



**Termbray Industries
International (Holdings) Limited**



Interim Report 2003-2004

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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 REGISTRAR AND TRANSFER OFFICE

Standard Registrars Limited
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LISTING INFORMATION

The Listing Code of the
Company's share 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, 2003.

The unaudited consolidated profit attributable to shareholders for the six months ended 30th September, 2003 amounted to approximately HK\$258,000 (2002: HK\$624,000). An analysis of the Group’s results for the period is set out on page 18 of this report.

The directors have resolved not to declare the payment of an interim dividend for the six months ended 30th September, 2003 (2002: Nil).

Review of Operations

During the current six months period under review, the Group achieved a turnover of HK\$1,647,000 (2002: HK\$1,442,000) and profit attributable to shareholders of HK\$258,000 (2002: HK\$624,000).

The operating environment for the Group’s core business – property investment and development remains tough during the period under review. Property market in Guangdong Province, 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 Guangdong Province, continue at a low level during the period.

The Group’s completed properties for sale – 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. The competition of the property market in Zhongshan is keen. As at 30th September, 2003, 26 residential units were let out, 229 residential units remained to be sold. All the floor area of the commercial arcades were let out. The customer flow of the commercial arcades was at a satisfactory level.

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 deposit or invested in money market funds with international financial institutions or fixed income notes generating a stable source of income to the Group. Due to the prevailing low interest rate environment, the relevant income earned by the Group from these assets remains at a low level.

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, 2003.

Liquidity and Financial Resources

The Group remains cash rich and has no banking borrowing and no material capital expenditure commitment or financial obligations at 30th September, 2003. Exchange risk of the Group is low as the assets of the Group comprised substantially of cash, fixed income notes 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, 2003, the Group employed 52 staff at market remunerations with staff benefits such as insurance, provident fund scheme, discretionary bonus and share option scheme.



Outlook

The global economic outlook remains uncertain for the coming year. With the accession of the PRC to the World Trade Organisation, Beijing's 2008 Olympic Games and Shanghai 2010 World Expo, the PRC should be able to maintain a robust economic growth rate in coming periods. Meanwhile, Hong Kong's economy will be revitalised by the signing of Closer Economic Partnership Arrangement between the Central Government and the Government of HKSAR. The Group is confident to capitalize on these opportunities and will grasp every business opportunities available to build up its own distinctive strength and to explore new businesses in the PRC.

With the substantial available fund on hand, the Group is actively seeking for investment opportunities so as to achieve a diversification in business activities which will result in a steady growth in the Group's long time 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, 2003, the interests of the Company's directors, chief executive and their associates in the shares, underlying shares and debentures of the Company and its associated corporations as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"), were as follows:

(A) LONG POSITIONS IN SHARES OF THE COMPANY

Name of directors	Number of ordinary shares of HK\$0.08 each held				Total	Percentage of total issued shares
	Personal interest	Family interest	Corporate interest	Other interest		
Mr. Lee Lap	37,500,000	–	884,752,780	–	922,252,780	55.40%
Mdm. Leung Lai Ping	37,500,000	884,752,780	–	–	922,252,780	55.40%

Mr. Lee Lap and his spouse, Mdm. Leung Lai Ping, are owners holding 68% and 32% of the issued share capital of Lee & Leung (B.V.I.) Limited respectively. The shares included under corporate interest and family interest refer to the shares held by Lee & Leung (B.V.I.) Limited.

(B) LONG POSITIONS IN SHARES OF ASSOCIATED CORPORATIONS

Name of directors	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

Name of directors	Name of subsidiary	Number of non-voting deferred shares held
Mdm. Leung Lai Ping	Applied Industrial Company Limited	1,500
	Lee Plastics Manufacturing Company Limited	250,000
	Termbray Electronics Company Limited	3,000

Note: All the above non-voting deferred shares are held by the above directors personally as beneficial owners.

(C) LONG POSITIONS IN SHARE OPTIONS GRANTED BY THE COMPANY

Name of directors	Number of share options outstanding at 1st April, 2003 and 30th September, 2003	Percentage of total issued shares
Mr. Lee Lap	30,000,000	1.80%
Mdm. Leung Lai Ping	30,000,000	1.80%

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. No options to subscribe for shares in the Company were granted, exercised, lapsed or cancelled during the period. No other share option was outstanding during the period.

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, as at 30th September, 2003, none of the directors or chief executive of the Company had any interest or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of the SFO) as recorded in the register required to be kept by the Company under Section 352 of the SFO.

Substantial Shareholders

As at 30th September, 2003, the person interested in 5% or more of the issued share capital of the Company as recorded in the register kept by the Company pursuant to Section 336 of the SFO were as follows:

(A) ORDINARY SHARE OF THE COMPANY

Name of shareholders	Capacity	Number of issued ordinary shares of HK\$0.08 each held	Percentage of the issued share capital of the Company
Mr. Lee Lap	Beneficial owner and held by controlled corporation	922,252,780	55.40%
Mdm. Leung Lai Ping	Beneficial owner and held by controlled corporation	922,252,780	55.40%
Lee & Leung (B.V.I.) Limited (<i>note 1</i>)	Beneficial owner	884,752,780	53.15%
Cosmo Telecommunication Inc. (<i>note 2</i>)	Beneficial owner	151,202,960	9.08%
Mr. Leung Wai Tak	Held by controlled corporation	151,202,960	9.08%
East Glory Trading Limited (<i>note 3</i>)	Beneficial owner	103,397,540	6.21%
Master Winner Limited (<i>note 3</i>)	Held by controlled corporation	103,397,540	6.21%
Mr. Yuan Qinghua	Held by controlled corporation	103,397,540	6.21%

Notes:

- (1) Lee & Leung (B.V.I.) Limited is owned 68% by Mr. Lee Lap and 32% by 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.
- (2) Cosmo Telecommunication Inc. is wholly owned by Mr. Leung Wai Tak.
- (3) East Glory Trading Limited is wholly owned by Master Winner Limited, which in turn is wholly owned by Mr. Yuan Qinghua.

(B) SHARE OPTIONS

Name	Capacity	Number of share options	Number of underlying shares
Mr. Lee Lap	Beneficial owner	30,000,000	30,000,000
Mdm. Leung Lai Ping	Beneficial owner	30,000,000	30,000,000

Save as disclosed above, the Company has not been notified of any other interests or short positions in the shares or the underlying shares of the Company representing 5% or more of the issued share capital of the Company as at 30th September, 2003.

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, 2003, 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, 2003 has been reviewed by the Audit Committee.

By order of the Board

Lee Lap

Chairman & CEO

Hong Kong, 3rd December, 2003

Independent Review Report

德勤·關黃陳方會計師行

Certified Public Accountants
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**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 13 to 24.

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.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report, and to report our conclusion solely to you, as a body, in accordance with our agreed terms on engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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, 2003.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, 3rd December, 2003

Condensed Consolidated Income Statement

For the six months ended 30th September, 2003

	Notes	Six months ended	
		30/9/2003 (unaudited) HK\$'000	30/9/2002 (unaudited) HK\$'000
TURNOVER	3	1,647	1,442
Service costs		(521)	(401)
Other operating income	4	1,126	1,041
Unrealised holding (loss) gain on investments in debt securities		9,045	6,681
Administrative expenses		(1,835)	481
		(8,078)	(7,579)
PROFIT BEFORE TAXATION	5	258	624
Taxation	6	–	–
NET PROFIT FOR THE PERIOD		258	624
		HK cent	HK cent
EARNINGS PER SHARE	8		
BASIC		0.02	0.04
DILUTED		0.02	0.04

Condensed Consolidated Balance Sheet

At 30th September, 2003

	Notes	30/9/2003 (unaudited) HK\$'000	31/3/2003 (audited) HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		87,746	89,098
Properties for development		20,578	20,578
Instalments receivable		297	452
Pledged bank deposits		2,686	4,340
		111,307	114,468
CURRENT ASSETS			
Inventories		–	191
Properties for sale		126,875	126,875
Trade and other receivables	9	5,812	4,876
Deposits and prepayments		2,288	2,690
Investments in debt securities	10	250,774	204,733
Investments in money market funds	11	325,425	386,271
Pledged bank deposits		465	465
Bank balances and cash		14,724	13,556
		726,363	739,657
CURRENT LIABILITIES			
Trade and other payables and accrued charges	12	6,214	8,230
Deposits received		682	692
Provisions	13	6,759	7,336
Amount due to a related company		2,155	16,264
Taxation liabilities		2,984	2,984
		18,794	35,506
NET CURRENT ASSETS			
		707,569	704,151
CAPITAL AND RESERVES			
Share capital	14	133,171	133,171
Reserves		685,289	685,032
		818,460	818,203
MINORITY INTERESTS			
		416	416
		818,876	818,619

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30th September, 2003

	Unaudited					
	Share capital HK\$'000	Share premium HK\$'000	Exchange translation reserve HK\$'000	Negative goodwill HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st April, 2002	133,171	132,550	(456)	6,601	543,856	815,722
Exchange differences arising on the translation of financial statements of subsidiaries not recognised in the condensed consolidated income statement	-	-	(15)	-	-	(15)
Net profit for the period	-	-	-	-	624	624
At 30th September, 2002	133,171	132,550	(471)	6,601	544,480	816,331

	Unaudited					
	Share capital HK\$'000	Share premium HK\$'000	Exchange translation reserve HK\$'000	Negative goodwill HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st April, 2003	133,171	132,550	(463)	6,601	546,344	818,203
Exchange differences arising on the translation of financial statements of subsidiaries not recognised in the condensed consolidated income statement	-	-	(1)	-	-	(1)
Net profit for the period	-	-	-	-	258	258
At 30th September, 2003	133,171	132,550	(464)	6,601	546,602	818,460

Condensed Consolidated Cash Flow Statement

For the six months ended 30th September, 2003

	Six months ended	
	30/9/2003 (unaudited) HK\$'000	30/9/2002 (unaudited) HK\$'000
NET CASH USED IN OPERATING ACTIVITIES	(20,246)	(9,298)
NET CASH GENERATED FROM INVESTING ACTIVITIES	21,415	10,624
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,169	1,326
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	13,556	9,384
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	(1)	(15)
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	14,724	10,695
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	14,724	10,695

Notes to the Condensed Financial Statements

For the six months ended 30th September, 2003

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Statement of Standard Accounting Practice ("SSAP") No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants ("HKSA").

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 and investments in debt securities.

The accounting policies adopted for the preparation of the condensed financial statements are consistent with those adopted by the Group in its annual financial statements for the year ended 31st March, 2003 except that the Group has adopted SSAP 12 (Revised) "Income Taxes" issued by the HKSA.

The adoption of the revised SSAP 12 has had no significant effect on the results for the current or prior accounting periods.

3. TURNOVER AND SEGMENT INFORMATION

The principal activities of the Group are property development and investment.

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

	Turnover		Contribution to profit before taxation	
	Six months ended		Six months ended	
	30/9/2003	30/9/2002	30/9/2003	30/9/2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Property development and investment				
Property letting	1,647	1,442	1,126	607
Other activities				
– treasury (note (ii))			4,391	7,140
– others			1,761	22
Less: Unallocated administrative and other expenses			(7,020)	(7,145)
Profit before taxation			258	624

Notes:

- (i) The Group's property development and investment activities were carried out in Mainland China.
- (ii) Treasury activities comprise of investments in debt securities and money market funds operating in the United States of America, European countries and Hong Kong, and the placement of bank deposits in Hong Kong.

4. OTHER OPERATING INCOME

	Six months ended	
	30/9/2003 HK\$'000	30/9/2002 HK\$'000
Interest income from		
– investments in money market funds	2,044	5,040
– debt securities	4,478	1,554
– bank deposits	30	65
Realised gain on disposal of debt securities	732	–
Gain on disposal of property, plant and equipment	50	–
Trade and other payables written off	1,710	–
Other income	1	22
	9,045	6,681

5. PROFIT BEFORE TAXATION

	Six months ended	
	30/9/2003 HK\$'000	30/9/2002 HK\$'000
Profit before taxation has been arrived at after charging:		
Depreciation and amortisation	1,410	1,689
Loss on disposal of property, plant and equipment	–	123
Exchange losses	1,058	–

6. TAXATION

No provision for Hong Kong Profits Tax and overseas taxation has been made in the condensed financial statements as the Group has no assessable profit for both periods presented.

7. DIVIDEND

The directors do not recommend the payment of any interim dividend (2002: Nil).

8. EARNINGS PER SHARE

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

	Six months ended	
	30/9/2003 HK\$'000	30/9/2002 HK\$'000
Earnings		
Net profit for the period for the purposes of basic and diluted earnings per share	258	624
	'000	'000
Number of ordinary shares		
For the purpose of basic earnings per share	1,664,643	1,664,643
Effect of dilutive potential ordinary shares – share options	18,946	22,047
For the purpose of diluted earnings per share	1,683,589	1,686,690

9. TRADE AND OTHER RECEIVABLES

Rentals receivable and proceeds from sales of properties are payable in accordance with the terms of the relevant agreements.

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

	30/9/2003 HK\$'000	31/3/2003 HK\$'000
1–90 days	4,087	3,528
Over 90 days	1,725	1,348
	5,812	4,876

10. INVESTMENTS IN DEBT SECURITIES

	30/9/2003 HK\$'000	31/3/2003 HK\$'000
Unlisted debt securities	250,774	204,733

11. INVESTMENTS IN MONEY MARKET FUNDS

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

12. TRADE AND OTHER PAYABLES AND ACCRUED CHARGES

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

	30/9/2003 HK\$'000	31/3/2003 HK\$'000
Trade and other payables, aged over 90 days	1,997	3,848
Accrued charges	4,217	4,382
	6,214	8,230

13. PROVISIONS

	30/9/2003 HK\$'000	31/3/2003 HK\$'000
Provisions for warranty and undertakings	6,759	7,336

The provision represents management's best estimate of the costs and expenses required to discharge the Group's obligations and liabilities under the warranties and undertakings given in connection with the disposal of subsidiaries in prior years.

14. SHARE CAPITAL

There was no change in the share capital of the Company for either of the periods presented.

No options to subscribe for shares in the Company were granted, exercised, lapsed or cancelled during the period. The share options outstanding at 30th September, 2003 comprised options previously granted by the Company to subscribe for 60,000,000 ordinary 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.

15. PROJECT COMMITMENTS

At the balance sheet date, the Group had contracted project commitments in respect of property development expenditure and purchase of land use rights in Mainland China amounting to an aggregate of HK\$65,347,000 (31/3/2003: HK\$65,347,000) not provided for in the financial statements.

16. PLEDGE OF ASSETS AND CONTINGENT LIABILITIES

- (a) The Group's bank deposits of HK\$465,000 (31/3/2003: HK\$465,000) were pledged to secure the credit facilities granted to the Group.
- (b) Guarantees were issued to banks by a subsidiary in respect of mortgage loans granted to property purchasers amounted to HK\$2,216,000 (31/3/2003: HK\$2,852,000) and, in this connection, the Group's bank deposits of HK\$2,686,000 (31/3/2003: HK\$4,340,000) were pledged to the banks as security.
- (c) In prior years, certain former subsidiaries of the Company purchased production materials amounted to HK\$12,000,000 from an outside supplier for their printed circuit boards manufacturing activities. The 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 these former subsidiaries. On the other hand, the said former subsidiaries instituted a legal action against the supplier claiming damages arising from the materials delivered by the supplier. In 1999, the said former subsidiaries were disposed of to outside parties. In 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 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 certain warranties and undertakings to the purchaser as specified in the agreement for the disposal of these subsidiaries. During the year ended 31st March, 2001, the Group received notification from the purchaser raising claims against the Group arising from the warranties and undertakings. It is the intention of management to contest the claims vigorously. No legal proceedings have yet been instituted against the Group for these claims. Based upon legal advice obtained, the directors are of the opinion that such claims, if materialised, would not result in any material liabilities to the Group in excess of the amounts already provided for in the condensed financial statements.

17. RELATED PARTY TRANSACTIONS

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

- (a) Pursuant to the tenancy agreements 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\$180,000 (six months ended 30/9/2002: HK\$250,000).
- (b) At 30th September, 2003, the Group had an amount of HK\$2,155,000 (31/3/2003: HK\$16,264,000) due to Panda Investment which is unsecured and interest free with no fixed repayment terms.