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 – 2018/2019

FINANCIAL HIGHLIGHTS

- Turnover: HK$69,465,000, increase 14.3% (2017: HK$60,799,000)
- Profit attributable to owners of the Company: HK$155,703,000, decrease 25.5% (2017: HK$208,965,000)
- Bank balance: HK$833,316,000 (31.3.2018: HK$778,354,000)
- Earnings per share: HK$1.15 (2017: HK$1.55)
- Net asset value per share: HK$35.57 (31.3.2018: HK$33.88)
- Interim dividend: HK28 cents per share (2017: HK28 cents per share)

The Board of Directors of Safety Godown Company, Limited (the "Company") is 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 2018. 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.

For the six months ended 30 September 2018, the Group recorded profit attributable to shareholders of approximately HK$155,703,000 (six months ended 30 September 2017: HK$208,965,000), representing a decrease of 25.5% as compared with the corresponding period in 2017. Total revenue increased by 14.3% from HK$60,799,000 to HK$69,465,000 mainly due to an increase in income from property investment. The Group's underlying profit excluding fair value gain on investment properties fell by 56.9% to HK$24,730,000.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2018

	Notes	**Six months ended**	
		30.9.2018	30.9.2017
		(unaudited)	(unaudited)
		HK$'000	*HK$'000*
Revenue	*3*	**69,465**	60,799
Income from godown operations		**11,786**	11,249
Income from property investment		**45,467**	40,659
Interest income		**7,447**	2,131
Dividend income		**4,765**	6,760
Other gains and losses		**(8,004)**	26,346
Exchange (loss) gain, net		**(4,488)**	609
Increase in fair value of investment properties		**130,973**	151,585
Staff costs		**(6,891)**	(6,299)
Depreciation of property, plant and equipment		**(8,046)**	(3,788)
Other expenses		**(10,057)**	(14,694)
Profit before taxation		**162,952**	214,558
Taxation	*5*	**(7,249)**	(5,593)
Profit for the period attributable to owners of the Company		**155,703**	208,965
Other comprehensive income			
Item that will not be reclassified to profit or loss:			
Revaluation surplus on transfer of owned-occupied properties to investment properties		**110,121**	78,092
Other comprehensive income for the period		**110,121**	78,092
Total comprehensive income for the period attributable to owners of the Company		**265,824**	287,057
Earnings per share – Basic	*7*	**HK$1.15**	HK$1.55

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 September 2018

	Note	**30.9.2018**	31.3.2018
		(unaudited)	(audited)
		HK$'000	*HK$'000*
Non-current assets			
Investment properties		**3,538,200**	3,398,200
Property, plant and equipment		**194,895**	85,807
Held-to-maturity investment		**–**	23,241
Debt instrument at amortised cost		**23,242**	–
		3,756,337	3,507,248
Current assets			
Investments held for trading		**318,616**	384,219
Trade and other receivables	*8*	**25,958**	28,606
Tax recoverable		**244**	1,390
Bank deposits		**702,736**	311,904
Other deposits		**79,028**	285,280
Bank balances and cash		**51,552**	181,170
		1,178,134	1,192,569
Current liabilities			
Other payables		**26,518**	24,153
Tax payable		**21,226**	17,328
		47,744	41,481
Net current assets		**1,130,390**	1,151,088
		4,886,727	4,658,336

	30.9.2018 (unaudited) *HK$'000*	31.3.2018 (audited) *HK$'000*
Capital and reserves		
Share capital	**178,216**	178,216
Reserves	**4,623,354**	4,395,330
Equity attributable to owners of the Company	**4,801,570**	4,573,546
Non-current liabilities		
Long-term tenants' deposits received	**18,590**	20,428
Deferred tax liabilities	**66,155**	63,950
Provision for long service payments	**412**	412
	85,157	84,790
	4,886,727	4,658,336

NOTES:

1. BASIS OF PREPARATION

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

The financial information relating to the year ended 31 March 2018 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 2018 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 certain investment properties and financial instruments, which are measured at fair values, as appropriate.

Except as described below and changes in accounting policies which became first applicable during the interim period and resulting from application of new and amendments to Hong Kong Financial Reporting Standards ("HKFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 September 2018 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2018.

Property, plant and equipment

Property, plant and equipment are carried at cost upon the transfer from investment property less subsequent accumulated depreciation and accumulated impairment loss.

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

If an item of investment property becomes property, plant and equipment because its use has changed as evidenced by commencement of owner-occupation, the fair value of the property at the date of transfer is treated as the deemed cost for subsequent accounting in accordance with the Group's accounting policy on property, plant and equipment.

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

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 April 2018 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

The new and amendments to HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below.

2.1 Impacts and changes in accounting policies of application on HKFRS 15 "Revenue from Contracts with Customers"

The Group has applied HKFRS 15 for the first time in the current interim period. HKFRS 15 superseded Hong Kong Accounting Standard ("HKAS") 18 "Revenue", HKAS 11 "Construction Contracts" and the related interpretations.

The Group recognises revenue from the following major sources:

- godown operations
- property investment
- treasury investment

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 April 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1 April 2018.

2.1.1 Key changes in accounting policies resulting from application of HKFRS 15

HKFRS 15 introduces a 5-step approach when recognising revenue:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the Group satisfies a performance obligation.

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

Contracts with multiple performance obligations (including allocation of transaction price)

For contracts that contain more than one performance obligations (including inward and outward coolie service and transportation service), the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis.

The stand-alone selling price of the distinct good or service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell a promised good or service separately to a customer. If a stand-alone selling price is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

2.1.2 Summary of effects arising from initial application of HKFRS 15

The application of the HKFRS 15 has no significant impact on the timing and amounts of revenue in the current interim period and retained profits at 1 April 2018.

2.2 *Impacts and changes in accounting policies of application on HKFRS 9 "Financial Instruments"*

In the current period, the Group has applied HKFRS 9 "Financial Instruments" and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for (i) the classification and measurement of financial assets and financial liabilities, (ii) expected credit losses ("ECL") for financial assets and (iii) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9. i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 April 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 April 2018. The difference between carrying amounts as at 31 March 2018 and the carrying amounts as at 1 April 2018 are recognised in the retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 "Financial Instruments: Recognition and Measurement".

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9

Classification and measurement of financial assets

Trade receivables arising from contracts with customers are initially measured in accordance with HKFRS 15.

All recognised financial assets that are within the scope of HKFRS 9 are subsequently measured at amortised cost or fair value, including unquoted equity investments measured at cost less impairment under HKAS 39.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value through profit or loss ("FVTPL"), except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income ("OCI") if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 "Business Combinations" applies.

In addition, the Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "other gains and losses" line item.

The directors of the Company reviewed and assessed the Group's financial assets as at 1 April 2018 based on the facts and circumstances that existed at that date. Investments held for trading are required to be classified as FVTPL under HKFRS 9. There was no impact on the amounts recognised in relation to these assets from the application of HKFRS 9. Changes in classification and measurement on the Group's financial assets and the impacts thereof are detailed in note 2.2.2.

Impairment under ECL model

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade and other receivables). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents that ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade and other receivables. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

- an actual or expected significant deterioration in the operating results of the debtor;

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if (i) it has a low risk of default, (ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and (iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definitions.

The Group considers that default has occurred when the instrument is more than 60 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

As at 1 April 2018, the directors of the Company reviewed and assessed the Group's existing financial assets for impairment in accordance with the requirements of HKFRS 9. The result of assessment and the impact thereof are detailed in note 2.2.2.

2.2.2 Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement (including impairment) of financial assets and financial liabilities and other items subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, 1 April 2018.

	Held-to-maturity investment	**Debt instrument at amortised cost**
	HK$'000	*HK$'000*
Closing balance at 31 March 2018		
– HKAS 39	23,241	–
Effect arising from initial application of HKFRS 9:		
Reclassification		
From held-to-maturity investment *(Note)*	(23,241)	23,241
At 1 April 2018	–	23,241

Note:

From held-to-maturity investment to debt instrument at amortised cost

Listed bond previously classified as held-to-maturity investment is reclassified and measured at amortised cost upon application of HKFRS 9. The Group intends to hold the assets to maturity to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding. There was no difference between the previous carrying amount and the revised carrying amount at 1 April 2018.

Impairment under ECL model

The application of the expected credit loss model of HKFRS 9 has no material impact on the accumulated amount of impairment loss to be recognised by the Group as at 1 April 2018 as compared to the accumulated amount recognised under HKAS 39 mainly attributable to expected credit losses provision on trade and other receivables.

2.3 Impacts and changes in accounting policies of application on Amendments to HKAS 40 "Transfers of Investment Property"

The amendments clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by evidence that a change in use has occurred. The amendments further clarify that situations other than the ones listed in HKAS 40 may evidence a change in use, and that a change in use is possible for properties under construction (i.e. a change in use is not limited to completed properties).

At the date of initial application, the Group assessed the classification of certain properties based on conditions existed at that date, there is no impact to the classification at 1 April 2018.

Except as described above, the application of other amendments to HKFRSs in the current interim period has had no material effect on the amounts reported and/or disclosures set out in these condensed consolidated financial statements.

3. REVENUE

	Six months ended	
	30.9.2018	30.9.2017
	HK$'000	*HK$'000*
Income from godown operations	**11,786**	11,249
Income from property investment	**45,467**	40,659
Dividend income from listed investments	**4,765**	6,760
Bank interest income	**6,834**	2,131
Other interet income	**613**	–
	69,465	60,799

4. SEGMENT INFORMATION

The Group's operating and reportable segments, based on information reported to the chief operating decision maker, being the executive director of the Company, for the purposes of resource allocation and performance assessment of each operating segment 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 2018

	Godown operations *HK$'000*	**Property investment** *HK$'000*	**Treasury investment** *HK$'000*	**Segment total** *HK$'000*	**Consolidated** *HK$'000*
Revenue					
Segment revenue	**11,786**	**45,467**	**12,212**	**69,465**	**69,465**
Segment profit (loss)	**4,384**	**33,868**	**(2,780)**	**35,472**	**35,472**
Increase in fair value of investment properties					**130,973**
Central administrative costs					**(3,493)**
Profit before taxation					**162,952**

For the six months ended 30 September 2017

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

Segment profit represents the profit earned by each segment without allocation of increase in fair value of investment properties, central administrative costs, which include directors' fees, 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:

	30.9.2018	31.3.2018
	HK$'000	*HK$'000*
Godown operations	**180,778**	72,523
Property investment	**3,570,700**	3,425,592
Treasury investment	**1,127,849**	1,006,966
Total segment assets	**4,879,327**	4,505,081
Godown operations	**1,778**	1,744
Property investment	**36,571**	35,615
Treasury investment	**49**	48
Total segment liabilities	**38,398**	37,407

5. TAXATION

	Six months ended	
	30.9.2018	30.9.2017
	HK$'000	*HK$'000*
The charge comprises:		
Hong Kong Profits Tax	**5,044**	3,626
Deferred taxation	**2,205**	1,967
	7,249	5,593

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	
	30.9.2018	30.9.2017
	HK$'000	*HK$'000*
Dividends paid:		
Final dividend paid in respect of the year ended 31 March 2018 of HK28 cents (2017: HK12 cents) per ordinary share	**37,800**	16,200
Special dividend paid in respect of the year ended 31 March 2018 of nil (2017: HK88 cents) per ordinary share	**–**	118,800
	37,800	135,000

Subsequent to the end of the current interim period, the directors of the Company have determined that an interim dividend of HK28 cents (six months ended 30.9.2017: HK28 cents) per share, amounting to HK$37,800,000 (six months ended 30.9.2017: HK$37,800,000) will be paid to the shareholders of the Company, whose names appear in the register of members on 24 December 2018. The interim dividend will be paid on 11 January 2019.

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$155,703,000 (six months ended 30.9.2017: HK$208,965,000) and on 135,000,000 (six months ended 30.9.2017: 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. 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:

	30.9.2018	31.3.2018
	HK$'000	*HK$'000*
Trade receivables		
Within 60 days	**7,768**	4,689
61-90 days	**413**	105
Over 90 days	**3**	–
	8,184	4,794
Other receivables	**3,682**	3,022
Prepayments and deposits	**14,092**	20,790
	25,958	28,606

9. RELATED PARTY DISCLOSURES

The remuneration of directors and other members of key management during the period was HK$614,000 (six months ended 30.9.2017: HK$559,000).

BUSINESS REVIEW

During the period under review, the U.S. economy witnessed further growth, with salaries gradually pushed up by the pressures of tight human resources, and inflation resuming an upward trend. The gradual increase in interest rate is expected to continue, and unlike last year, the trend of increase in interest rate has spread to other economies, bringing uncertainty to the global economy. In addition, trade tensions between China and the U.S. have escalated since the middle of this year, with negative impact gradually fed through to China and Hong Kong. Indicators such as the stock market, property market and purchasing managers' index all reflect concerns from all sides.

Godown operations

Revenue generated from godown business in the first half of the year slightly reversed last year's downtrend, revenue increased 4.8% to HK$11,786,000 (six months ended 30 September 2017: HK$11,249,000). Godown segment profit fell 26.6% to HK$4,384,000 (six months ended 30 September 2017: HK$5,976,000). Average warehouse rent increased from HK$69 per cubic meter for the six months ended 30 September 2017 to HK$77 per cubic meter, while average occupancy rate dropped from 67% for the six months ended 30 September 2017 to 66% during the period under review.

Property investment

As for property investment, rental income and occupancy rate had slight increased for the Group's flagship property, Lu Plaza, upon completion of its revitalization project. Due to the rental of one floor of Kwai Chung safety godown this April and reduced commission expenses, rental income and profit for the first half of the year increased. Total rental income from investment properties rose by 11.8% to HK$45,467,000 (six months ended 30 September 2017: HK$40,659,000), while segment profit rose to HK$33,868,000 (six months ended 30 September 2017: HK$26,467,000). The increase in segment profit was mainly due to the increase in average occupancy rate and unit rent of Lu Plaza, occupancy rate during the third quarter of 2018 delivered an increase to approximately 84.8%.

Treasury investment

Income from treasury investment increased by 37.4% to HK$12,212,000 (six months ended 30 September 2017: HK$8,891,000), but the value of the investment portfolio dropped due to the volatility in global equity markets, resulting in a loss of HK$2,780,000 on treasury investment.

OUTLOOK

The interest rates of debts in the U.S. and major developed countries have entered an upward cycle, and many developing countries such as Argentina, Turkey and Indonesia all face the economic crisis of currency depreciation, and with escalating economic tensions between China and the U.S., Hong Kong's economy faces various challenges.

As stated in last year's annual report, the Company has already invested a few million Hong Kong dollars to upgrade the hardware configuration of Safety Logistics (Kwai Chung) to strengthen its godown and logistics business service. We hope the upgrade will bring about improved efficiency and reducing operating costs, thereby the godown operations will remain stable.

Given a large volume of new supply of office space in Kowloon East in the coming years, in addition to uncertainty triggered by the escalating trade war, we anticipate rents in Kowloon East will only remain stable. Lu Plaza has been revitalized as a commercial building and is preparing to open a business centre on the third floor to further enhance its value and image, as well as its rental rate.

FINANCIAL REVIEW

Condensed consolidated statement of profit or loss and other comprehensive income

During the period, the Company's total revenue reached HK$69,465,000, including income from property investment of HK$45,467,000; income from godown operations of HK$11,786,000; and income from treasury investment of HK$12,212,000 in total, comprising interest income of HK$7,447,000 and dividend income of HK$4,765,000. The revenue of the three segments increased by 11.8%, 4.8%, and 37.4% respectively comparing to the last corresponding period. However, due to financial market fluctuation during the period, foreign exchange and stock investment recorded loss respectively, resulting in a loss of HK$2,780,000 in the investment segment (six months ended 30 September 2017: a profit of HK$33,945,000), constituting the main reason for the slide in interim results.

Staff costs rose 9.4% to HK$6,891,000 (six months ended 30 September 2017: HK$6,299,000).

Depreciation of property, plant and equipment increased because the original rental godown property was converted into a self-operated godown, incurring additional depreciation and resulting in a rise to HK$8,046,000 (six months ended 30 September 2017: HK$3,788,000). Kwai Chung safety godown's depreciation expenses rose from HK$3,008,000 to HK$6,724,000 as compared with the corresponding period in 2017.

Other expenses dropped to HK$10,057,000 (six months ended 30 September 2017: HK$14,694,000), mainly due to reduced commission paid to agents.

Condensed consolidated statement of financial position

The Company's net asset value stood at HK$4,801,570,000, mainly comprising HK$3,538,200,000 of investment properties (including Lu Plaza, Safety Godown's rental portion, other industrial properties and carpark spaces), HK$194,895,000 of fixed assets (mainly including Safety Godown's self-operated property) in total, and others which are mainly current assets portions, including deposits and financial investment, etc.

The carrying amount of the investment properties has increased as a result of the valuation carried out by independent professional valuers. The increase in appraised value was mainly due to the increase in rental income during the period and price increase of comparable properties located in Kwun Tong and Kwai Chung.

There were no significant changes in the total amount of other financial assets when compared with that on 31 March 2018, however, due to market fluctuations, cash and deposits (including those deposited with agents and non-bank financial institutions) increased by 7.1% to HK$833,316,000 (31 March 2018: HK$778,354,000).

During the period, the Group recorded a fair value gain on investment properties of HK$130,973,000 (six months ended 30 September 2017: HK$151,585,000) which has been included in the condensed consolidated statement of profit or loss and other comprehensive income. In addition, certain fixed assets have been transferred to investment properties for rental income purposes. The fair value gain on such transfer in the amount of HK$110,121,000 was recognised in property revaluation reserve and other comprehensive income.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 September 2018, the Group had cash and bank balances of HK$833,316,000 (31 March 2018: HK$778,354,000), while total current liabilities amounted to HK$47,744,000 (31 March 2018: HK$41,481,000). Current ratio stood at 24.68 times (31 March 2018: 28.75 times) and the Group had no bank borrowings.

Net assets of the Group ended higher by 5% to HK$4,801,570,000 (31 March 2018: HK$4,573,546,000) with net asset value per share increasing to HK$35.57 (31 March 2018: HK$33.88) per share.

EMPLOYEES

As at 30 September 2018, the Group had a total of 37 (31 March 2018: 34) employees. Remuneration is determined on the basis of qualifications, experience, responsibilities and performance. During the period, staff costs (including Directors' emoluments) increased by 9.4% to HK$6,891,000 (six months ended 30 September 2017: HK$6,299,000).

The Group's remuneration policies are reviewed periodically on the basis of the nature of job, market trend, company performance and individual performance. The Group also offers 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.

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 the 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 an exchange loss of HK$4,488,000 (six months ended 30 September 2017: exchange gain of HK$609,000). As at 30 September 2018, the total value of the Australian dollar deposits amounted to approximately HK$7,421,000 (31 March 2018: HK$7,854,000).

CONTINGENT LIABILITES

As at 30 September 2018, the Group did not have any significant contingent liabilities (31 March 2018: nil).

PLEDGE OF ASSETS

As at 30 September 2018, the Group did not have any pledge of assets (31 March 2018: nil).

DIVIDEND

The Board of Directors has declared an interim dividend of HK28 cents for the six months ended 30 September 2018 (2017: HK28 cents) per share payable to the shareholders of the Company, whose names appear on the register of members on 24 December 2018. The interim dividend will be paid on 11 January 2019.

CLOSURE OF MEMBERS REGISTER

The Register of Members of the Company will be closed from Thursday, 20 December 2018 to Monday, 24 December 2018, 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 Wednesday, 19 December 2018.

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.

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 2018 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 that (i) the roles of chairman of the board and chief executive officer should be separate and should not be performed by the same individual; (ii) the division of responsibilities between the chairman of the board and the chief executive officer shall be clearly established and set out in writing; and (iii) the responsibilities should be performed by the Chairman.

From 5 April 2015 onwards, 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 announcement. 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. Currently, the Board of Directors of the Company collectively performs the responsibilities of the Chairman while with the assistance of the senior management, executive director continues to monitor the business and operation of the Group.

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. 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 "Articles"). The Board of Directors of the Company considers that such requirements are sufficient to meet the underlying objectives of the relevant code provision.

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. But, the Company did not have formal letters of appointment for Directors. However, the Directors shall be subject to retirement by rotation and being eligible for re-election pursuant to the Articles. Moreover, the Directors are required to comply with the requirements under statute and common law, the Listing Rules, the Companies Ordinance, legal and other regulatory requirements, if applicable.

CG Code provision E.1.2 stipulates that the chairman of the Board should attend the annual general meeting. From 5 April 2015 onwards, the position of the Chairman of the Board has been vacant, Mr. Lu Wing Yee, Wayne, the Executive Director of the Company, has been elected and acted as chairman of the annual general meeting of the Company held on 17 August 2018 in accordance with the Articles.

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 and received instructions from 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 2018.

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 28 November 2018. The interim report for the six months ended 30 September 2018 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
Safety Godown Company, Limited
Lu Wing Yee, Wayne
Executive Director

Hong Kong, 28 November 2018

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

Mr. Lu Wing Yee, Wayne	*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*