14,694)</u>	<u>(15,885)</u>
Profit before taxation	4	214,558	152,551
Taxation	5	<u>(5,593)</u>	<u>(6,500)</u>
Profit for the period attributable to owners of the Company		<u>208,965</u>	<u>146,051</u>
Other comprehensive income (expense)			
Item that will not be reclassified to profit or loss:			
Revaluation surplus on transfer of owned-occupied properties to investment properties		78,092	–
Item that may be reclassified subsequently to profit or loss:			
Investment revaluation reserve released upon disposal of available-for-sale investments		–	(20,601)
Other comprehensive income (expense) for the period		<u>78,092</u>	<u>(20,601)</u>
Total comprehensive income for the period attributable to owners of the Company		<u>287,057</u>	<u>125,450</u>
Earnings per share – Basic	7	<u>HK\$1.55</u>	<u>HK\$1.08</u>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 September 2017

	<i>Notes</i>	<b>30.9.2017</b> (unaudited) <i>HK\$ '000</i>	<b>31.3.2017</b> (audited) <i>HK\$ '000</i>
<b>Non-current assets</b>			
Investment properties	8	3,133,200	3,081,000
Property, plant and equipment	9	84,065	87,708
Held-to-maturity investment		23,239	23,239
Derivative financial instruments		–	15,049
		3,240,504	3,206,996
<b>Current assets</b>			
Investments held for trading		424,488	313,621
Trade and other receivables	10	15,617	17,095
Tax recoverable		190	604
Bank deposits		252,195	563,534
Other deposits		167,348	13,763
Bank balances and cash		188,947	215,181
		1,048,785	1,123,798
Assets classified as held for sale	11	194,280	–
		1,243,065	1,123,798
<b>Current liabilities</b>			
Other payables		49,723	58,883
Tax payable		4,117	905
		53,840	59,788
Liabilities associated with assets classified as held for sale	11	420	–
		54,260	59,788
<b>Net current assets</b>		1,188,805	1,064,010
<b>Total assets less current liabilities</b>		4,429,309	4,271,006
<b>Non-current liabilities</b>			
Long-term tenants' deposits received		18,183	13,499
Deferred tax liabilities		61,616	60,054
Provision for long service payments		412	412
		80,211	73,965
<b>Net assets</b>		4,349,098	4,197,041
<b>Capital and reserves</b>			
Share capital	12	178,216	178,216
Reserves		4,068,255	4,018,825
Amounts recognised in other comprehensive income and accumulated in equity relating to non-current assets classified as held for sale		102,627	–
<b>Equity attributable to owners of the Company</b>		4,349,098	4,197,041

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the six months ended 30 September 2017*

	Share capital <i>HK\$'000</i>	Investment revaluation reserve <i>HK\$'000</i>	Property revaluation reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2016 (audited)	178,216	20,601	215,821	4,113,874	4,528,512
Profit for the period	–	–	–	146,051	146,051
Other comprehensive expense for the period	–	(20,601)	–	–	(20,601)
Total comprehensive (expense) income for the period	–	(20,601)	–	146,051	125,450
Dividends paid ( <i>note 6</i> )	–	–	–	(540,000)	(540,000)
At 30 September 2016 (unaudited)	<u>178,216</u>	<u>–</u>	<u>215,821</u>	<u>3,719,925</u>	<u>4,113,962</u>
At 1 April 2017 (audited)	178,216	–	215,821	3,803,004	4,197,041
Profit for the period	–	–	–	208,965	208,965
Other comprehensive income for the period	–	–	78,092	–	78,092
Total comprehensive income for the period	–	–	78,092	208,965	287,057
Dividends paid ( <i>note 6</i> )	–	–	–	(135,000)	(135,000)
At 30 September 2017 (unaudited)	<u>178,216</u>	<u>–</u>	<u>293,913</u>	<u>3,876,969</u>	<u>4,349,098</u>

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

*For the six months ended 30 September 2017*

	<b>Six months ended</b>	
	<b>30.9.2017</b>	<b>30.9.2016</b>
	(unaudited)	(unaudited)
	<i>HK\$ '000</i>	<i>HK\$ '000</i>
<b>Operating activities</b>		
Profit before taxation	214,558	152,551
Adjustments for:		
Unrealised gain on investments held for trading	(18,631)	(17,081)
Unrealised loss on derivative financial instruments	–	545
Gain on disposal of available-for-sale investments	–	(19,782)
(Increase) decrease in fair value of derivative financial instruments	(110)	34,014
Increase in fair value of investment properties	(151,585)	(94,074)
Exchange loss on held-to-maturity investment	–	24
Depreciation of property, plant and equipment	3,788	3,506
	<hr/>	<hr/>
Operating cash flows before movements in working capital	48,020	59,703
Increase in investments held for trading	(92,236)	(43,911)
Other movements in working capital	(3,463)	7,377
	<hr/>	<hr/>
<b>Net cash (used in) generated from operating activities</b>	<b>(47,679)</b>	<b>23,169</b>
	<hr/>	<hr/>
<b>Investing activities</b>		
Withdrawal of bank deposits	319,387	389,969
Proceeds (settlement) on disposal of derivative financial instruments	15,159	(34,014)
Proceeds on disposal of available-for-sale investments	–	22,336
(Increase) decrease in other deposits	(153,585)	6,828
Additions of investment properties	(15,415)	(162,726)
Purchase of property, plant and equipment	(1,053)	(2,905)
Additions of bank deposits	(8,048)	(2,359)
	<hr/>	<hr/>
<b>Net cash from investing activities</b>	<b>156,445</b>	<b>217,129</b>
	<hr/>	<hr/>
<b>Cash used in a financing activity</b>		
Dividends paid	(135,000)	(540,000)
	<hr/>	<hr/>
<b>Net decrease in cash and cash equivalents</b>	<b>(26,234)</b>	<b>(299,702)</b>
	<hr/>	<hr/>
<b>Cash and cash equivalents at beginning of the period</b>	<b>215,181</b>	<b>685,340</b>
	<hr/>	<hr/>
<b>Cash and cash equivalents at end of the period,</b> represented by bank balances and cash	<b>188,947</b>	<b>385,638</b>
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## **NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

*For the six months ended 30 September 2017*

### **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 and with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

The financial information relating to the year ended 31 March 2017 that is included in these condensed consolidated financial statements as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements is as follows:

The Company has delivered the financial statements for the year ended 31 March 2017 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance.

The Company’s auditor has reported on those financial statements. The auditor’s report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

### **2. PRINCIPAL ACCOUNTING POLICIES**

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

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 September 2017 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 March 2017.

#### **Non-current assets held for sale**

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

## 2. PRINCIPAL ACCOUNTING POLICIES (continued)

### Non-current assets held for sale (continued)

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

### Adoption of New/revised HKFRSs

In the current interim period, the Group has applied, for the first time, the following amendments to Hong Kong Accounting Standards (“HKAS(s)”) and Hong Kong Financial Reporting Standards (“HKFRS(s)”) (hereinafter collectively referred to as the “revised HKFRSs”) issued by the HKICPA:

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	As part of Annual Improvements to HKFRSs 2014-2016 Cycle

The application of the above revised HKFRSs in the current interim period has had no material impact on the Group’s financial performance and position for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements. Additional disclosures about changes in liabilities arising from financing activities, including both changes from cash flows and non-cash changes on application of amendments of HKAS 7 will be provided in the consolidated financial statements for the year ending 31 March 2018.

## 3. SEGMENT INFORMATION

The Group’s operating segments, based on information reported to the chief operating decision maker, the executive director of the Company, for the purposes of resource allocation and performance assessment are as follows:

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

The following is an analysis of the Group’s revenue and results by reportable and operating segments:

### For the six months ended 30 September 2017

	Godown operations	Property investment	Treasury investment	Segment total	Consolidated
	HK\$’000	HK\$’000	HK\$’000	HK\$’000	HK\$’000
<b>Revenue</b>					
Segment revenue	<u>11,249</u>	<u>40,659</u>	<u>8,891</u>	<u>60,799</u>	<u>60,799</u>
Segment profit	<u>5,976</u>	<u>26,467</u>	<u>33,945</u>	<u>66,388</u>	66,388
Increase in fair value of investment properties					151,585
Central administrative costs					<u>(3,415)</u>
Profit before taxation					<u>214,558</u>

### 3. SEGMENT INFORMATION (continued)

For the six months ended 30 September 2016

	<b>Godown operations</b>	<b>Property investment</b>	<b>Treasury investment</b>	<b>Segment total</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>					
Segment revenue	17,854	39,118	6,056	63,028	63,028
Segment profit	8,193	29,294	24,430	61,917	61,917
Increase in fair value of investment properties					94,074
Central administrative costs					(3,440)
Profit before taxation					152,551

Segment profit represents the profit earned incurred by each segment without allocation of central administrative costs, directors' emoluments, change in fair value of investment properties, other expenses that are not directly related to the core business and income tax expenses. This is the measure reported to the chief operating decision maker for the purposes of resources allocation and performance assessment.

The following is an analysis of the Group's assets and liabilities by reportable and operating segment:

	<b>30.9.2017</b>	<b>31.3.2017</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Godown operations	71,130	77,802
Property investment	3,157,762	3,106,384
Treasury investment	869,166	930,201
Total segment assets	4,098,058	4,114,387
Godown operations	2,165	2,474
Property investment	37,226	31,612
Treasury investment	2,254	24,149
Total segment liabilities	41,645	58,235

### 4. PROFIT BEFORE TAXATION

	<b>Six months ended</b>	
	<b>30.9.2017</b>	<b>30.9.2016</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit before taxation has been arrived at after charging (crediting):		
Exchange (gain) loss, net	(609)	1,249
Fair value gain on investments held for trading <i>(Note)</i>	(26,217)	(35,912)
Fair value (gain) loss on derivative financial instruments <i>(Note)</i>	(110)	34,559

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

## 5. TAXATION

	Six months ended	
	30.9.2017	30.9.2016
	HK\$'000	HK\$'000
The charge comprises:		
Hong Kong Profits Tax	3,626	4,498
Deferred taxation	1,967	2,002
	<u>5,593</u>	<u>6,500</u>

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the current and prior periods.

## 6. DIVIDENDS

	Six months ended	
	30.9.2017	30.9.2016
	HK\$'000	HK\$'000
Dividends paid:		
Final dividend paid in respect of the year ended 31 March 2017 of HK12 cents (2016: HK12 cents) per ordinary share	16,200	16,200
Special dividend paid in respect of the year ended 31 March 2017 of HK88 cents (2016: HK\$3.88) per ordinary share	118,800	523,800
	<u>135,000</u>	<u>540,000</u>

Subsequent to the end of the reporting period, the directors of the Company have proposed that an interim dividend of HK28 cents (six months ended 30.9.2016: HK8 cents and a special dividend of HK22 cents) per share, amounting to HK\$37,800,000 (six months ended 30.9.2016: HK\$40,500,000) be paid to the shareholders of the Company, whose names appear in the register of members on 22 December 2017. The interim dividend will be paid on or around 12 January 2018.

## 7. EARNINGS PER SHARE – BASIC

The calculation of basic earnings per share is based on the profit for the period attributable to owners of the Company of HK\$208,965,000 (six months ended 30.9.2016: HK\$146,051,000) and on 135,000,000 (six months ended 30.9.2016: 135,000,000) shares in issue throughout the period.

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

## 8. INVESTMENT PROPERTIES

	30.9.2017 <i>HK\$'000</i>	31.3.2017 <i>HK\$'000</i>
AT FAIR VALUE		
At beginning of period/year	3,081,000	2,694,200
Additions	15,415	199,411
Transfer from property, plant and equipment	79,000	–
Reclassified as assets held for sale	(193,800)	–
Increase in fair value recognised in profit or loss	151,585	187,389
	<u>3,133,200</u>	<u>3,081,000</u>
At end of period/year	<u>3,133,200</u>	<u>3,081,000</u>

During the period, certain owned properties have become investment properties because the Group had rented out the properties to an independent third party to earn rentals and/or for capital appreciation. Accordingly, the carrying amounts of the relevant owned properties have been transferred from property, plant and equipment to investment properties. The excess of the fair value of those owned properties over the carrying amounts at the date of transfer of HK\$78,092,000 is recognised in property revaluation reserve.

The fair values of the majority of the Group's investment properties at 30 September 2017 amounting to HK\$3,298,800,000 (31.3.2017: HK\$3,052,800,000), including an investment property reclassified as held for sale of HK\$193,800,000, 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 with the Group. The directors of Messrs. Jones Lang LaSalle Limited and A A Property Services Limited, Chartered Surveyors, who carried out the valuations, are members of the Hong Kong Institute of Surveyors. The fair values of the investment properties were determined based on the income approach and market comparison approach, where appropriate. For income approach, the valuations were arrived on the basis of capitalisation of the rental income receivable and reversionary income potential by adopting appropriate capitalisation rates. For market comparison approach, the valuations were arrived at by reference to the comparable sale transactions as available in the relevant market. This approach rests on the wide acceptance of the market transactions as the best indicator and pre-supposes that evidence of relevant transactions in the market place can be extrapolated to similar properties, subject to allowances for variable factors.

The fair values of the Group's investment properties as at 30 September 2017 amounting to HK\$28,200,000 (31.3.2017: HK\$28,200,000) have been determined by the directors of the Company. The valuation performed by the directors of the Company was arrived on the basis of capitalisation of the rental income receivable and reversionary income potential by adopting appropriate capitalisation rates.

The revaluation gave rise to a gain arising from changes in fair value of HK\$151,585,000 (six months ended 30.9.2016: HK\$94,074,000) which has been included in the condensed consolidated statement of profit or loss and other comprehensive income.

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.

## 9. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group's owner-occupied properties with carrying amount of HK\$908,000 was transferred to investment properties upon commencement of an operating lease to a third party.

During the period, the Group acquired additional property, plant and equipment of HK\$1,053,000 (six months ended 30.9.2016: HK\$2,905,000).

## 10. TRADE AND OTHER RECEIVABLES

The Group has a policy of allowing a 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.

An analysis of trade receivables by age, presented based on the billing date are as follows:

	<b>30.9.2017</b> <i>HK\$'000</i>	<b>31.3.2017</b> <i>HK\$'000</i>
Trade receivables		
Within 60 days	4,912	4,872
61-90 days	295	322
Over 90 days	21	454
	<hr/>	<hr/>
	5,228	5,648
Other receivables	1,190	2,490
Prepayments and deposits	9,199	8,957
	<hr/>	<hr/>
	15,617	17,095
	<hr/> <hr/>	<hr/> <hr/>

## 11. DISPOSAL GROUP HELD FOR SALE

During the period, the directors resolved to dispose of investment properties which held through its indirectly wholly-owned subsidiary (the "Disposal Group"). Sale and Purchase agreement has been signed on 18 July 2017. The assets and liabilities attributable to the Disposal Group, which is expected to be sold within twelve months, have been classified as held for sale and are presented separately in the condensed consolidated statement of financial position. The net proceeds of disposal are expected to exceed the net carrying amounts of the relevant assets and liabilities and accordingly, no impairment loss has been recognised.

The major classes of assets and liabilities of the Disposal Group classified as held for sale are as follows:

	<b>30.9.2017</b> <i>HK\$'000</i>
Investment properties	193,800
Prepayments and deposits	480
	<hr/>
Total assets classified as held for sale	194,280
	<hr/>
Other payables	(14)
Deferred tax liabilities	(406)
	<hr/>
Total liabilities associated with assets classified as held for sale	(420)
	<hr/> <hr/>

Cumulative amount of HK\$102,627,000 relating to the Disposal Group classified as held for sale has been recognised in other comprehensive income and included in equity.

## 12. SHARE CAPITAL

	<b>30.9.2017 &amp; 31.3.2017</b>	
	<b>Number of</b>	<b>Amount</b>
	<b>shares</b>	<b>HK\$'000</b>
Issued and fully paid:		
Ordinary shares with no par value	135,000,000	178,216
	<hr/> <hr/>	<hr/> <hr/>

### 13. 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), as well as the level of 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.

- Level 1 fair value measurements are quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial assets	Fair value as at		Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable inputs
	30.9.2017 HK\$'000	31.3.2017 HK\$'000			
Listed investments held for trading	424,488	313,621	Level 1	Quoted bid prices in an active market.	N/A
Participatory notes as derivative financial instruments	–	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. 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.

There were no transfers between Levels 1, 2 and 3 in the current period and prior year.

### 14. RELATED PARTY DISCLOSURES

The remuneration of directors and other members of key management during the period was HK\$559,000 (six months ended 30.9.2016: HK\$577,000).

## CORPORATE INFORMATION AND KEY DATES

### 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

Interim Results Announcement

28 November 2017

Closure of Register of Members

20 December 2017 to

22 December 2017

(both days inclusive)

Record Date for Interim Dividend

22 December 2017

Payment of Interim Dividend

on or around 12 January 2018

安全貨倉 集團

**SAFETY GODOWN GROUP**

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