



TERMBRAY INDUSTRIES INTERNATIONAL (HOLDINGS) LIMITED



Interim Report **2001-2002**

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Corporate Information

EXECUTIVE DIRECTORS

Mr. Lee Lap, *Chairman & CEO*

Mdm. Leung Lai Ping

Mr. Wong Shiu Kee

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Lee Tung Hai, *Leo G.B.S., L.L.D., J.P.*

Mr. Lee Ka Sze, *Carmelo*

COMPANY SECRETARY

Mr. Lee Ka Sze, *Carmelo*

AUDIT COMMITTEE

Dr. Lee Tung Hai, *Leo G.B.S., L.L.D., J.P.*

Mr. Lee Ka Sze, *Carmelo*

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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Hong Kong

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Facsimile : (852) 2528 3158

LISTING INFORMATION

The Listing Code of the Company's shares on
The Stock Exchange of Hong Kong Limited 0093

PRINCIPAL BANKER

The Hongkong & Shanghai Banking Corporation Limited

LEGAL ADVISORS IN HONG KONG

Woo, Kwan, Lee & Lo

AUDITORS

Deloitte Touche Tohmatsu

The board of directors of Termbray Industries International (Holdings) Limited (the "Company") has pleasure in submitting to shareholders the interim report together with the unaudited condensed consolidated financial statements of the Company and its subsidiaries (together the "Group") for the six months ended 30th September, 2001.

The unaudited consolidated profit attributable to shareholders for the six months ended 30th September, 2001 amounted to approximately HK\$2,999,000 (2000: HK\$5,628,000). An analysis of the Group's results for the period is set out on page 15 of this report.

The directors have resolved not to declare the payment of an interim dividend for the six months ended 30th September, 2001 (2000: Nil).

Review of Operations

During the current six months period under review, the Group achieved a turnover of HK\$13,210,000 (2000: HK\$22,445,000) and profit attributable to shareholders of HK\$2,999,000 (2000: HK\$5,628,000).

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The operating environment for the Group's core business - property investment and development remains tough during the period under review. Property market in the People's Republic of China ("PRC") is still generally slack. The activities of the Group's property projects, which are mainly located in the PRC, continue at a low level during the period.

Despite the slack market condition, we have tried hard and succeeded in securing a tenant for a majority portion of the commercial arcades of Ever Success Plaza.

Ever Success Plaza, comprising of over 440 residential units standing on 3 levels of commercial arcades and car parks, is located at a convenient and prime location with a river view in Zhongshan, Guangdong Province. Interior decoration works and facilities installation works in the commercial arcades are currently in progress. We plan to complete those works and handover the arcades to the tenant before the end of this year. During the period, one residential unit was sold whilst eleven residential units were let out.

Regarding other vacant land reserve, there are no development plans yet.

The Group still holds a substantial amount of funds of approximately HK\$0.6 billion which have been placed as short term bank deposits or invested in money market funds with an international financial institution generating a stable source of income to the Group. Due to the substantial cut in interest rate during the period, the relevant income earned by the Group from these assets has dropped.

There were no acquisitions of subsidiaries or associates during the period under review.

There have been no material change in the contingent liabilities and charge on assets of the Group since 31st March, 2001.

Liquidity and Financial Resources

The Group is still cash rich and had no bank borrowings and no material capital commitment or financial obligations at 30th September, 2001. Exchange risk of the Group is minimal as the assets of the Group comprised substantially of cash or money market funds denominated in United States currency which is officially pegged to the Hong Kong currency.

There was no change in the share capital of the Group during the period under review.

Staff

As at 30th September, 2001, the Group employed 48 staff at market remunerations with employee benefits such as insurance, provident fund scheme, discretionary bonus and share option scheme.

Outlook

The global trade and economic outlook was uncertain for the coming year. The global economic environment has worsen after the September 11 event. However, it is expected that there will be ample business opportunities in the PRC following the PRC's entry into the World Trade Organisation and Beijing's successful bid to host the 2008 Olympic Games. The Group will grasp every business opportunity available to build up its own distinctive strength and will actively explore new businesses in the PRC.

With the substantial available fund on hand, the Group is actively seeking investment opportunities in order to achieve a diversification in business activities which will result in a steady growth in the Group's long term performance. The Group is open minded on what areas the funds will be invested, but will always take a cautious and prudent approach in making investment decisions.

Directors' Interests in Shares and Options

As at 30th September, 2001, the interests of the Company's directors, chief executive and their associates in the shares of the Company and its associated corporations as recorded in the register maintained under Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") were as follows:

(a) Interests in shares of the Company

Name of director	Number of ordinary shares of HK\$0.08 each held			
	Personal Interest	Family Interest	Corporate Interest	Other Interest
Mr. Lee Lap	37,500,000	-	884,752,780	-
Mdm. Leung Lai Ping	37,500,000	884,752,780	-	-

Mr. Lee Lap and his spouse, Mdm. Leung Lai Ping, are the beneficial owner of the issued share capital of Lee & Leung (B.V.I.) Limited. The shares included under corporate interest and family interest refer to the shares held by Lee & Leung (B.V.I.) Limited.

(b) Interests in shares of Associated Corporations

Name of director	Name of subsidiary	Number of non-voting deferred shares held
Mr. Lee Lap	Applied Industrial Company Limited	1,000
	Lee Plastics Manufacturing Company Limited	250,000
	Magnetic Electronics Limited	5,000
	TermbRAY Electronics Company Limited	7,000
Mdm. Leung Lai Ping	Applied Industrial Company Limited	1,500
	Lee Plastics Manufacturing Company Limited	250,000
	TermbRAY Electronics Company Limited	3,000

(c) Interests in share options granted by the Company

Name of director	Number of share options granted during the period (Note)	Number of share options exercised during the period	Number of share options held on 30th September, 2001
Mr. Lee Lap	30,000,000	–	30,000,000
Mdm. Leung Lai Ping	30,000,000	–	30,000,000

Note: These share options were granted at an aggregate consideration of HK\$2 on 31st August, 2001 under the share option scheme approved by the shareholders of the Company on 22nd August, 2001 and are exercisable at HK\$0.261 per share at any time between 1st October, 2001 and 30th September, 2006.

Apart from the share option scheme of the Company, at no time during the period was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Save as disclosed herein and except for shares in the subsidiaries held by a director in trust for their immediate holding companies, as at 30th September, 2001, none of the directors or chief executive of the Company had any interest in the equity or debt securities of the Company or any of its associated corporations (within the meaning of the SDI Ordinance) as recorded in the register required to be kept under Section 29 of the SDI Ordinance.

Substantial Shareholders

As at 30th September, 2001, the persons interested in 10% or more of the issued share capital of the Company as recorded in the register kept under Section 16(1) of the SDI Ordinance were as follows:

Name of shareholder	Number of ordinary shares of HK\$0.08 each held
Mr. Lee Lap	922,252,780
Mdm. Leung Lai Ping	922,252,780
Lee & Leung (B.V.I.) Limited*	884,752,780

* Lee & Leung (B.V.I.) Limited is beneficially owned by Mr. Lee Lap and his spouse, Mdm. Leung Lai Ping, and its interest in the issued share capital of the Company is included in the interests held by Mr. Lee Lap and Mdm. Leung Lai Ping respectively.

Purchase, Sale or Redemption of the Company's Listed Securities

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period.

Corporate Governance

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months period ended 30th September, 2001, 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.

In addition, the Company has established an Audit Committee for review and supervision of the Group's financial reporting process and internal controls.

The interim report for the six months ended 30th September, 2001 has been reviewed by the Audit Committee.

By order of the Board

Lee Lap

Chairman & CEO

Hong Kong, 14th December, 2001

Independent Review Report

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Certified Public Accountants
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永安中心26樓

**Deloitte
Touche
Tohmatsu**

TO THE BOARD OF DIRECTORS OF
TERMBRAY INDUSTRIES INTERNATIONAL (HOLDINGS) LIMITED
(incorporated in Bermuda with limited liability)

INTRODUCTION

We have been instructed by the Company to review the interim financial report set out on pages 10 to 20.

DIRECTORS' RESPONSIBILITIES

The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

REVIEW WORK PERFORMED

We conducted our review in accordance with Statement of Auditing Standards No. 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

REVIEW CONCLUSION

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30th September, 2001.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, 14th December, 2001

Condensed Consolidated Income Statement

For the six months ended 30th September, 2001

	Notes	Six months ended	
		30/9/2001 (unaudited) HK\$'000	30/9/2000 (unaudited) HK\$'000
TURNOVER	3	13,210	22,445
Cost of sales		(551)	(4,241)
		12,659	18,204
Other revenue	4	16	543
Administrative expenses		(9,676)	(11,840)
Other operating expenses	5	-	(1,276)
PROFIT FROM OPERATIONS	6	2,999	5,631
Finance costs		-	(3)
PROFIT BEFORE TAXATION	3	2,999	5,628
Taxation	7	-	-
PROFIT FOR THE PERIOD ATTRIBUTABLE TO SHAREHOLDERS		2,999	5,628
		HK cent	HK cent
EARNINGS PER SHARE BASIC	8	0.18	0.34
DILUTED		0.18	N/A

Condensed Consolidated Balance Sheet

At 30th September, 2001

	Notes	30/9/2001 (unaudited) HK\$'000	31/3/2001 (audited) HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		92,458	94,497
Properties held for development		24,227	24,227
Instalments receivable		861	982
Pledged bank deposits		2,175	2,204
		119,721	121,910
CURRENT ASSETS			
Inventories		191	191
Properties held for sale		127,194	127,745
Trade and other receivables	9	871	3,942
Deposits and prepayments		2,369	2,257
Pledged bank deposits		465	465
Investments in money market funds	10	589,452	-
Bank balances and cash		16,905	600,831
		737,447	735,431
CURRENT LIABILITIES			
Trade and other payables and accrued charges	11	16,454	18,663
Deposits received and provisions		14,476	16,089
Amount due to a related company		6,109	5,505
Provision for taxation		2,984	2,984
		40,023	43,241
NET CURRENT ASSETS			
		697,424	692,190
		817,145	814,100
CAPITAL AND RESERVES			
Share capital	12	133,171	133,171
Reserves		683,558	680,513
		816,729	813,684
MINORITY INTERESTS			
		416	416
		817,145	814,100

Condensed Consolidated Statement of Recognised Gains and Losses

For the six months ended 30th September, 2001

	Six months ended	
	30/9/2001 (unaudited) HK\$'000	30/9/2000 (unaudited) HK\$'000
Exchange differences arising on translation of financial statements of subsidiaries not recognised in the income statement	46	1,260
Net profit for the period	2,999	5,628
TOTAL RECOGNISED GAINS	3,045	6,888

Condensed Consolidated Cash Flow Statement

For the six months ended 30th September, 2001

	Six months ended	
	30/9/2001 (unaudited) HK\$'000	30/9/2000 (unaudited) HK\$'000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(7,357)	(20,072)
NET CASH INFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	13,275	17,840
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(438)	(38,392)
NET CASH INFLOW (OUTFLOW) BEFORE FINANCING	5,480	(40,624)
NET CASH OUTFLOW FROM FINANCING ACTIVITIES	-	(33)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	5,480	(40,657)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	600,831	644,960
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	46	1,007
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	606,357	605,310
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Investments in money market funds	589,452	-
Bank balances and cash	16,905	605,310
	606,357	605,310

Notes to the Condensed Financial Statements

For the six months ended 30th September, 2001

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 Statement of Standard Accounting Practice (“SSAP”) No. 25 “Interim Financial Reporting”.

2. SIGNIFICANT ACCOUNTING POLICIES

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

In the current period, the Group has adopted, for the first time, a number of new and revised SSAPs issued by the Hong Kong Society of Accountants. Other than the revised accounting policy for goodwill following the adoption of SSAP 30 “Business Combinations” as set out below, the accounting policies adopted in the preparation of the condensed financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31st March, 2001.

Goodwill

In adopting SSAP 30 “Business Combinations”, the Group has elected not to restate goodwill (negative goodwill) previously eliminated against (credited to) reserves. Accordingly, goodwill arising on acquisitions prior to 1st April, 2001 is held in reserves and will be charged to the income statement at the time of disposal of the relevant subsidiary, or at such time as the goodwill is determined to be impaired. Negative goodwill arising on acquisitions prior to 1st April, 2001 will be credited to income at the time of disposal of the relevant subsidiary.

Goodwill arising on acquisitions on or after 1st April, 2001 is capitalised and amortised over its estimated useful life. Negative goodwill arising on acquisitions on or after 1st April, 2001 is presented as a deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

The adoption of this revised accounting policy for goodwill does not have any material impact on the condensed financial statements of the Group for the period.

3. SEGMENT INFORMATION

The following is an analysis of the turnover and contribution to profit of the Group:

(a) By activity

	Turnover		Contribution to profit before taxation	
	Six months ended		Six months ended	
	30/9/2001 HK\$'000	30/9/2000 HK\$'000	30/9/2001 HK\$'000	30/9/2000 HK\$'000
Treasury investment	12,003	17,843	12,003	17,843
Property development and investment	1,207	4,602	(432)	(726)
	<u>13,210</u>	<u>22,445</u>	<u>11,571</u>	<u>17,117</u>
Less: Unallocated corporate expenses			(8,572)	(11,486)
Finance costs			-	(3)
Profit before taxation			<u>2,999</u>	<u>5,628</u>

(b) By geographical location

	Turnover		Contribution to profit before taxation	
	Six months ended		Six months ended	
	30/9/2001 HK\$'000	30/9/2000 HK\$'000	30/9/2001 HK\$'000	30/9/2000 HK\$'000
Hong Kong	11,837	17,415	3,287	5,926
The People's Republic of China ("PRC")	1,373	5,030	(288)	(298)
	<u>13,210</u>	<u>22,445</u>	<u>2,999</u>	<u>5,628</u>

4. OTHER REVENUE

Other revenue of the prior period includes an exchange gain of HK\$343,000.

5. OTHER OPERATING EXPENSES

Included in other operating expenses of the prior period is a loss on disposal of property, plant and equipment of HK\$1,156,000.

6. PROFIT FROM OPERATIONS

	Six months ended	
	30/9/2001	30/9/2000
	HK\$'000	HK\$'000
Profit from operations has been arrived at after charging (crediting):		
Depreciation on property, plant and equipment	2,506	1,914
Income from investments in money market funds	(6,644)	-
	<u><u> </u></u>	<u><u> </u></u>

7. TAXATION

No provision for Hong Kong profits tax and overseas taxation has been made as the Group has no assessable profit for both periods presented.

8. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	Six months ended	
	30/9/2001	30/9/2000
	HK\$'000	HK\$'000
Earnings		
Profit attributable to shareholders for the purposes of basic and diluted earnings per share	2,999	5,628
	'000	'000
Number of shares		
For the purpose of basic earnings per share	1,664,643	1,664,643
Effect of dilutive potential ordinary shares – share options	2,660	N/A
Weighted average for the purpose of diluted earnings per share	1,667,303	N/A

Diluted earnings per share for the six months ended 30th September, 2000 was not presented as there were no dilutive potential shares in issue in that period.

9. TRADE AND OTHER RECEIVABLES

For sales of property, the sale consideration is payable in accordance with the terms of the sale agreement.

The following is an aged analysis of trade and other receivables at the reporting date:

	30/9/2001	31/3/2001
	HK\$'000	HK\$'000
0 – 90 days	760	3,176
Over 90 days	111	766
	871	3,942

10. INVESTMENTS IN MONEY MARKET FUNDS

The amount represents the Group's investments in money market funds which are managed by an international financial institution and are redeemable on demand.

11. TRADE AND OTHER PAYABLES AND ACCRUED CHARGES

The following is an analysis of trade and other payables and accrued charges at the reporting date:

	30/9/2001	31/3/2001
	HK\$'000	HK\$'000
Trade and other payables, aged over 90 days	9,498	8,047
Accrued charges	6,956	10,616
	<hr/> 16,454 <hr/>	<hr/> 18,663 <hr/>

12. SHARE CAPITAL

There were no changes in the share capital of the Company for either of the periods presented.

Pursuant to an ordinary resolution passed at a special general meeting of the Company held on 22nd August, 2001, the Company adopted a new share option scheme to replace the scheme which had been effective since 28th September, 1991.

Under the new share option scheme of the Company, the Company granted options to the directors, at an aggregate consideration of HK\$2, during the period to subscribe for 60,000,000 shares in the Company at the subscription price of HK\$0.261 per share exercisable during the period from 1st October, 2001 to 30th September, 2006. These options remained outstanding at 30th September, 2001.

Other than disclosed above, no options to subscribe shares in the Company were granted, exercised or lapsed during the period.

13. COMMITMENTS

At the balance sheet date, the Group had contracted commitments not provided for in the financial statements as follows:

	30/9/2001 HK\$'000	31/3/2001 HK\$'000
(a) Property development expenditure and purchase of land use rights in the PRC	<u>65,347</u>	<u>65,347</u>
(b) Outstanding commitments payable in the following year under non-cancellable operating leases in respect of rental premises	<u>150</u>	<u>450</u>

14. CONTINGENT LIABILITIES AND PLEDGE OF ASSETS

At the balance sheet date, the Group's contingent liabilities and assets pledged to secure the Group's credit facilities were as follows:

- (a) The Group's bank deposits of approximately HK\$465,000 (31/3/2001: HK\$465,000) were pledged to secure the general banking facilities granted to the Group.
- (b) Guarantees were issued to banks by a subsidiary in respect of mortgage loans granted to property purchasers amounting to approximately HK\$7,762,000 (31/3/2001: HK\$9,956,000) and, in this connection, the Group's bank deposits of HK\$2,175,000 (31/3/2001: HK\$2,204,000) were pledged to the banks as security.
- (c) In prior years, certain former subsidiaries of the Company purchased production materials for its printed circuit board manufacturing activities amounting to approximately HK\$12,000,000 from an outside supplier. Such production materials acquired were subsequently found to be defective and settlement of the purchases was therefore withheld by the former subsidiaries. A legal action for settlement of the purchases together with interest was taken by the supplier against the said former subsidiaries. The said former subsidiaries instituted a legal action against the supplier claiming damages arising from the materials delivered by the supplier. In 1999, these former subsidiaries were disposed of to an outside party. In

14. CONTINGENT LIABILITIES AND PLEDGE OF ASSETS (Continued)

connection with the disposal, the Group has undertaken to indemnify the purchasers the losses, if any, arising from the legal action taken by the supplier against the former subsidiaries. While the outcome of these proceedings cannot be estimated with certainty at this stage, based on independent legal advice obtained, the directors are of the opinion that the outcome of these cases would not have a material adverse impact on the financial position of the Group.

- (d) In connection with the disposal in 1999 of the subsidiaries engaged in the business of manufacture and sale of printed circuit boards, the Group has given warranties and undertakings to the purchaser as specified in the agreement for the disposal of these subsidiaries. In the prior year, the Group received notification from the purchaser raising claims against the Group arising from the warranties and undertakings. It is the intention of the management to contest the claims vigorously. No legal proceedings have yet been instituted against the Group for these claims. The directors are of the opinion that such claims, if materialized, would not result in any material liabilities to the Group in excess of the amounts already provided for in the financial statements.

15. RELATED PARTY TRANSACTIONS

During the period, the Group had the following transactions with Panda Investment Company Limited ("Panda Investment"), a company in which the directors of the Company, Mr. Lee Lap and Madam Leung Lai Ping, have controlling interests:

- (a) Panda Investment made advances to the Group which are unsecured and interest free with no fixed repayment terms. The balance of such advances outstanding at 30th September, 2001 was approximately HK\$6,109,000 (31/3/2001: HK\$5,505,000); and
- (b) Pursuant to a tenancy agreement entered into between Panda Investment and a wholly-owned subsidiary of the Company, Termbay Electronics Company Limited ("Termbay Electronics"), Termbay Electronics leased certain office premises and warehouses from Panda Investment during the period at the agreed rental of HK\$300,000 (2000: HK\$300,000).