



TERN PROPERTIES COMPANY LIMITED

太興置業有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 277)

ANNUAL RESULTS FOR THE YEAR ENDED 31 MARCH 2007

The Board of Directors of Tern Properties Company Limited (“the Company”) announces that the audited consolidated results of the Company and its subsidiaries (“the Group”) for the year ended 31 March 2007 are as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 March 2007

	Notes	2007 HK\$'000	2006 HK\$'000
Turnover	2	56,354	125,113
Cost of disposal of financial assets at fair value through profit or loss		(7,927)	(86,193)
Property expenses		(2,970)	(2,543)
Unrealised gain (loss) on financial assets at fair value through profit or loss		717	(256)
Gross profit		46,174	36,121
Interest income		2,613	4,120
Other operating income		779	437
Administrative expenses		(17,255)	(14,005)
Increase in fair value of investment properties		54,805	81,738
Profit from operations		87,116	108,411
Finance costs		(9,279)	(5,599)
Share of results of associates		15,248	29,696
Profit before taxation		93,085	132,508
Taxation	5	(4,036)	(2,628)
Profit for the year		89,049	129,880
Dividends	6	12,312	11,697
Earnings per share	7	HK\$0.29	HK\$0.42

CONSOLIDATED BALANCE SHEET

At 31 March 2007

	Notes	2007 HK\$'000	2006 HK\$'000
Non-current assets			
Investment properties		1,378,664	1,090,665
Property, plant and equipment		4,529	3,057
Leasehold land		15,938	16,030
Interests in associates		284,831	275,671
Available-for-sale investments		2,160	2,160
		<u>1,686,122</u>	<u>1,387,583</u>
Current assets			
Trade and other receivables	8	4,597	19,564
Deposit paid for acquisition of investment properties		–	4,122
Financial assets at fair value through profit or loss		30,647	29,939
Leasehold land – current portion		93	93
Time deposits, bank balances and cash		68,376	23,898
		<u>103,713</u>	<u>77,616</u>
Current liabilities			
Trade and other payables	9	8,383	5,600
Rental deposits from tenants		14,317	11,412
Tax liabilities		3,159	2,118
Other loans		845	–
Secured bank loans – due within one year		209	209
		<u>26,913</u>	<u>19,339</u>
Net current assets		<u>76,800</u>	<u>58,277</u>
Non-current liabilities			
Deferred tax liabilities		11,233	9,400
Secured bank loans – due after one year		407,276	169,399
		<u>418,509</u>	<u>178,799</u>
Total net assets		<u>1,344,413</u>	<u>1,267,061</u>
Capital and reserves			
Share capital		153,906	153,906
Reserves		1,190,507	1,113,155
		<u>1,344,413</u>	<u>1,267,061</u>

Notes:

1. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and by the Companies Ordinance.

2. TURNOVER

Turnover represents the aggregate of amounts received and receivable from property rental income, dividend income and sales of financial assets.

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Property rental income	48,431	37,644
Sales of financial assets at fair value through profit or loss	7,923	87,229
Dividend income	–	240
	<u>56,354</u>	<u>125,113</u>

3. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

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:

INCOME STATEMENT

For the year ended 31 March 2007

	Property leasing <i>HK\$'000</i>	Securities investment <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Turnover	<u>48,431</u>	<u>7,923</u>	<u>56,354</u>
Segment result	<u>84,174</u>	<u>2,942</u>	<u>87,116</u>
Profit from operations			87,116
Finance costs			(9,279)
Share of results of associates	<u>15,348</u>	<u>(100)</u>	<u>15,248</u>
Profit before taxation			93,085
Taxation			<u>(4,036)</u>
Profit for the year			<u>89,049</u>

INCOME STATEMENT

For the year ended 31 March 2006

	Property leasing HK\$'000	Securities investment HK\$'000	Consolidated HK\$'000
Turnover	<u>37,644</u>	<u>87,469</u>	<u>125,113</u>
Segment result	<u>103,561</u>	<u>4,850</u>	<u>108,411</u>
Profit from operations			108,411
Finance costs			(5,599)
Share of results of associates	<u>28,443</u>	<u>1,253</u>	<u>29,696</u>
Profit before taxation			132,508
Taxation			<u>(2,628)</u>
Profit for the year			<u>129,880</u>

Geographical Segments

Over 90% of the activities of the Group during the year were carried out in Hong Kong and over 90% of the assets of the Group were located in Hong Kong. Accordingly, a geographical analysis is not presented.

4. PROFIT FROM OPERATIONS

	2007 HK\$'000	2006 HK\$'000
Profit from operations has been arrived at after charging:		
Auditors' remuneration	262	250
Depreciation	1,241	793
Amortisation of leasehold land	93	93
Staff costs (including Directors' remuneration)	7,744	7,403
Mandatory provident fund contributions	<u>91</u>	<u>88</u>
Total staff costs	7,835	7,491
and after crediting:		
Exchange gain	189	381
Dividend income	–	240
(Loss) gain on disposal of financial assets at fair value through profit or loss	(4)	1,036
Gross rental income from investment properties	48,431	37,644
Less: Direct operating expenses from investment properties that generated rental income	(2,576)	(2,247)
Direct operating expenses from investment properties that did not generate rental income	<u>(394)</u>	<u>(296)</u>
Net rental income	<u>45,461</u>	<u>35,101</u>

5. TAXATION

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
The charge comprises:		
Company and subsidiaries		
Hong Kong Profits Tax		
Current year	2,168	1,447
Under provision in prior years	—	2
	<u>2,168</u>	<u>1,449</u>
Other jurisdiction	35	73
	<u>2,203</u>	<u>1,522</u>
Deferred tax		
Current year	1,833	1,106
	<u>4,036</u>	<u>2,628</u>

Hong Kong Profits Tax is calculated at 17.5% (2006: 17.5%) of the estimated assessable profit for the year. Overseas taxation is calculated at the rates prevailing in the relevant jurisdictions. No deferred tax asset has been recognised in respect of the unused tax losses due to the unpredictability of future profit streams. Those tax losses may be carried forward indefinitely.

6. DIVIDENDS

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Interim, paid – HK1.5 cents per share (2006: HK1.5 cents per share)	4,617	4,617
Final, proposed – HK2.5 cents per share (2006: HK2.3 cents per share)	7,695	7,080
	<u>12,312</u>	<u>11,697</u>

The final dividend of HK2.5 cents per share (2006: HK2.3 cents per share) has been proposed by the directors and are subject to approval by the shareholders in annual general meeting.

7. EARNINGS PER SHARE

The calculation of the earnings per share is based on the profit for the year of HK\$89,049,028 (2006: HK\$129,879,756) and on 307,812,522 (2006: 307,812,522) ordinary shares in issue during the year. No diluted earnings per share has been presented as there were no dilutive potential shares in issue in either year.

8. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables is rental receivable of HK\$682,010 (2006: HK\$506,526) with defined credit policy. The rental income is billed in advance each month. Immediate settlement is expected upon receipt of billing.

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

The directors consider that the carrying amount of trade and other receivables approximates their fair value.

9. TRADE AND OTHER PAYABLES

Included in trade and other payables is rental receipt in advance of HK\$982,206 (2006: HK\$599,774).

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

The directors consider that the carrying amount of trade and other payables approximates their fair value.

10. CONTINGENT LIABILITIES

At the balance sheet date, there were contingent liabilities, so far as not provided for in the financial statements, in respect of guarantees for the banking facilities made available to:

	The Group		The Company	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Subsidiaries	–	–	407,485	169,608
Associates	52,500	25,000	52,500	25,000
	<u>52,500</u>	<u>25,000</u>	<u>459,985</u>	<u>194,608</u>

The Company has not recognized any deferred income in respect of the guarantees as their fair values and transaction price cannot be reliably measured.

11. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, Kinghale Investment Limited, a wholly-owned subsidiary of the Company had entered into a binding formal agreement to purchase the property at Flat A on the 43rd Floor of HighCliff with two car parking spaces on 41D Stubbs Road, Hong Kong for a total cash consideration of HK\$62,320,000. Details were included in the circular dated 11 June 2007.

DIVIDENDS

The Board recommends the payment of a final dividend of HK2.5 cents (2006: HK2.3 cents) per share payable to the shareholders whose name appear on the Register of Members on 3 August 2007. This dividend, together with the interim dividend of HK1.5 cents per share already paid in January 2007, will make a total distribution of HK4.0 cents (2006: HK3.8 cents) per share for the full year.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Friday, 3 August 2007 to Friday, 10 August 2007, both days inclusive, during which period no transfer of shares will be registered by the Company. In order to qualify for the proposed final dividend and to determine the identity of the shareholders entitled to attend and vote at the meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's Share Registrar and Transfer Office, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Thursday, 2 August 2007. It is expected that the final dividend warrants will be despatched to shareholders on or about 15 August 2007.

BUSINESS REVIEW

Hong Kong

The local economy continued to maintain its momentum throughout the year. The rental value and capital value of the Group's shops and office properties continued to increase during the year.

The Group's gross rental income for the year was HK\$48.4 million. In addition, the Group's share of gross rental income from an associate was HK\$11.2 million. Therefore the total gross rental income attributable to the Group amounted to HK\$59.6 million, representing an increase of 23.6% over that of the previous year. The substantial increase in rental income was due to the continuing increase in the rental rate of the Group's portfolio especially the shops properties.

The Group completed the purchase of The Wave situated at 184 Nathan Road on 30 January 2007. The investment property is a 15-storey commercial building with a gross floor area of 28,316 square feet and generates an annual rental income of HK\$7.5 million for the Group.

The Group's investment properties recorded a total increase in capital value of HK\$64.8 million for the year based on professional revaluation. The increase included HK\$10.0 million attributable from the investment properties of an associated company of the Group.

The Group continued to hold offshore debt securities for investment during the year. The investments generated a total of HK\$2.4 million interest income for the year. The investment portfolio amounted to HK\$30.6 million at 31 March 2007.

Overseas

The Group took advantage of the buoyant property market in the City of Vancouver, Canada to sell three residential property units of Pointe Claire subsequent year-end. The Group is now holding the remaining three units of Pointe Claire which have been fully leased.

PROSPECTS

The central government has been trying various administrative measures to cool down specific sectors of the Mainland economy especially the property and the stock market, and open up new channels to drain away excess liquidity. The effect of these measures remains to be seen. Meanwhile the international oil price is hovering at a high level. The housing market in the United States is heading for correction, causing concern of the rippling effect on the global economy and triggering fluctuations in the international currency market. The turbulence in international finance will continue to co-exist with the developing global economy.

In the local residential property market, trading activities have increased and should maintain its pace for the year. In the commercial property market, the rental value and the capital value of shops have remained at a high level while the capital value of whole block commercial buildings has increased substantially. This trend is expected to continue this year amid the buoyant local economy.

The Group's rental income will increase substantially next year due to the purchase of the commercial building on 184 Nathan Road and the renewal of leases at higher rental rates for the other investment properties. The Group is in excellent financial position and will continue to search for suitable investment opportunities.

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATION

The Group continued to hold commercial properties for rental income and invest in debt securities for interest income during the year. The Group's turnover for the year ended 31 March 2007 amounted to HK\$56.4 million (2006: HK\$125.1 million), a decrease of 55.0% from last year. The decrease was due to the decrease in securities trading activities partially offset by the increase in rental income during the year.

The Group's gross rental income for the year ended 31 March 2007 amounted to HK\$48.4 million (2006: HK\$37.6 million), an increase of 28.7% from last year. The increase was due to the continuing increase in the rental rate of the Group's portfolio especially the shops properties and the purchase of The Wave, 184 Nathan Road late last year. At 31 March 2007, the Group held investment properties in the sum of HK\$1,378.7 million (2006: HK\$1,090.7 million), an increase of HK\$288.0 million from last year. The increase was due to the purchase of investment properties and the capital value appreciation of the Group's property portfolio during the year. The Group's share of gross rental income from an associate amounted to HK\$11.2 million (2006: HK\$10.6 million), an increase of 5.4% from last year. The Group's rental portfolio continued to achieve a high average occupancy rate of 98% during the year.

The Group's sale of securities for the year ended 31 March 2007 amounted to HK\$7.9 million (2006: HK\$87.2 million), a decrease of 90.9% from last year due to less trading activities. At 31 March 2007, the Group held debt securities investments in the sum of HK\$30.6 million (2006: HK\$29.9 million), an increase of HK\$0.7 million from last year. The investments were denominated in U.S. currency, and focused on quality corporate and banking bonds with high coupon rate.

RESULTS

The Group's profit for the year ended 31 March 2007 amounted to HK\$89.0 million (2006: HK\$129.9 million), a decrease of 31.4% from last year. The decrease was due primarily to the smaller increase in the fair value of investment properties of the Group and its associate upon revaluation at the balance sheet date compared with those of last year. The other factors for the decrease in the profit for the year included lower interest income, higher interest expense and administrative expenses alleviated by higher rental income for the year. The Group's share of results of associates after taxation amounted to HK\$15.2 million (2006: HK\$29.7 million), a decrease of 48.7% from last year. The decrease was due to the smaller increase in the fair value of investment properties of an associate upon revaluation at the balance sheet date compared with those of last year.

Earnings per share for the year ended 31 March 2007 were HK\$0.29 (2006: HK\$0.42). The proposed final dividend of HK2.5 cents (2006: HK2.3 cents) per share will make a total distribution of interim and final dividends of HK4.0 cents (2006: HK3.8 cents) per share for the full year, an increase of HK0.2 cent from last year.

BANK BORROWINGS AND FINANCE COSTS

At 31 March 2007, the Group's banking facilities amounting to HK\$512.2 million (2006: HK\$312.2 million) were fully secured by its investment properties with an aggregate carrying value amounting to HK\$1,218.9 million (2006: HK\$845.6 million). At 31 March 2007, these facilities were utilised to the extent of HK\$407.5 million (2006: HK\$169.6 million).

At 31 March 2007, the total amount of outstanding bank borrowings net of time deposits, bank balances and cash of HK\$68.4 million were HK\$339.1 million (2006: HK\$145.7 million), an increase of HK\$193.4 million from last year. The increase was due to bank financing for the purchase of The Wave, 184 Nathan Road and the other investment properties during the year. The gearing ratio, which is the ratio of net bank borrowings to shareholders' funds, was at 25.2% (2006: 11.5%).

Of the total bank loans at 31 March 2007, 0.05% are repayable within one year, 98.89% are repayable after one year but within five years and 1.06% are repayable after five years.

The Group's finance costs for the year ended 31 March 2007 were HK\$9.3 million (2006: HK\$5.6 million), an increase of 65.7% from last year. The increase was due to additional bank borrowings to finance the purchase of investment properties during the year.

SHAREHOLDERS' FUNDS

At 31 March 2007, the Group's shareholders' funds amounted to HK\$1,344.4 million (2006: HK\$1,267.1 million), an increase of 6.1% from last year. The net asset value per share was HK\$4.37 (2006: HK\$4.12). The increase in shareholders' funds was due to the increase in the fair value of the investment properties of the Group and its associate upon revaluation at the balance sheet date.

RISKS OF FLUCTUATIONS IN EXCHANGE RATE AND INTEREST RATE

Over 98% of the Group's bank borrowings are denominated in Hong Kong dollars and are secured by the properties in Hong Kong. The remaining bank borrowings are denominated in Canadian dollars and are secured by the properties in Canada. Only the equity portion of the Canadian properties is subject to exchange rate risk. The amount accounted for 1% of the Group's net assets.

Most of the Group's bank borrowings are revolving loans with floating interest rate based on HIBOR. Since the Group's gearing ratio is not high and the cash flow generated from the rental income is several times higher than the bank interest expenses, the interest rate risk associated with the bank borrowings is not substantial.

The investments in debt securities are denominated in U.S. dollars. Since the exchange rate of Hong Kong currency is pegged against the U.S. currency, the exchange rate risk of these investments is minimal. However they are subject to interest rate risk. To minimise the interest rate risk, the Group invests in those securities with short to medium maturity period and high coupon rate. The quality and liquidity of the investments are also considered in the Group's investment decisions with market monitoring on a daily basis.

EMPLOYEES AND REMUNERATION POLICY

At 31 March 2007, the total number of staff of the Group was 12 (2006: 11). The total staff costs including Directors' remuneration amounted to HK\$7.8 million (2006: HK\$7.5 million).

The Group reviews staff remuneration annually. The review is based on individual performance and merit.

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 year.

CORPORATE GOVERNANCE

The Company has complied with all the applicable code provisions in the Code on Corporate Governance Practices ("the Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the year ended 31 March 2007, except that the roles of chairman and chief executive officer are performed by the same individual which is a deviation from code provision A.2.1 of the Code, and that the Independent Non-Executive Directors are appointed with no specific terms which is a deviation from code provision A.4.1 of the Code. Please refer to the Company's interim report for the six months ended 30 September 2006 for reasons of the deviations.

REVIEW OF ACCOUNTS BY AUDIT COMMITTEE

The Audit Committee has reviewed the Group's audited annual accounts for the year ended 31 March 2007 with the Directors.

By Order of the Board
Chan Hoi Sow
Chairman

Hong Kong, 29 June 2007

As at the date hereof, the Board of Directors of the Company comprises six Directors, of which three are Executive Directors, namely Mr. CHAN Hoi Sow, Mr. CHAN Yan Tin, Andrew and Mr. CHAN Siu Keung, Leonard and three are Independent Non-Executive Directors, namely Mr. WONG Wellington, Mr. CHAN Kwok Wai and Mr. TSE Lai Han, Henry.