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安全貨倉有限公司

SAFETY GODOWN CO LTD

(Incorporated in Hong Kong with limited liability)

(Stock code: 237)

INTERIM RESULTS ANNOUNCEMENT – 2014/2015

FINANCIAL HIGHLIGHTS

- Turnover: HK\$75,130,000, increase 10.09% (2013: HK\$68,247,000)
- Profit attributable to owners of the Company: HK\$174,681,000 (2013: HK\$102,507,000)
- Net cash position: HK\$299,331,000 (31.3.2014: HK\$230,399,000)
- Earnings per share: HK\$1.29 (2013: HK\$0.76)
- Interim dividend: HK7 cents per share (2013: HK7 cents per share) and a special dividend of HK13 cents per share (2013: HK4 cents per share)

The Board of Directors of Safety Godown Company, Limited (the “Company”) are pleased to announce the unaudited interim results of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30 September 2014. These results have been reviewed by the Company’s auditor, Deloitte Touche Tohmatsu, in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” and by the Audit Committee of the Company.

The Group recorded a profit attributable to shareholders of HK\$174,681,000 for the six months ended 30 September 2014 (six months ended 30 September 2013: HK\$102,507,000), a rise of 70.41% against last corresponding period. The underlying profit excluding the fair value gain on investment properties amounted to HK\$45,909,000 (six months ended 30 September 2013: HK\$25,013,000), a substantial growth of underlying profit of 83.54% against last period.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2014

	Notes	Six months ended	
		30.9.2014 (unaudited) HK\$'000	30.9.2013 (unaudited) HK\$'000
Turnover	3	<u>75,130</u>	<u>68,247</u>
Income from godown operations		19,495	18,525
Income from property investment		52,528	47,115
Interest income		1,262	424
Dividend income		1,845	2,183
Fair value gain (loss) on investments held for trading		713	(10,911)
Other income and gains		64	62
Increase in fair value of investment properties		128,772	77,494
Staff costs		(8,075)	(9,332)
Depreciation of property, plant and equipment		(3,403)	(3,526)
Other expenses		<u>(8,898)</u>	<u>(11,096)</u>
Profit before taxation		184,303	110,938
Taxation	4	<u>(9,622)</u>	<u>(8,431)</u>
Profit for the period attributable to owners of the Company		174,681	102,507
Other comprehensive income (expense) for the period			
Item that may be subsequently reclassified to profit or loss:			
Fair value gain (loss) on available-for-sale investments		<u>2,166</u>	<u>(3,886)</u>
Total comprehensive income for the period attributable to owners of the Company		<u>176,847</u>	<u>98,621</u>
Earnings per share – Basic	6	<u>HK\$1.29</u>	<u>HK\$0.76</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 September 2014

	<i>Note</i>	30.9.2014 (unaudited) HK\$'000	31.3.2014 (audited) HK\$'000
Non-current assets			
Investment properties		2,796,400	2,667,400
Property, plant and equipment		98,185	101,460
Available-for-sale investments		29,557	27,391
Held-to-maturity investment		6,813	7,215
		<u>2,930,955</u>	<u>2,803,466</u>
Current assets			
Investments held for trading		52,555	89,886
Trade and other receivables	7	13,436	10,977
Tax recoverable		2,002	2,002
Bank and other deposits		194,904	152,824
Bank balances and cash		104,427	77,575
		<u>367,324</u>	<u>333,264</u>
Current liabilities			
Other payables		28,644	29,448
Tax payable		12,213	4,202
		<u>40,857</u>	<u>33,650</u>
Net current assets		<u>326,467</u>	<u>299,614</u>
		<u>3,257,422</u>	<u>3,103,080</u>
Capital and reserves			
Share capital		178,216	178,216
Share premium and reserves		3,004,226	2,861,129
Equity attributable to owners of the Company		<u>3,182,442</u>	<u>3,039,345</u>
Non-current liabilities			
Long-term tenant's deposits received		19,126	9,405
Deferred tax liabilities		54,055	52,444
Provision for long service payments		1,799	1,886
		<u>74,980</u>	<u>63,735</u>
		<u>3,257,422</u>	<u>3,103,080</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 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 investment properties and certain financial instruments, which are measured at fair values.

In the current interim period, the Group has applied, for the first time, a new interpretation and certain amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA that are mandatorily effective for the current interim period.

The application of the new interpretation and amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

3. SEGMENT INFORMATION

The Group’s operating segments, based on information reported to the chief operating decision maker, Chairman 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 2014

	Godown operations	Property investment	Treasury investment	Segment total	Consolidated
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Turnover					
Segment revenue	<u>19,495</u>	<u>52,528</u>	<u>3,107</u>	<u>75,130</u>	<u>75,130</u>
Segment profit	<u>9,873</u>	<u>45,859</u>	<u>2,764</u>	<u>58,496</u>	58,496
Increase in fair value of investment properties					128,772
Central administrative costs					<u>(2,965)</u>
Profit before taxation					<u>184,303</u>

3. SEGMENT INFORMATION - continued

For the six months ended 30 September 2013

	Godown operations <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Treasury investment <i>HK\$'000</i>	Segment total <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Turnover					
Segment revenue	<u>18,525</u>	<u>47,115</u>	<u>2,607</u>	<u>68,247</u>	<u>68,247</u>
Segment profit (loss)	<u>7,026</u>	<u>42,318</u>	<u>(13,380)</u>	<u>35,964</u>	35,964
Increase in fair value of investment properties					77,494
Central administrative costs					<u>(2,520)</u>
Profit before taxation					<u>110,938</u>

Segment profit (loss) represents the profit earned or loss incurred by each segment without allocation of central administrative costs, directors' fees, 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:

	30.9.2014 <i>HK\$'000</i>	31.3.2014 <i>HK\$'000</i>
Godown operations	104,326	107,551
Property investment	2,799,526	2,670,898
Treasury investment	287,647	278,103
Total segment assets	<u>3,191,499</u>	<u>3,056,552</u>
Godown operations	3,288	4,076
Property investment	39,741	31,702
Total segment liabilities	<u>43,029</u>	<u>35,778</u>

4. TAXATION

	Six months ended	
	30.9.2014	30.9.2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
The charge comprises:		
Hong Kong Profits Tax	8,011	6,876
Deferred taxation	1,611	1,555
	<hr/>	<hr/>
	9,622	8,431
	<hr/> <hr/>	<hr/> <hr/>

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

5. DIVIDENDS

	Six months ended	
	30.9.2014	30.9.2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Dividends paid:		
Final dividend paid in respect of the year ended 31 March 2014 of HK7 cents (2013: HK7 cents) per ordinary share	9,450	9,450
Special dividend paid in respect of the year ended 31 March 2014 of HK18 cents (2013: HK13 cents) per ordinary share	24,300	17,550
	<hr/>	<hr/>
	33,750	27,000
	<hr/> <hr/>	<hr/> <hr/>

Subsequent to the end of the reporting period, the directors of the Company have proposed that an interim dividend of HK7 cents per share, amounting to HK\$9,450,000 and a special dividend of HK13 cents per share, amounting to HK\$17,550,000 be paid to the shareholders of the Company, whose names appear in the register of members on 23 December 2014. The interim dividend and special dividend will be paid on or around 9 January 2015.

6. 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\$174,681,000 (six months ended 30.9.2013: HK\$102,507,000) and on 135,000,000 (six months ended 30.9.2013: 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.

7. 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, which approximate revenue recognition date, are as follows:

	30.9.2014 <i>HK\$'000</i>	31.3.2014 <i>HK\$'000</i>
Trade receivables		
Within 60 days	6,518	6,867
61-90 days	364	612
Over 90 days	50	5
	<hr/>	<hr/>
	6,932	7,484
Other receivables	4,242	942
Prepayments and deposits	2,262	2,551
	<hr/>	<hr/>
	13,436	10,977
	<hr/> <hr/>	<hr/> <hr/>

8. RELATED PARTY TRANSACTIONS

The remuneration of directors and other members of key management during the period was HK\$2,085,000 (six months ended 30.9.2013: HK\$2,005,000).

BUSINESS REVIEW

Despite multiple rounds of quantitative easing, the bond-buying programmes in the U.S. have failed to stimulate economic innovation or strong growth in real terms. While the pace of recovery has been accelerating, its impact on emerging economies has weakened. Economic growth in the mainland during the third quarter of 2014 fell to its lowest level since the first quarter of 2009. The decelerated growth was primarily a reflection of the country's lacklustre domestic demand. As newsprint storage remains the primary source of the Group's godown business, our operation has been stable. Rental income increased by 5% over the same period last year.

Total property rental income increased by 11% over the same period last year. The average occupancy of Lu Plaza has been about 85%, while Chivas Godown has benefited from favourable increment in rents during tenancy renewal, recording a 25% increase in property rental income.

As far as financial investment is concerned, performance has been stable over the period under review. Total interest and dividend income from listed stocks increased by 19% over the same period last year. Profit on financial investment in the total of HK\$2,764,000 has been recorded, while a loss of HK\$13,380,000 was recorded in the same period last year.

OUTLOOK

While the U.S. ended its two-year long QE bond-purchase programme, moderate growth in the country's economy is expected, indicating that interest rates may rise sooner than expected. Investors are now prudently observing economic trends. The mainland has proposed that "economic reform shall be accompanied by the support of rule of law; reform decisions have to walk hand in hand with legislation". With the implementation of the nation-wide anti-extravagance policy and further cool down in the real estate market, domestic economic growth in China will continue to slow. As growth in domestic demand further decelerates, godown and logistics businesses in Hong Kong may be affected.

After obtaining the permission for the revitalization application of Lu Plaza from the Lands Department, the General Building Plans for A&A works have also been approved by the Buildings Department. The project is now proceeding to the public tender process and is expected to commence in mid-2015. With the general increase in construction costs lately, the costs of revitalizing the building may exceed the budgeted figures by a double-digit percentage. The actual costs will depend on tender results.

As far as the godown property located at 132-140 Kwok Shui Road, Kwai Chung is concerned, the Group is under negotiation and discussion with potential buyers. According to the Company's Announcement dated 29 October 2014, the Group intends to make an offer to one of the potential buyers. However, the Group has not made any binding agreement regarding the possible sale, and therefore the sale may or may not be proceeded.

FINANCIAL REVIEW

The Group's turnover for the period under review totaled HK\$75,130,000 (six months ended 30 September 2013: HK\$68,247,000), an increase of 10.09% against last corresponding period, while the profit before taxation for the period grew by 66.13% from HK\$110,938,000 in last period to HK\$184,303,000 in this period. The growth in turnover and profit was mainly attributable to the increase in rental income from property investments and reduction of godowns operating costs.

Godown operations

Turnover in godown operations grew steadily. With the steady demand in logistic services and increase in storage price, the revenue from godown operations increased by 5.24% to HK\$19,495,000 (six months ended 30 September 2013: HK\$18,525,000) while the segment profit surged by 40.52% to HK\$9,873,000 (six months ended 30 September 2013: HK\$7,026,000) against the last corresponding period. Retirement of aged staff in September 2013 significantly reduced the staff cost of godown business. Profit margin rose from 37.93% in last period to 50.64% in this period, which reflects the Group's efficiency in managing its resources.

Property investment

Rental income generated from property leasing business continued to register an increase of 11.49% to HK\$52,528,000 (six months ended 30 September 2013: HK\$47,115,000) against last period. Profit excluding fair value gain in investment properties increased by 8.37% to HK\$45,859,000 (six months ended 30 September 2013: HK\$42,318,000). The average occupancy level of the Group's core investment properties, Lu Plaza, dropped to around 85% throughout the period. Another major investment property of the Group, Chivas Godown, recorded satisfactory growth in rental income by 25.24% to HK\$19,152,000 (six months ended 30 September 2013: HK\$15,292,000).

In addition, the fair value of the investment properties of the Group had increased by HK\$128,772,000 during the period (six months ended 30 September 2013: HK\$77,494,000), and as a result, the total value of the investment properties of the Group as at 30 September 2014 increased to HK\$2,796,400,000 (31 March 2014: HK\$2,667,400,000).

Treasury investment

Investment income generated from treasury investment improved by 19.18% to HK\$3,107,000 (six months ended 30 September 2013: HK\$2,607,000). The Group deposited its surplus cash in Hong Kong dollar fixed deposits to generate interest income. Together with the dividend income received from listed investments and gain/loss on listed securities trading, they generated a profit in treasury investment in the amount of HK\$2,764,000 as compared to a deficit of HK\$13,380,000 in last period.

The long term available-for-sale investments had also registered an unrealised gain of HK\$2,166,000 (six months ended 30 September 2013: unrealised loss of HK\$3,886,000), such fair value gain was included in other comprehensive income for the period.

LIQUIDITY AND FINANCIAL RESOURCES

The Group continues to maintain a strong cash position. As at 30 September 2014, the total cash and bank balance was maintained at HK\$299,331,000 (31 March 2014: HK\$230,399,000). Net cash from operating activities increased to HK\$103,038,000 during the period (six months ended 30 September 2013: HK\$37,726,000), a significant increase of 173.12% against last period. The increase in net cash inflow was mainly attributable to the rise in recurring income in core business activities and the disposal of trading investment during the period.

The Group does not have any borrowings. The current ratio was maintained at a high level of 8.99 times (31 March 2014: 9.90 times), while the total non-current liabilities was kept at a low level of HK\$74,980,000 (31 March 2014: HK\$63,735,000).

EXPOSURE OF FOREIGN EXCHANGE

The Group's foreign currency exposure principally related to its investment in Australian dollar bonds. During the period, the Group recorded exchange losses of HK\$439,000 (six months ended 30 September 2013: HK\$4,755,000) on Australian dollar monetary assets. As at 30 September 2014, the total value of the held-to-maturity investment amounted to HK\$6,813,000 (31 March 2014: HK\$7,215,000).

PLEDGE OF ASSETS

As at 30 September 2014, the Group did not have any pledge of assets (31 March 2014: nil).

EMPLOYEES

As at 30 September 2014, the total number of employees of the Group was 53 (31 March 2014: 54) employees, compared with 63 as at 30 September 2013. Staff cost (including directors' emoluments) decreased by 13.47% to HK\$8,075,000 (six months ended 30 September 2013: HK\$9,332,000).

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.

DIVIDENDS

The Directors have declared an interim dividend of HK7 cents per share (six months ended 30 September 2013: HK7 cents) and a special dividend of HK13 cents per share (six months ended 30 September 2013: HK4 cents) be paid to the shareholders of the Company, whose names appear in the register of members on 23 December 2014. The interim dividend and special dividend will be paid on or around 9 January 2015.

CLOSURE OF MEMBERS REGISTER

The Register of Members of the Company will be closed from Friday, 19 December 2014 to Tuesday, 23 December 2014, both days inclusive, during which period no transfer of shares can be registered. In order to qualify for the proposed interim dividend and special dividend, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's Share Registrars, Tricor Standard Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:00 p.m. on Thursday, 18 December 2014.

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.

CORPORATE GOVERNANCE

The Company has complied with the code provisions set out in Appendix 14 of the Corporate Governance Code (the "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 2014 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.

Code Provision A.4.1 stipulates that Non-executive Directors should be appointed for a specific term. However, all Non-executive Directors are appointed with no specific term. 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.

The Company did not have formal letters of appointment for directors. In fact, 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. The Board considers that such requirements are sufficient to meet the underlying objectives of the relevant code provisions.

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 code of conduct regarding directors’ securities transactions. Having made specific enquiry of all Directors 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 2014.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This announcement is published on the respective websites of Hong Kong Exchanges and Clearing Limited www.hkex.com.hk and of the Company www.safetygodown.com on 27 November 2014. The interim report for the six months ended 30 September 2014 containing all the information required by the Listing Rules will be published on the above websites and despatched to shareholders in due course.

By Order of the Board
Wong Leung Wai
Company Secretary

Hong Kong, 27 November 2014

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

Executive Directors

Mr. Lu Sin (*Chairman and
Managing Director*)
Mr. Lu Wing Yee, Wayne
Mr. Oen Min Tjin

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