



TERN PROPERTIES COMPANY LIMITED

INTERIM REPORT 2004/2005

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 2004, 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 2004

	Notes	Six months ended 30 September	
		2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)
Turnover		43,493	69,275
Cost of other investments disposed of		(28,722)	(54,137)
Property expenses		(1,023)	(995)
Unrealised holding gain (loss) on other investments		98	(50)
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Gross profit		13,846	14,093
Interest income		2,269	2,015
Other operating income		246	451
Administrative expenses		(6,219)	(5,316)
Loss on disposal of investment properties		(3,727)	(5,995)
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Profit from operations	4	6,415	5,248
Finance costs		(752)	(1,687)
Share of results of associates		3,020	3,705
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Profit before taxation		8,683	7,266
Taxation	5	(1,331)	(1,854)
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Profit for the period		<u>7,352</u>	<u>5,412</u>
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Dividend	6	<u>3,694</u>	<u>3,694</u>
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Earnings per share	7	<u>HK2.39 cents</u>	<u>HK1.76 cents</u>

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 September 2004

	Notes	30 September 2004 HK\$'000 (Unaudited)	31 March 2004 HK\$'000 (Unaudited)
Non-current assets			
Investment properties	8	596,334	608,202
Property, plant and equipment		19,992	19,636
Interests in associates		161,994	162,405
Deferred tax assets		61	61
Club debentures		2,160	2,160
		<u>780,541</u>	<u>792,464</u>
Current assets			
Trade and other receivables	9	2,003	2,759
Other investments		53,155	63,388
Bank balances and cash		16,258	19,782
		<u>71,416</u>	<u>85,929</u>
Current liabilities			
Trade and other payables	10	17,233	9,494
Rental deposits from tenants		7,884	7,672
Deposit received upon sale of properties		–	3,000
Tax liabilities		1,686	1,030
Secured bank loans – due within one year		61,257	97,248
Bank overdrafts – secured		13,926	14,599
		<u>101,986</u>	<u>133,043</u>
Net current liabilities		<u>(30,570)</u>	<u>(47,114)</u>
Non-current liabilities			
Deferred tax liabilities		3,408	3,264
Secured bank loans – due after one year		5,374	5,366
		<u>8,782</u>	<u>8,630</u>
		<u>741,189</u>	<u>736,720</u>
Capital and reserves			
Share capital	11	153,906	153,906
Reserves		587,283	582,814
		<u>741,189</u>	<u>736,720</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2004

(Unaudited)

	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 2003	153,906	72,818	189,356	2,662	4,925	276,443	700,110
Realised on disposal of investment properties	–	–	5,238	–	–	–	5,238
Profit for the period	–	–	–	–	–	5,412	5,412
Dividends declared	–	–	–	–	3,694	(3,694)	–
Dividends paid	–	–	–	–	(4,925)	–	(4,925)
At 30 September 2003	<u>153,906</u>	<u>72,818</u>	<u>194,594</u>	<u>2,662</u>	<u>3,694</u>	<u>278,161</u>	<u>705,835</u>
At 1 April 2004	153,906	72,818	215,893	2,662	9,234	282,207	736,720
Realised on disposal of investment properties	–	–	6,351	–	–	–	6,351
Profit for the period	–	–	–	–	–	7,352	7,352
Dividends declared	–	–	–	–	3,694	(3,694)	–
Dividends paid	–	–	–	–	(9,234)	–	(9,234)
At 30 September 2004	<u>153,906</u>	<u>72,818</u>	<u>222,244</u>	<u>2,662</u>	<u>3,694</u>	<u>285,865</u>	<u>741,189</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 September 2004

	Six months ended 30 September	
	2004	2003
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net cash from operating activities	12,845	8,072
Net cash from investing activities	30,273	48,622
Net cash used in financing activities	(45,969)	(58,456)
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Net decrease in cash and cash equivalents	(2,851)	(1,762)
Cash and cash equivalents at beginning of the period	5,183	2,970
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Cash and cash equivalents at end of the period	<u>2,332</u>	<u>1,208</u>
Analysis of cash and cash equivalents:		
Bank deposits	–	16,000
Bank balances and cash	16,258	759
Bank overdrafts	(13,926)	(15,551)
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	<u>2,332</u>	<u>1,208</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 September 2004

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 No. 25 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain 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 2004.

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 2004

	Property leasing <i>HK\$'000</i>	Securities investment <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Turnover	<u>14,598</u>	<u>28,895</u>	<u>43,493</u>
Segment result	<u>4,191</u>	<u>2,224</u>	<u>6,415</u>
Profit from operations			6,415
Finance costs			(752)
Share of results of associates	<u>3,020</u>	<u>–</u>	<u>3,020</u>
Profit before taxation			8,683
Taxation			<u>(1,331)</u>
Profit for the period			<u>7,352</u>

Six months ended 30 September 2003

	Property leasing <i>HK\$'000</i>	Securities investment <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Turnover	<u>13,924</u>	<u>55,351</u>	<u>69,275</u>
Segment result	<u>2,086</u>	<u>3,162</u>	5,248
Profit from operations			5,248
Finance costs			(1,687)
Share of results of associates	<u>3,705</u>	<u>—</u>	<u>3,705</u>
Profit before taxation			7,266
Taxation			(1,854)
Profit for the period			<u>5,412</u>

4. PROFIT FROM OPERATIONS

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

	Six months ended 30 September	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Auditors' remuneration	125	125
Depreciation	416	377
Staff costs (including Directors' remuneration)	3,287	3,123
Mandatory provident fund contributions	<u>43</u>	<u>37</u>
Total staff costs	3,330	3,160
Gain on disposal of other investments	(173)	(1,215)
Gross rental income from investment properties	(14,598)	(13,924)
Less: Outgoings	<u>1,023</u>	<u>995</u>
Net rental income	<u>(13,575)</u>	<u>(12,929)</u>

5. TAXATION

	Six months ended 30 September	
	2004	2003
	HK\$'000	HK\$'000
The charge comprises:		
Company and subsidiaries		
Hong Kong Profits Tax		
Current period	656	550
Share of tax on results of associates	303	420
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	959	970
Deferred tax		
Current period	144	144
Attributable to a change in tax rate	–	255
Share of taxation attributable to associates	228	485
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	1,331	1,854
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Hong Kong Profits Tax is calculated at 17.5% (2003: 17.5%) of the estimated assessable profit for the period.

6. DIVIDEND

On 13 August 2004, a dividend of HK1.8 cents per share and a dividend of HK1.2 cents per share were paid to shareholders as the final dividend and special dividend for 2004.

The Board of Directors has declared an interim dividend of HK1.2 cents (2003: HK1.2 cents) per share amounting to HK\$3,694,000 payable on 11 January 2005 to the shareholders whose names appear on the Register of Members on 3 January 2005.

7. EARNINGS PER SHARE

The calculation of the earnings per share is based on the profit for the period of HK\$7,352,000 (2003: HK\$5,412,000) and on 307,812,522 (2003: 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\$18,727,000 for HK\$15,000,000, resulting in a loss on disposal of HK\$3,727,000.

At 30 September 2004, the directors have considered that the carrying amount of the Group's investment properties do not differ significantly from those 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 is rental receivable in advance of HK\$460,000 (31 March 2004: HK\$443,000) with defined credit policy. The rental income is billed in advance and settlement is expected upon billing.

All the rental receivable at the balance sheet date had an aging of less than 90 days.

10. TRADE AND OTHER PAYABLES

Included in trade and other payables is rental receipt in advance of HK\$558,000 (31 March 2004: HK\$501,000).

All the rental receipt in advance at the balance sheet date had an aging of less than 90 days.

11. SHARE CAPITAL

	Number of ordinary shares of HK\$0.5 each		Nominal value	
	2004	2003	2004	2003
			HK\$'000	HK\$'000
THE COMPANY				
Authorised:				
At 1 April and 30 September	<u>400,000,000</u>	<u>400,000,000</u>	<u>200,000</u>	<u>200,000</u>
Issued and fully paid:				
At 1 April and 30 September	<u>307,812,522</u>	<u>307,812,522</u>	<u>153,906</u>	<u>153,906</u>

There were no movements in the share capital of the Company for the six months ended 30 September 2004.

12. CONTINGENCIES AND COMMITMENTS

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

13. POST BALANCE SHEET EVENT

On 23 November 2004, the Group entered into a formal sale and purchase agreement for the purchase of properties for a total consideration of HK\$65,000,000.

INTERIM DIVIDEND

The Board of Directors has declared an interim dividend of HK1.2 cents (2003: HK1.2 cents) per share payable on 11 January 2005 to the shareholders whose names appear on the Register of Members on 3 January 2005.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Monday, 3 January 2005 to Wednesday, 5 January 2005, 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, Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:00 p.m. on Friday, 31 December 2004.

BUSINESS REVIEW AND PROSPECT

The Group's gross rental income including its share from an associate for the six months ended 30 September 2004 amounted to HK\$19.1 million, an increase of 3.2% from the same period of prior year. The Group's profit for the period amounted to HK\$7.4 million, an increase of 35.8% from the same period of prior year. An interim dividend of HK1.2 cents per share was declared, the same as that of the same period of prior year.

During the period, the Group recorded an increase in the gross rental income due to the upward revision of rental rates for the shops. The Group's rental portfolio continued to achieve a high average occupancy rate of 97.5% during the period.

During the period, the Group received interest income amounted to HK\$2.3 million from the investments in debt securities, an increase of 13.6% from the same period of prior year. These investments focused on quality corporate or banking debt securities with high yield and comparatively low risk.

The Group has entered into a sale and purchase agreement for the purchase of the Duplex Shop F on the Ground Floor and the First Floor at Burlington House, 90-94 Nathan Road, Tsimshatsui for a cash consideration of HK\$65 million in November 2004. The purchase will enhance the Group's recurrent rental income substantially.

Macro-economic adjustments in the Mainland showed mixed results and are expected to continue into 2005. The negative impact of high international oil price will trickle through the Mainland and the global economy. On the other hand, the upward cycle of the interest rate has already commenced in the U.S. and China. Although the local economy turned strong this year from the increase in visitors from the Mainland, significant challenges for the local economy lie ahead next year.

In the local property market, the government's revised housing policies continue to boost user and investor sentiments in the residential sector. However, some time is required to digest the substantial number of transactions recorded recently. Therefore the outlook for the market next year would be modest. In the commercial property market, the rental value of shops will continue to strengthen at the high level due to the significant increase in the retail sales. The demand and rental value of office space will also increase in view of the improving economy next year. Therefore it is expected that the Group's rental income will continue to strengthen in the second half of the year.

MANAGEMENT DISCUSSION AND ANALYSIS

Operation

During the period, the Group continued to hold quality commercial properties for rental income and invest in bond securities for interest income purposes. The Group's turnover for the six months ended 30 September 2004 amounted to HK\$43.5 million (2003: HK\$69.3 million), a decrease of 37.2% from the same period of prior year. The decrease was due primarily to lower sales of debt securities.

The Group's gross rental income for the six months ended 30 September 2004 amounted to HK\$14.6 million (2003: HK\$13.9 million), an increase of 4.8% from the same period of prior year. The increase was due to the upward revision of rental rates for the shops during the period. The Group's share of gross rental income from an associate amounted to HK\$4.5 million (2003: HK\$4.6 million), a decrease of 1.7% from the same period of prior year.

The Group's sale of debt securities and listed shares for the six months ended 30 September 2004 amounted to HK\$28.8 million (2003: HK\$55.4 million), a decrease of 48.0% from the same period of prior year. The decrease was due to less trading activities during the period. At 30 September 2004, the Group held a total of HK\$53.2 million (31 March 2004: HK\$63.4 million) in investments in debt securities and listed shares, a decrease of HK\$10.2 million from the previous year-end.

Results

The Group's profit for the six months ended 30 September 2004 amounted to HK\$7.4 million (2003: HK\$5.4 million), an increase of 35.8% from the same period of prior year. The increase was due to higher rental income and interest income from debt securities, lower interest expense and less loss incurred on disposal of non-core investment properties, partially offset by lower profit from sale of investments in debt securities and lower profit contribution from an associate during the period. The Group's share of results of associates after taxation amounted to HK\$2.5 million (2003: HK\$2.8 million), a decrease of 11.1% from the same period of prior year. The decrease was due to lower rental income and higher administrative expenses during the period.

Earnings per share for the six months ended 30 September 2004 were HK2.39 cents (2003: HK1.76 cents), an increase of HK0.63 cent from the same period of prior year. The declared interim dividend was HK1.2 cents (2003: HK1.2 cents) per share, the same as that of the same period of prior year.

Bank Borrowings and Finance Costs

At 30 September 2004, the Group's banking facilities amounting HK\$226.1 million (31 March 2004: HK\$226.1 million) were secured by its land and buildings and investment properties with an aggregate carrying value amounting HK\$536.6 million (31 March 2004: HK\$536.6 million). At 30 September 2004, these facilities were utilised to the extent of HK\$80.6 million (31 March 2004: HK\$117.2 million).

At 30 September 2004, the total amount of outstanding bank borrowings net of bank balances and cash of HK\$16.3 million were HK\$64.3 million (31 March 2004: HK\$97.4 million), a decrease of HK\$33.1 million from the previous year-end. The Group used the proceeds from the sale of investment properties and bond securities and surplus funds from operation to repay part of the bank borrowings during the period. The gearing ratio, which is the ratio of net bank borrowings to shareholders' funds, decreased to a low level at 8.7% (31 March 2004: 13.2%).

Of the total bank borrowings at 30 September 2004, 93.3% are repayable within one year, 0.3% are repayable after one year but within five years and 6.4% are repayable after five years.

In view of the low gearing, the Group has adopted the policy to minimise finance costs by drawing revolving bank facilities secured by the Group's properties to finance short term funding requirements. The Group's finance costs for the six months ended 30 September 2004 were HK\$0.75 million (2003: HK\$1.69 million), a decrease of 55.4% from the same period of prior year. The decrease was due to the lower level of bank borrowings during the period.

Shareholders' Funds

At 30 September 2004, the Group's shareholders' funds amounted to HK\$741.2 million (31 March 2004: HK\$736.7 million), an increase of HK\$4.5 million from the previous year-end. The net asset value per share was HK\$2.41 (31 March 2004: HK\$2.39). The increase in shareholders' funds was due to the retained profit for the period.

At 30 September 2004, the Group had no significant exposure to foreign exchange rate fluctuations.

Contingent Liabilities and Capital Commitments

At 30 September 2004, the Group has neither contingent liabilities nor capital commitments.

Employees and Remuneration Policy

At 30 September 2004, the total number of staff of the Group was 11. The total staff costs including Directors' emoluments amounted to HK\$3.3 million. The Group reviews staff remuneration annually. The review is based on individual performance and merit.

DIRECTORS' INTERESTS

At 30 September 2004, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

Name of Director	Capacity	Nature of interests	Number of shares held	Aggregate long position	Percentage of aggregate long position in shares to the issued share capital
Chan Hoi Sow	Beneficial Owner	Personal Interest	2,036,000	171,332,896	55.66
	Interest of Controlled Corporation (Note)	Corporate Interest	169,296,896		
Chan Siu Keung, Leonard	–	–	–	–	0.00
Chan Yan Tin, Andrew	Beneficial Owner	Personal Interest	792,000	792,000	0.26
Wong Wellington	–	–	–	–	0.00
Chan Kwok Wai	–	–	–	–	0.00
Tse Lai Han, Henry	–	–	–	–	0.00

Note: Mr. Chan Hoi Sow had a 100% interest in Beyers Investments Limited which, through its wholly owned subsidiary, Noranger Company Limited, held 143,474,000 shares of the Company. He also had a 100% interest in Evergrade Investments Limited which held 25,822,896 shares of the Company. Accordingly, Mr. Chan Hoi Sow and his spouse, Madame Loo Kuo Pin, were deemed to have interests in 169,296,896 ordinary shares of the Company.

Messrs. Wong Wellington, Chan Kwok Wai and Tse Lai Han, Henry were appointed as Independent Non-Executive Director of the Company on 30 September 2004. Messrs. Lee Yip Wah, Peter and Lee Ka Sze, Carmelo resigned as Independent Non-Executive Director of the Company on the same date.

Other than as disclosed above, none of the Directors had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as defined in the SFO and none of the Directors nor their spouses or children under the age of 18 had any right to subscribe for the equity or debt securities of the Company as at 30 September 2004 or had been granted or exercised any such right during the period.

SUBSTANTIAL SHAREHOLDERS

At 30 September 2004, the interests and short positions of persons, other than the Directors or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

Name of substantial shareholder	Capacity	Nature of interests	Number of shares held	Aggregate long position	Percentage of aggregate long position in shares to the issued share capital
Loo Kuo Pin	Interest of Spouse (Note 1)	Family Interest	171,332,896	171,332,896	55.66
Noranger Company Limited	Beneficial Owner (Note 2)	Corporate Interest	143,474,000	143,474,000	46.61
Beyers Investments Limited	Interest of Controlled Corporation (Note 2)	Corporate Interest	143,474,000	143,474,000	46.61
Evergrade Investments Limited	Beneficial Owner (Note 3)	Corporate Interest	25,822,896	25,822,896	8.39
Edward Kew	Beneficial Owner (Note 4)	Personal Interest	5,461,200	25,968,494	8.44
	Interest of Spouse (Note 4)	Family Interest	8,856,494		
	Interest of Controlled Corporation (Note 4)	Corporate Interest	11,650,800		
Kew Youn Lunn	Beneficial Owner (Note 5)	Personal Interest	2,380,800	25,968,494	8.44
	Interest of Spouse (Note 5)	Family Interest	5,461,200		
	Interest of Controlled Corporation (Note 5)	Corporate Interest	18,126,494		

Notes:

1. The interest is in fact the same block of shares already disclosed under the personal and corporate interests of her husband, Mr. Chan Hoi Sow as disclosed in the section headed "DIRECTORS' INTERESTS".
2. The two references to 143,474,000 shares relate to same block of shares in the Company. These shares are held by Noranger Company Limited which is wholly owned by Beyers Investments Limited which in turn is wholly owned by Mr. Chan Hoi Sow and accordingly form part of the block of shares already disclosed under the corporate interests of Mr. Chan Hoi Sow as disclosed in the section headed "DIRECTORS' INTERESTS".
3. These shares are held by Evergrade Investments Limited which is wholly owned by Mr. Chan Hoi Sow and accordingly form part of the block of shares already disclosed under the corporate interests of Mr. Chan Hoi Sow as disclosed in the section headed "DIRECTORS' INTERESTS".
4. These interests in aggregate are in fact the same block of shares disclosed under the interests of Madame Kew Youn Lunn, the wife of Mr. Edward Kew.
5. These interests in aggregate are in fact the same block of shares disclosed under the interests of Mr. Edward Kew, the husband of Madame Kew Youn Lunn.

Other than as disclosed above, there was no person, other than a Director of the Company, who as at 30 September 2004, had an interest or a short position in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares during the six months ended 30 September 2004.

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 2004 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 2004, 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, except that the Independent Non-Executive Directors are not appointed for a specific term as they are subject to retirement by rotation and re-election at annual general meeting in accordance with the Company's Articles of Association.

By Order of the Board
Chan Hoi Sow
Chairman

Hong Kong, 10 December 2004