



SAFETY GODOWN COMPANY, LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 237)

INTERIM RESULTS ANNOUNCEMENT – 2006/2007

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 2006 was HK\$102,677,000, representing a growth of 27% over the last corresponding period. Earnings per share for the period were HK76.1 cents (2005: HK58.9 cents). The interim financial report is unaudited, but has been reviewed by Deloitte Touche Tohmatsu in accordance with Statement of Auditing Standards 700, “Engagements to Review Interim Financial Reports”, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 2006

		Six months ended 30.9.2006 (unaudited) HK\$’000	30.9.2005 (unaudited) HK\$’000
Revenue	3	47,890	68,083
Other income		594	553
Increase in fair value of investment properties		95,400	60,000
(Decrease) increase in fair value of investments held for trading		(2,101)	7,447
Cost of investments held for trading sold		(1,070)	(20,664)
Staff costs		(9,892)	(9,711)
Depreciation and amortisation		(1,985)	(1,937)
Other expenses		(4,506)	(6,684)
Finance costs		-	(134)
Profit before taxation		124,330	96,953
Taxation	4	(21,653)	(16,180)
Profit for the period attributable to shareholders		102,677	80,773
Dividends			
Paid	5	12,150	9,450
Proposed		9,450	9,450
Earnings per share – Basic	6	HK76.1 cents	HK59.8 cents

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 September 2006

		30.9.2006 (unaudited) HK\$’000	31.3.2006 (audited) HK\$’000
Non-current assets			
Investment properties		1,142,400	1,047,000
Property, plant and equipment		17,457	18,408
Prepaid lease payments		21,497	21,716
Available-for-sale investments		74,880	69,189
		1,256,234	1,156,313
Current assets			
Prepaid lease payments		441	441
Investments held for trading		39,455	24,673
Trade and other receivables	7	15,577	14,811
Tax recoverable		69	69
Bank balances and cash		70,966	75,842
		126,508	115,836

		30.9.2006 (unaudited) HK\$’000	31.3.2006 (audited) HK\$’000
Current liabilities			
Other payables		29,618	26,359
Provision for legal claims		1,120	9,672
Tax payable		3,105	2,449
		33,843	38,480
Net current assets		92,665	77,356
		1,348,899	1,233,669
Capital and reserves			
Share capital		135,000	135,000
Reserves		1,096,952	1,001,873
		1,231,952	1,136,873
Non-current liabilities			
Deferred tax liabilities		114,640	94,825
Provision for long service payments		2,307	1,971
		116,947	96,796
		1,348,899	1,233,669

NOTES:

- 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 (“HKAS”) 34 “Interim Financial Reporting” issued by the HKICPA.
- 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 annual consolidated financial statements of the Company and its subsidiaries (the “Group”) for the year ended 31 March 2006 except as described below.

In the current interim period, the Group has applied, for the first time, a new standard, and a number of amendments and interpretations (“new HKFRSs”) issued by the HKICPA, which are either effective for accounting periods beginning on or after 1 December 2005, 1 January 2006 or 1 March 2006. The adoption of the new HKFRSs had no material effect on how the results for the current or prior accounting periods were prepared and presented. Accordingly, no prior period adjustment has been required.

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

HKAS 1 (Amendment)	Capital disclosures ¹
HKFRS 7	Financial Instruments: Disclosures ¹
HK(IFRIC)-Int 8	Scope of HKFRS 2 ²
HK(IFRIC)-Int 9	Reassessment of embedded derivatives ³
HK(IFRIC)-Int 10	Interim financial reporting and impairment ⁴

 - Effective for annual periods beginning on or after 1 January 2007
 - Effective for annual periods beginning on or after 1 May 2006
 - Effective for annual periods beginning on or after 1 June 2006
 - Effective for annual periods beginning on or after 1 November 2006
- 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 2006

	Godown operations HK\$’000	Property investment HK\$’000	Treasury investment HK\$’000	Eliminations HK\$’000	Consolidated HK\$’000
Revenue					
External income	15,760	28,133	3,997	-	47,890
Inter-segment income	-	2,838	-	(2,838)	-
Total	15,760	30,971	3,997	(2,838)	47,890
Segment result	6,868	118,769	749	-	126,386
Unallocated corporate expenses					(2,056)
Profit before taxation					124,330

For the six months ended 30 September 2005

	Godown operations HK\$’000	Property investment HK\$’000	Treasury investment HK\$’000	Eliminations HK\$’000	Consolidated HK\$’000
Revenue					
External income	15,993	24,755	27,335	-	68,083
Inter-segment income	-	2,838	-	(2,838)	-
Total	15,993	27,593	27,335	(2,838)	68,083
Segment result	7,595	78,831	13,984	-	100,410
Unallocated corporate expenses					(3,323)
Finance costs					(134)
Profit before taxation					96,953

	Six months ended 30.9.2006 (unaudited) HK\$’000	30.9.2005 (unaudited) HK\$’000
4. TAXATION		
The charge comprises:		
Hong Kong Profits Tax:		
Current period	1,835	3,942
Under(over)provision in prior year	3	(534)
Deferred taxation	19,815	12,772
	21,653	16,180
Hong Kong Profits Tax is calculated at 17.5% (six months ended 30.9.2005: 17.5%) of the estimated assessable profit for the six months ended 30 September 2006.		
5. DIVIDENDS		
Dividend paid:		
Final dividend paid in respect of the year ended 31 March 2006 of HK7 cents (year ended 31 March 2005: HK7 cents) per ordinary share	9,450	9,450
Special dividend paid in respect of the year ended 31 March 2006 of HK2 cents per ordinary share	2,700	-
	12,150	9,450
Dividend proposed: Interim dividend: HK7 cents (six months ended 30.9.2005: HK7 cents) per ordinary share		
	9,450	9,450
The directors have proposed that an interim dividend of HK7 cents per share (six months ended 30.9.2005: HK7 cents) be paid to the shareholders of the Company, whose names appear in the register of members on Friday 12 January 2007.		

	Six months ended 30.9.2006 (unaudited) HK\$’000	30.9.2005 (unaudited) HK\$’000
6. EARNINGS PER SHARE		
The calculation of basic earnings per share is based on the profit for the period attributable to shareholders of HK\$102,677,000 (six months ended 30.9.2005: HK\$80,773,000) and on 135,000,000 shares (six months ended 30.9.2005: 135,000,000 shares) in issue throughout the period.		
No diluted earnings per share has been presented as there were no potential shares 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:		
	30.9.2006 (unaudited) HK\$’000	31.3.2006 (audited) HK\$’000
Trade receivables		
Within 60 days	4,382	4,777
61-90 days	343	708
Over 90 days	356	183
	5,081	5,668
Other receivables	10,496	9,143
	15,577	14,811

BUSINESS REVIEW

As China economy continued to grow at an intense pace, which benefited the development of various industries in Hong Kong including trading and tourist industries in the last 2 years. The employment rate in Hong Kong has marked continuous improvement, driven by the favourable local and external factors, whilst investment and consumer sentiments have also seen upturns.

With the unfavourable factors of soaring oil prices and interest rate hike prevail, there was evidence of a general decline in demand and turnaround rate for godown services during the period under review. Yet the economic environments faced by various industries are different. For instance, the paper industry has benefited from the improving investment sentiment and buoyant property market, resulting in a higher demand and turnaround rate in godown services. The textile industry has suffered from protectionism and competition from the neighbouring Southern Asian region, posing a slower turnaround rate for textile products. Furthermore, the relocation of the logistics industry for the Mainland has intensified due to the rapid growth and continuous expansion of the port areas in China. In the first quarter of 2006, as importers shifted part of their orders and reduced their stock levels, demand for godown services plunged to a level slightly lower than the previous two years. It was not until the second quarter that our godown business resumed an upward trend. In general, the occupancy rate of the godown business was higher than the previous period, with turnover and revenue achieving the same levels as the last corresponding period.

In consistent growth in Hong Kong economy has stimulated demand for office space. The Group’s investment properties are posed to benefit from the market. Overall occupancy rate in the Group’s investment properties increased, there was a reasonable growth in rentals for both new lettings and renewals. During the period under review, the Group’s rental income from investment properties grew by 13.65% as compared with the corresponding period last year.

OUTLOOK

Although the unfavourable factors influencing the global economy, such as the high oil price and interest rate hike, are out of the way for the time being, the stability of the Hong Kong economy is still vulnerable to risks of devaluation of US dollar denominated assets, appreciation of RMB and geo-political conflicts.

The competitive advantage of the Group’s godown business has been weakened due to the accelerated northward migration of the logistics industry. We expect the godown business remain stable in the second half of the year. The investment properties business, relative to the godown business, shall be more capable of contributing a steady stream of income to the Group in the second half of the year.

FINANCIAL REVIEW

Turnover

The Group’s turnover for the period amounted to HK\$47,890,000, a decrease of HK\$20,193,000 or 29.66% from that of HK\$68,083,000 achieved in the corresponding period of 2005. The drop in turnover was largely due to the decrease in securities trading activities.

The godown segment continued to deliver steady revenue to the Group. Turnover of the godown segment remained at HK\$15,760,000 this period (6 months ended 30/09/2005: HK\$15,993,000). The Group’s Safety Godown was approaching full occupancy and the revenue generated from Safety Godown rose by 8%. However, revenue recorded in Chivas Godown saw a decline of 15% as one major customer shifted out to its own warehouse.

Turnover in the property investment segment

Turnover in the property investment segment recorded a strong and encouraging growth of 13.65% to HK\$28,133,000. The leasing of Lu Plaza, the Group’s core investment property located at Kwun Tong, performed well. Average occupancy rate grew by nearly 10% to over 90% throughout the half-year period. Rental income continued to contribute stable income to the Group.

Operating Profit

The Group has again achieved a solid financial and operating performance in the half-year period. Operating profit for the period was HK\$124,330,000, registering a growth of 28.24% or HK\$27,377,000 higher than the HK\$96,953,000 in 2005. The growth was attributable to the favourable results delivered by the property investment segment.

Operating profits from the property investment segment increased by 50.66% or HK\$39,938,000 to HK\$118,769,000, reflecting a positive rental growth for new leases and renewal. The growth was primarily driven by the strong growth in the local economy.

During the period, the Group revalued its investment properties in accordance with the Hong Kong Financial Reporting Standards. A revaluation gain on investment properties of HK\$95,400,000 (6 months ended 30/09/2005: HK\$60,000,000) was recorded and included in the Group’s profit, which represented an appreciation of 9.11% of the total value of the Group’s investment properties from HK\$1,047,000,000 to HK\$1,142,400,000. Excluding the revaluation gain, the Group’s operating profit would have been HK\$28,930,000, a decrease of 21.71% over the HK\$36,953,000 of the corresponding period in 2005.

Operating results contributed from godown operation dropped by 9.57% to HK\$6,868,000, primarily due to increase in operating costs and downward rate adjustment in face of increasing competition in Hong Kong and South China. Total operating expenses, including costs on upgrading works, increased by 5.88% to HK\$8,892,000 (6 months ended 30/09/2005: HK\$8,398,000).

During the period, the Group did not have much disposal in trading securities. As a result, turnover derived from trading securities substantially reduced to HK\$3,997,000 (6 months ended 30/09/2005: HK\$27,335,000) which accounted for 8.34% (6 months ended 30/09/2005: 40.15%) of the total operating revenue. As at 30 September 2006, a decrease in fair value of investments held for trading amounted to HK\$2,101,000 was recognised in the income statement, and an increase in fair value of available-for-sale investments amounted to HK\$4,552,000 was recognised in revaluation reserve. The increase and decrease in fair value represented the aggregate of the mark-to-market fair value movements of the financial instruments.

Finance Cost

The Group does not have any bank borrowing during the period, and hence no borrowing costs was incurred. The continual increase in market interest rate does not have any adverse effect on the Group.

FINANCIAL RESOURCES AND LIQUIDITY

As at 30 September 2006, the Group’s net asset value was HK\$1,231,952,000 or HK\$9.13 per share (31/03/2006: HK\$1,136,873,000 or HK\$8.42 per share).

The current ratio at the balance sheet date was 3.74 times (31/03/2006: 3.01 times) of its current liabilities. The Group had net current assets of approximately HK\$92,665,000 (31/03/2006: HK\$77,356,000) of which HK\$70,966,000 (31/03/2006: HK\$75,842,000) was bank balances and cash while investments held for trading amounted to HK\$39,455,000 (31/03/2006: HK\$24,673,000).

For the period under review, the Group’s net cash inflow generated from operating activities was HK\$9,144,000, representing a decrease of HK\$23,561,000 from HK\$32,705,000 in 2005. The shortfall was primarily caused by reduction in realised gain in trading securities. During the period, cash outflow for financing activities of HK\$12,150,000 (6 months ended 30/09/2005: HK\$9,450,000) were used to pay dividends to shareholders. Throughout the period, the Group maintained sufficient liquidity for its operation.

Securities Investments

For the six months ended 30 September 2006, available-for-sale investments increased by HK\$5,691,000 to HK\$74,880,000 after accounting for the increase in fair value of the available-for-sale financial assets through investment revaluation reserve by HK\$4,552,000 (6 months ended 30/09/2005: HK\$2,992,000).

The portfolio value of investments held for trading increased by HK\$14,782,000 to HK\$39,455,000 after accounting for the decrease in fair value of the financial assets by HK\$2,101,000 (6 months ended 30/09/2005: increase in fair value of HK\$7,447,000).

The use of derivative financial instruments is strictly controlled. The securities investments portfolio comprised primarily securities listed in Hong Kong stock market.

Financial Risk and Management

The Group has established policies and procedures for risk management which were reviewed regularly by the Directors and senior management of the Group to ensure the proper monitoring and control of all major risks arising from the Group’s activities at all times. The risk management function was carried out by individual business units and regularly overseen by the Group’s senior management with all the risk limits approved by the Directors of the Group.

The Group is exposed to equity security 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, the interest rate risk and foreign exchange risk arising from the business operation are not considered as material as the Group does not have any interest-bearing loan, investments and cash transactions are executed with counterparties with sound credit ratings and the functional currencies of the Group’s operation are mainly Hong Kong dollars.

PLEDGE OF ASSETS

The Group’s investment properties and property, plant and equipment with carrying values of HK\$981,000,000 (31/3/2006: HK\$898,000,000) and HK\$5,428,000 (31/3/2006: HK\$5,523,000), respectively, have been pledged to banks to secure general banking facilities of HK\$72,000,000 (31/3/2006: HK\$72,000,000) granted to the Group, none of which was utilised at 30 September 2006.

CONTINGENT LIABILITIES

At 31 March 2006, the two outstanding unresolved litigations were outstanding, and had the following development up to 30 September 2006:

- One outstanding unresolved litigation was brought against the Group relating to disputable income received by the Group.

During the six months ended 30 September 2006, the case settled out of court, and the claims were fully paid by the Group.

- Another outstanding unresolved litigation was brought against the Group relating to the loss of storage goods. In April 2005, the Group was adjudged by the Court of First Instance to be liable to the claim. After taking senior counsel’s opinion, the Group had appealed against the judgment of the Court of First Instance at the Court of Appeal. On 4 April 2006, the Court of Appeal upheld the judgment of the Court of First Instance and the Group had decided to settle the case.

Subsequent to 30 September 2006, the claim was fully paid by the Group.

EMPLOYEES

As at 30 September 2006, the Group employed a total of 80 employees. The total staff costs for the period ended 30 September 2006 amounted to approximately HK\$9,892,000, an increase of 1.86% as compared with the last corresponding period.

CLOSURE OF MEMBERS REGISTER

The Register of Members of the Company will be closed from Wednesday 10 January 2007 to Friday 12 January 2007, both days inclusive, during which period no transfer of shares can be registered. In order to qualify for the proposed interim dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company’s Share Registrars, Standard Registrars Limited, 26/F., Tesbury Centre, 28 Queen’s Road East, Hong Kong, for registration not later than 4:00 p.m. on Tuesday 9 January 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 has reviewed with the management and the external auditors the unaudited interim accounts of the Group for the six months ended 30 September 2006.

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 2006 except for the deviations from the following code provisions:

Code provision A.2.1 requires separation of roles of chairman and chief executive officer. Mr. Lu Sin is the Chairman and the Chief Executive Officer of the Group. He is the founder and a substantial shareholder of the Group 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, and believes that the balance of power and authority can be ensured as over one-third of the Board is represented by Independent Non-executive Directors throughout the period; and

Code provision A.4.1 stipulates that Non-executive Directors should be appointed for a specific term. However, all 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 2006.

By Order of the Board
Wong Leung Wai
Secretary

Hong Kong, 15 December 2006

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

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