



TERN PROPERTIES COMPANY LIMITED

INTERIM REPORT 2002/2003

The Board of Directors of Tern Properties Company Limited (the “Company”) announces that the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 September 2002, together with the comparative figures for the corresponding period in the previous year are as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 2002

	Notes	Six months ended 30 September	
		2002 HK\$'000 (Unaudited)	2001 HK\$'000 (Unaudited)
Turnover		25,577	25,287
Property expenses		(778)	(777)
Cost of other investments disposed of		(10,123)	(8,718)
Gross profit		14,676	15,792
Unrealised holding gain on other investments		2,813	41
Interest income		3,170	2,127
Other operating income		350	120
Administrative expenses		(5,778)	(5,297)
Loss on disposal of investment properties		(659)	–
Loss on disposal of property, plant and equipment		–	(4,208)
Profit from operations	4	14,572	8,575
Finance costs		(2,460)	(4,560)
Share of results of associates		4,276	4,094
Profit before taxation		16,388	8,109
Taxation	5	(1,031)	(888)
Profit for the period		15,357	7,221
Dividends	6	3,694	3,078
Basic earnings per share	7	HK5.0 cents	HK2.3 cents

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 September 2002

	Notes	30 September 2002 HK\$'000 (Unaudited)	31 March 2002 HK\$'000 (Audited)
Non-current assets			
Investment properties	8	616,898	619,231
Property, plant and equipment		19,561	19,927
Interests in associates		162,731	162,931
Investments in securities		72,894	73,041
Club debentures		2,160	2,160
		<u>874,244</u>	<u>877,290</u>
Current assets			
Trade and other receivables	9	2,420	2,845
Bank deposits		15,000	18,000
Bank balances and cash		1,543	1,703
		<u>18,963</u>	<u>22,548</u>
Current liabilities			
Trade and other payables	10	9,610	9,521
Rental deposits from tenants		7,613	8,016
Tax liabilities		2,099	1,544
Bank loans – due within one year		54,280	64,212
Bank overdrafts – secured		14,990	16,412
		<u>88,592</u>	<u>99,705</u>
Net current liabilities		<u>(69,629)</u>	<u>(77,157)</u>
Total assets less current liabilities		<u><u>804,615</u></u>	<u><u>800,133</u></u>
Capital and reserves			
Share capital	11	153,906	153,906
Reserves		565,754	554,343
		<u>719,660</u>	<u>708,249</u>
Non-current liability			
Bank loans – due after one year		84,955	91,884
		<u>84,955</u>	<u>91,884</u>
		<u><u>804,615</u></u>	<u><u>800,133</u></u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2002

	Share capital <i>HK\$'000</i>	Share premium account <i>HK\$'000</i>	Investment property revaluation reserve <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Dividend reserve <i>HK\$'000</i>	Accumulated profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2001	153,906	72,818	226,875	2,662	4,617	245,268	706,146
Profit for the period	–	–	–	–	–	7,221	7,221
Dividends declared	–	–	–	–	3,078	(3,078)	–
Dividends paid	–	–	–	–	(4,617)	–	(4,617)
At 30 September 2001	<u>153,906</u>	<u>72,818</u>	<u>226,875</u>	<u>2,662</u>	<u>3,078</u>	<u>249,411</u>	<u>708,750</u>
Share of reserve movement of an associate	–	–	4,610	–	–	–	4,610
Deficit on revaluation	–	–	(18,245)	–	–	–	(18,245)
Net losses not recognised in the income statement	–	–	(13,635)	–	–	–	(13,635)
Realised on disposal of investment properties	–	–	315	–	–	–	315
Profit for the period	–	–	–	–	–	15,897	15,897
Dividends declared	–	–	–	–	4,617	(4,617)	–
Dividends paid	–	–	–	–	(3,078)	–	(3,078)
At 31 March 2002	<u>153,906</u>	<u>72,818</u>	<u>213,555</u>	<u>2,662</u>	<u>4,617</u>	<u>260,691</u>	<u>708,249</u>
Realised on disposal of investment properties	–	–	671	–	–	–	671
Profit for the period	–	–	–	–	–	15,357	15,357
Dividends declared	–	–	–	–	3,694	(3,694)	–
Dividends paid	–	–	–	–	(4,617)	–	(4,617)
At 30 September 2002	<u><u>153,906</u></u>	<u><u>72,818</u></u>	<u><u>214,226</u></u>	<u><u>2,662</u></u>	<u><u>3,694</u></u>	<u><u>272,354</u></u>	<u><u>719,660</u></u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 September 2002

	Six months ended	
	30 September	
	2002	2001
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net cash from operating activities	9,750	3,500
Net cash from (used in) investing activities	12,450	(19,960)
Net cash (used in) from financing activities	(23,938)	39,212
	<hr/>	<hr/>
Net (decrease) increase in cash and cash equivalents	(1,738)	22,752
Cash and cash equivalents at beginning of the period	3,291	(23,420)
	<hr/>	<hr/>
Cash and cash equivalents at end of the period	<u>1,553</u>	<u>(668)</u>
Analysis of the balances of cash and cash equivalents		
Cash and cash equivalents as previously reported	–	(45,668)
Effect of reclassification of bank loans	–	45,000
	<hr/>	<hr/>
Cash and cash equivalents as restated	<u>1,553</u>	<u>(668)</u>
Being:		
Bank deposits	15,000	8,000
Bank balances and cash	1,543	1,545
Bank overdrafts	(14,990)	(10,213)
	<hr/>	<hr/>
	<u>1,553</u>	<u>(668)</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 September 2002

1. BASIS OF PREPARATION

The condensed 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 the Statement of Standard Accounting Practice (“SSAP”) No. 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention, as modified for the revaluation of investment properties and investments in securities.

The accounting policies adopted are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 March 2002, except as described below.

In the current period, the Group has adopted, for the first time, a number of new or revised SSAPs, which has resulted in the adoption of the following new and revised accounting policy.

Cash Flow Statement

In the current period, the Group has adopted SSAP 15 (Revised) “Cash Flow Statements”. Under SSAP 15 (Revised), cash flows are classified under three headings – operating, investing and financing, rather than the previous five headings. Interest and dividends, which were previously presented under a separate heading, are classified as investing or financing cash flows. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities. In addition, the amounts presented for cash and cash equivalents have been amended to exclude short-term loans that are financing in nature. The re-definition of cash and cash equivalents has resulted in a restatement in the comparative amounts shown in the cash flow statement.

3. SEGMENT INFORMATION

Business segment

For management purposes, the Group is currently organised into two operating divisions – property leasing and securities investment. These divisions are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below:

Six months ended 30 September 2002

	Property leasing HK\$’000	Securities investment HK\$’000	Consolidated HK\$’000
REVENUE			
Revenue from external sales	<u>15,636</u>	<u>9,941</u>	<u>25,577</u>
RESULT			
Segment result	<u>8,557</u>	<u>6,015</u>	<u>14,572</u>
Profit from operations			<u>14,572</u>

Six months ended 30 September 2001

	Property leasing <i>HK\$'000</i>	Securities investment <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
REVENUE			
Revenue from external sales	<u>16,347</u>	<u>8,940</u>	<u>25,287</u>
RESULT			
Segment result	<u>10,405</u>	<u>2,378</u>	12,783
Unallocated corporate expenses			<u>(4,208)</u>
Profit from operations			<u>8,575</u>

4. PROFIT FROM OPERATIONS

Profit from operations has been arrived at after charging (crediting):

	Six months ended 30 September	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Depreciation	391	552
Loss (gain) on disposal of other investments	<u>182</u>	<u>(222)</u>

5. TAXATION

	Six months ended 30 September	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
The charge comprises:		
Company and subsidiaries		
Hong Kong Profits Tax		
Current period	555	520
Underprovision in prior periods	<u>—</u>	<u>143</u>
	555	663
Share of tax on results of associates	<u>476</u>	<u>225</u>
	<u>1,031</u>	<u>888</u>

Hong Kong Profits Tax is calculated at 16% (2001: 16%) of the estimated assessable profit for the period. No provision for deferred tax has been made in the interim financial report as the amount involved is immaterial.

6. DIVIDENDS

On 9 September 2002, a dividend of HK1.5 cents (2001: HK1.5 cents) per share was paid to shareholders as the final dividend for 2002.

The Board of Directors has declared an interim dividend of HK1.2 cents (2001: HK1.0 cent) per share amounting to HK\$3,694,000 payable on 13 January 2003 to the shareholders whose names appear on the Register of Members on 3 January 2003.

7. BASIC EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit for the period of HK\$15,357,000 (2001: HK\$7,221,000) and on the number of 307,812,522 (2001: 307,812,522) ordinary shares in issue during the period.

No diluted earnings per share has been presented as there were no dilutive potential shares in issue in either period.

8. INVESTMENT PROPERTIES

During the period, the Group disposed of investment properties with carrying amounts of HK\$2,333,000 for proceeds of HK\$2,345,000, resulting in a loss on disposal of HK\$659,000.

At 30 September 2002, the directors have considered the carrying amount of the Group's leasehold land and buildings do not differ significantly from that which would be determined using fair values at the balance sheet date. Consequently, no revaluation surplus or deficit has been recognised in the current period.

9. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables are rentals receivable of HK\$317,000 (31 March 2002: HK\$575,000) with defined credit policy. The rental income is billed in advance and settlement is expected upon presentation of invoices.

All the rentals receivable at the balance sheet date are less than three months overdue.

10. TRADE AND OTHER PAYABLES

Included in trade and other payables are rentals receipt in advance of HK\$505,000 (31 March 2002: HK\$480,000).

All the rentals receipt in advance at the balance sheet date are less than three months old.

11. SHARE CAPITAL

	Number of ordinary shares of HK\$0.5 each	Nominal value <i>HK\$'000</i>
Authorised:		
At 1 April 2002 and 30 September 2002	<u>400,000,000</u>	<u>200,000</u>
Issued and fully paid:		
At 1 April 2002 and 30 September 2002	<u>307,812,522</u>	<u>153,906</u>

There were no movements in the share capital of the Company for the six months ended 30 September 2002.

12. CONTINGENCIES AND COMMITMENTS

At the balance sheet date, the Group had no significant contingent liabilities and capital commitments.

INTERIM DIVIDEND

The Board of Directors has declared an interim dividend of HK1.2 cents (2001: HK1.0 cent) per share payable on 13 January 2003 to the shareholders whose names appear on the Register of Members on 3 January 2003.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Friday, 3 January 2003 to Friday, 10 January 2003, both days inclusive, during which period no transfer of shares will be registered by the Company. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Registrars, Computershare Hong Kong Investor Services Limited, Shops 1712 – 1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on Thursday, 2 January 2003.

BUSINESS REVIEW AND PROSPECT

The Group's gross rental income including its share from an associate for the period amounted to HK\$20.5 million, representing a decrease of 3.4% over that of the same period of previous year. An interim dividend of HK1.2 cents per share was declared, representing an increase of 20% over that of the same period of previous year. During the period, the Group continued to focus its business on holding quality commercial properties for rental income purpose. Despite prolonged poor economic conditions, the Group's rental portfolio achieved an average occupancy rate of over 97% during the period. Although the Group has secured renewals for most of the leases at satisfactory rental rate in the first half of the year, downward pressure on rental rate of the Group's properties has emerged since the middle of the year due to the deteriorating economy.

During the period, the Group received substantial interest income amounted to HK\$3.2 million generated from the investments in debt securities. These investments focused on quality government or corporate debt securities with high yield and comparatively low risk.

The U.S. economy has lost impetus after a moderate recovery in the first half of the year. The constant uncertain political factors are also taking a toll on the global as well as local economy. In Hong Kong, unemployment rate will remain at a high level thereby adversely affecting consumer sentiment. However interest rate should remain at a low level due to the global economic slowdown.

The government is revising its housing policies to provide support to the local residential property market. The revision cultivates a more active primary residential property market recently. However the second hand market remains weak. In view of the substantial supply of residential units in the current market, the effect of the revised housing policies remains to be seen. In the commercial property market, the rental value of prime office and shops has also been decreasing. The recovery will depend on whether the local economy can stabilize next year. Although the local economy will remain weak, there will be no material impact on the Group.

FINANCIAL OPERATION REVIEW

Operation

Gross rental income for the six months ended 30 September 2002 amounted to HK\$15.6 million (2001: HK\$16.3 million), representing a decrease of 4.3% over that of the same period of previous year. The decrease was due to the downward adjustment of rental for some leases in this weak economic environment. The Group's share of gross rental income from an associate amounted to HK\$4.9 million (2001: HK\$4.9 million), approximately the same amount as that of the same period of previous year.

The average occupancy rate of the Group's rental portfolio was slightly lower at 97.5% during the period. All the properties remained fully leased except a few office units in Central.

Results

The Group's profit for the six months ended 30 September 2002 amounted to HK\$15.4 million (2001: HK\$7.2 million), representing an increase of 113% over that of the same period of previous year. The increase was due to higher interest income and unrealised holding gain from investments in debt securities, lower interest expense and the inclusion of the loss on disposal of a residential property in the same period of previous year, partially offset by lower rental income and the loss on disposal of two residential units in Pointe Claire during the period. The Group's share of results of an associate after taxation amounted to HK\$3.8 million (2001: HK\$3.9 million), representing a decrease of 1.8% over that of the same period of previous year.

Earnings per share for the six months ended 30 September 2002 were HK5.0 cents (2001: HK2.3 cents), representing an increase of HK2.7 cents over that of the same period of previous year. The declared interim dividend was HK1.2 cents per share, representing an increase of HK0.2 cent over that of the same period of previous year.

Bank Borrowings and Finance Costs

At 30 September 2002, the total amount of outstanding bank borrowings net of cash and bank deposits were HK\$137.7 million (31 March 2002: HK\$152.8 million), a decrease of HK\$15.1 million over that of the previous year-end. The Group used its surplus cash flow from the operations to repay part of the bank borrowings during the period. The ratio of net bank borrowings to shareholders' funds decreased to a low level at 19.1% (31 March 2001: 21.6%).

The Group's bank borrowings are secured by its land and buildings and investment properties. Of the total bank borrowings at 30 September 2002, 45% are repayable within one year, 32% are repayable after one year but within five years and 23% are repayable after five years.

The Group's finance costs for the six months ended 30 September 2002 were HK\$2.5 million (2001: HK\$4.6 million), representing a decrease of 46.0% over that of the same period of previous year. The decrease was due to the general decrease in market interest rate since last year.

Shareholders' Funds

At 30 September 2002, the Group's shareholders' funds amounted to HK\$719.6 million (31 March 2002: HK\$708.2 million), representing an increase of HK\$11.4 million over that of the previous year-end. The net asset value per share was HK\$2.34 (31 March 2002: HK\$2.30).

DIRECTORS' INTERESTS IN SHARES

At 30 September 2002, the interests of the Directors and their associates in the share capital of the Company as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") were as follows:

Name of Director	Number of ordinary shares held		
	Personal interests	Corporate interests	Total
Mr. Chan Hoi Sow	2,036,000	169,296,896 (<i>Note</i>)	171,332,896
Mr. Chan Siu Keung, Leonard	Nil	Nil	Nil
Mr. Chan Yan Tin, Andrew	792,000	Nil	792,000
Mr. Lee Yip Wah, Peter	Nil	Nil	Nil
Mr. Lee Ka Sze, Carmelo	Nil	Nil	Nil

Note: Mr. Chan Hoi Sow had a controlling interest in Dingfar Holdings Ltd. which, through Noranger Company Limited, held 143,474,000 ordinary shares of the Company. He also had a controlling interest in Evergrade Investments Limited which held 25,822,896 ordinary shares of the Company. Accordingly, Mr. Chan Hoi Sow was deemed to have interests in 169,296,896 ordinary shares of the Company.

Other than as disclosed above, none of the Directors nor their associates had any interests in any securities of the Company or any of its associated corporations as defined in the SDI Ordinance, and none of the Directors, nor their spouses or children under the age of 18 had any right to subscribe for the securities of the Company, or had exercised any such right during the period.

SUBSTANTIAL SHAREHOLDERS

At 30 September 2002, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that the following shareholders had an interest of 10% or more in the share capital of the Company:

Name	Number of ordinary shares	%
Noranger Company Limited	143,474,000	46.6
Dingfar Holdings Ltd. (<i>Note</i>)	143,474,000	46.6

Note: Dingfar Holdings Ltd. beneficially owns a controlling interest in Noranger Company Limited and is accordingly deemed by the SDI Ordinance to be interested in the ordinary shares of the Company beneficially owned by Noranger Company Limited.

Other than as disclosed above and under Directors' interests in shares, the Company has not been notified of any other interests representing 10% or more of the Company's issued share capital at 30 September 2002.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the six months ended 30 September 2002.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting policies and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited interim accounts for the six months ended 30 September 2002 with the Directors.

CODE OF BEST PRACTICE

None of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six month period ended 30 September 2002, in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

By Order of the Board
Chan Hoi Sow
Chairman

Hong Kong, 18 December 2002