

Heritage

INTERIM REPORT 2007

Heritage International Holdings Limited

漢基控股有限公司*

(Incorporated in Bermuda with limited liability)

Stock Code: 412

* For identification purposes only

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INTERIM FINANCIAL REPORT

The Board of Directors (the “Board”) of Heritage International Holdings Limited (the “Company”) announces that the unaudited interim financial information of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 September 2007 together with the comparative figures. This interim financial information has not been audited, but has been reviewed by the Company’s audit committee.

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

| | Notes | For the six months ended 30 September | |
|--|-------|--|---------------------------------|
| | | 2007 (Unaudited) HK\$'000 | 2006 (Unaudited) HK\$'000 |
| REVENUE | 3 | 674,396 | 248,658 |
| Cost of sales and carrying amount of equity investments sold | | (605,280) | (211,101) |
| Gross profit | | 69,116 | 37,557 |
| Other income and gains | | 4,228 | 4,334 |
| Gains/(losses) arising from changes in fair value of investment properties | | 3,600 | (8,700) |
| Fair value losses on equity investments at fair value through profit or loss, net | | (113,420) | (161,826) |
| Gains/(losses) on disposal of subsidiaries | | 3,319 | (362) |
| General and administrative expenses | | (9,436) | (13,320) |
| Other expenses | | (3,993) | (47,018) |
| Finance costs | 4 | (2,727) | (15,088) |
| LOSS BEFORE TAX | 5 | (49,313) | (204,423) |
| Tax | 6 | (630) | 1,523 |
| LOSS FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY | | (49,943) | (202,900) |
| LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY | 7 | | (Restated) |
| Basic | | HK(1.13) cents | HK(10.57) cents |
| Diluted | | N/A | N/A |

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INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

| | Notes | 30 September 2007 (Unaudited) HK\$'000 | 31 March 2007 (Audited) HK\$'000 |
|---|-------|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | | 28,516 | 30,742 |
| Investment properties | | 152,200 | 168,600 |
| Available-for-sale investments | 9 | 17,695 | 8,719 |
| Loan receivable | 11 | – | 1,000 |
| Total non-current assets | | <u>198,411</u> | <u>209,061</u> |
| CURRENT ASSETS | | | |
| Investments at fair value through profit or loss | 10 | 469,889 | 352,195 |
| Loans receivable | 11 | 45,400 | 296,850 |
| Prepayments, deposits and other receivables | | 29,338 | 16,431 |
| Cash and bank balances | | 567,180 | 127,695 |
| Total current assets | | <u>1,111,807</u> | <u>793,171</u> |
| CURRENT LIABILITIES | | | |
| Other payables and accruals | | 5,781 | 37,374 |
| Interest-bearing bank borrowings | 12 | 9,269 | 9,274 |
| Derivative financial instrument | | 1,050 | 557 |
| Tax payable | | 1,270 | 1,270 |
| Total current liabilities | | <u>17,370</u> | <u>48,475</u> |
| NET CURRENT ASSETS | | <u>1,094,437</u> | <u>744,696</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | <u>1,292,848</u> | <u>953,757</u> |
| NON-CURRENT LIABILITIES | | | |
| Interest-bearing bank borrowings | 12 | 81,963 | 100,108 |
| Convertible notes | 13 | – | 27,810 |
| Deferred tax liabilities | | 8,453 | 8,353 |
| Total non-current liabilities | | <u>90,416</u> | <u>136,271</u> |
| Net assets | | <u>1,202,432</u> | <u>817,486</u> |
| EQUITY | | | |
| Equity attributable to equity holders of the Company | | | |
| Issued capital | 14 | 592,223 | 348,270 |
| Equity component of convertible notes | | – | 4,419 |
| Reserves | | 610,209 | 464,797 |
| Total equity | | <u>1,202,432</u> | <u>817,486</u> |

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INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Attributable to equity holders of the Company

| Notes | Attributable to equity holders of the Company | | | | | | | | | Total equity (Unaudited) HK\$'000 |
|--|---|--|---|----------------------------|---------------------------|-------------------------|---|-------------------------|-------------------------|---|
| | Issued capital (Unaudited) HK\$'000 | Share premium account (Unaudited) HK\$'000 | Equity component | Capital redemption reserve | Asset revaluation reserve | Contributed surplus | Available-for-sale investment revaluation reserve | Share option reserve | Accumulated losses | |
| | | | of convertible notes (Unaudited) HK\$'000 | (Unaudited) HK\$'000 | (Unaudited) HK\$'000 | (Unaudited) HK\$'000 | (Unaudited) HK\$'000 | (Unaudited) HK\$'000 | (Unaudited) HK\$'000 | |
| At 1 April 2006 | 142,682 | 387,885 | - | 1,177 | 3,046 | 319,113 | 51,500 | 674 | (85,042) | 821,035 |
| Change in fair value of available-for-sale investments | - | - | - | - | - | - | (69,367) | - | - | (69,367) |
| Loss for the period | - | - | - | - | - | - | - | - | (202,900) | (202,900) |
| Total income and expense for the period | - | - | - | - | - | - | (69,367) | - | (202,900) | (272,267) |
| Issue of convertible notes | - | - | 9,262 | - | - | - | - | - | - | 9,262 |
| Conversion of convertible notes | 80,000 | 28,162 | (3,183) | - | - | - | - | - | - | 104,979 |
| Equity-settled share option arrangements | - | - | - | - | - | - | - | 2,423 | - | 2,423 |
| Share options exercised | 11,320 | 5,927 | - | - | - | - | - | (3,097) | - | 14,150 |
| At 30 September 2006 | <u>234,002</u> | <u>421,974</u> | <u>6,079</u> | <u>1,177</u> | <u>3,046</u> | <u>319,113</u> | <u>(17,867)</u> | <u>-</u> | <u>(287,942)</u> | <u>679,582</u> |
| At 1 April 2007 | 348,270 | 461,217 | 4,419 | 1,177 | 3,046 | 319,113 | (6,269) | - | (313,487) | 817,486 |
| Change in fair value of available-for-sale investments | - | - | - | - | - | - | 8,976 | - | - | 8,976 |
| Loss for the period | - | - | - | - | - | - | - | - | (49,943) | (49,943) |
| Total income and expense for the period | - | - | - | - | - | - | 8,976 | - | (49,943) | (40,967) |
| Conversion of convertible notes | 13, 14(a) | 24,000 | 8,322 | (4,419) | - | - | - | - | - | 27,903 |
| Placement of new shares | 14(b), (d), (e) | 219,953 | 188,262 | - | - | - | - | - | - | 408,215 |
| Share issue expenses | - | (10,205) | - | - | - | - | - | - | - | (10,205) |
| At 30 September 2007 | <u>592,223</u> | <u>647,596</u> | <u>-</u> | <u>1,177</u> | <u>3,046</u> | <u>319,113</u> | <u>2,707</u> | <u>-</u> | <u>(363,430)</u> | <u>1,202,432</u> |

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INTERIM CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months
ended 30 September

| | 2007 (Unaudited) HK\$'000 | 2006 (Unaudited) HK\$'000 |
|--|---------------------------------|---------------------------------|
| NET CASH INFLOW/(OUTFLOW) FROM: | | |
| OPERATING ACTIVITIES | 26,738 | (303,605) |
| INVESTING ACTIVITIES | 19,529 | (48,609) |
| FINANCING ACTIVITIES | 393,218 | 359,153 |
| | <hr/> | <hr/> |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 439,485 | 6,939 |
| Cash and cash equivalents at beginning of period | 127,695 | 37,095 |
| | <hr/> | <hr/> |
| Cash and cash equivalents at end of period | <u>567,180</u> | <u>44,034</u> |
| | <hr/> | <hr/> |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | |
| Cash and bank balances | <u>567,180</u> | <u>44,034</u> |

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NOTES TO UNAUDITED INTERIM FINANCIAL INFORMATION

I. CORPORATE INFORMATION, BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

Corporate information

Heritage International Holdings Limited is a limited liability company incorporated in Bermuda.

During the period, the Group was primarily involved in property investment, investments in securities, money lending and investment holding.

Basis of preparation

The unaudited interim financial information, which comprises the condensed consolidated balance sheet of the Company as at 30 September 2007 and the related condensed consolidated statements of income, changes in equity and cash flows for the six-month period then ended, and explanatory notes, has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The unaudited interim financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 March 2007.

Significant accounting policies

The accounting policies adopted in the preparation of this unaudited interim financial information are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 March 2007, except for the adoption of the following new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) (which also include HKASs and Interpretations) issued by the HKICPA for the first time for the current period’s unaudited interim financial information.

| | |
|------------------|--|
| HKAS 1 Amendment | Capital Disclosures |
| HKFRS 7 | Financial Instruments: Disclosures |
| HK(IFRIC)-Int 7 | Applying the Restatement Approach under HKAS 29 <i>Financial Reporting in Hyperinflationary Economies</i> |
| HK(IFRIC)-Int 8 | Scope of HKFRS 2 |
| HK(IFRIC)-Int 9 | Reassessment of Embedded Derivatives |
| HK(IFRIC)-Int 10 | Interim Financial Reporting and Impairment |
| HK(IFRIC)-Int 11 | HKFRS 2 – Group and Treasury Share Transactions |

The adoption of these new and revised standards and interpretations has had no material effect on this unaudited interim financial information.

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in this unaudited interim financial information. The Group has already commenced an assessment of the potential impact of these new and revised HKFRSs but is not yet in a position to state whether these new and revised HKFRSs would have a significant impact on its results of operations and financial position.

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I. CORPORATE INFORMATION, BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

| | |
|-------------------|--|
| HKFRS 8 | Operating Segments |
| HKAS 23 (Revised) | Borrowing Costs |
| HK(IFRIC)-Int 12 | Service Concession Arrangements |
| HK(IFRIC)-Int 13 | Customer Loyalty Programmes |
| HK(IFRIC)-Int 14 | HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction |

HKFRS 8, HKAS 23 (Revised), HK(IFRIC)-Int 12, HK(IFRIC)-Int 13 and HK(IFRIC)-Int 14 shall be applied for annual periods beginning on or after 1 January 2009, 1 January 2009, 1 January 2008, 1 July 2008 and 1 January 2008, respectively.

2. SEGMENT INFORMATION

The Group's operating businesses are structured and managed separately according to the nature of their operations and the services they provide. Each of the Group's business segments represents a strategic business unit that offers services which are subject to risks and returns that are different from those of the other business segments.

Summary details of the business segments are as follows:

- (i) the property investment segment engages primarily in the investments in commercial and residential properties for rental income potential and/or appreciation in values;
- (ii) the investments in securities segment engages in the purchase and sale of securities and the holding of equity investments primarily for interest income, dividend income and capital appreciation;
- (iii) the money lending segment engages in money lending operations; and
- (iv) the investment holding segment engages in holding investments for a continuing strategic or long term purpose, primarily for dividend income and capital appreciation.

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2. SEGMENT INFORMATION (continued)

Business segments

The following table presents revenue and results information for the Group's business segments for the six months ended 30 September 2007 and 2006.

| | Property investment For the six months ended 30 September | | Investments in securities For the six months ended 30 September | | Money lending For the six months ended 30 September | | Investment holding For the six months ended 30 September | | Consolidated For the six months ended 30 September | |
|------------------------------------|---|---------------------------------|--|---------------------------------|---|---------------------------------|--|---------------------------------|--|---------------------------------|
| | 2007 (Unaudited) HK\$'000 | 2006 (Unaudited) HK\$'000 | 2007 (Unaudited) HK\$'000 | 2006 (Unaudited) HK\$'000 | 2007 (Unaudited) HK\$'000 | 2006 (Unaudited) HK\$'000 | 2007 (Unaudited) HK\$'000 | 2006 (Unaudited) HK\$'000 | 2007 (Unaudited) HK\$'000 | 2006 (Unaudited) HK\$'000 |
| Segment revenue: | | | | | | | | | | |
| Revenue from external customers | 4,197 | 3,588 | 662,511 | 233,315 | 7,688 | 11,755 | - | - | 674,396 | 248,658 |
| Other revenue and gains | 3,600 | - | - | - | - | - | 3,319 | 3,934 | 6,919 | 3,934 |
| Total | 7,797 | 3,588 | 662,511 | 233,315 | 7,688 | 11,755 | 3,319 | 3,934 | 681,315 | 252,592 |
| Segment results | 6,106 | (8,148) | (56,770) | (149,005) | 4,153 | 1,733 | (344) | (33,027) | (46,855) | (188,447) |
| Unallocated other income and gains | | | | | | | | | 4,228 | 400 |
| Unallocated expenses | | | | | | | | | (3,959) | (1,301) |
| Finance costs | | | | | | | | | (2,727) | (15,075) |
| Loss before tax | | | | | | | | | (49,313) | (204,423) |
| Tax | | | | | | | | | (630) | 1,523 |
| Loss for the period | | | | | | | | | (49,943) | (202,900) |

3. REVENUE

Revenue, which is also the Group's turnover, represents gross rental income received and receivable from investment properties; interest income earned from money lending operations; dividend income from equity investments; and proceeds from sale of investments at fair value through profit or loss during the period.

An analysis of revenue is as follows:

| | For the six months ended 30 September | |
|---|--|---------------------------------|
| | 2007 (Unaudited) HK\$'000 | 2006 (Unaudited) HK\$'000 |
| Gross rental income from investment properties | 4,197 | 3,588 |
| Interest income from money lending operations | 7,688 | 11,755 |
| Dividend income from investments at fair value through profit or loss | 2,252 | 2,294 |
| Proceeds from sale of investments at fair value through profit or loss | 660,259 | 231,021 |
| Total | 674,396 | 248,658 |

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4. FINANCE COSTS

| | For the six months ended 30 September | |
|--|--|---------------------------------|
| | 2007 (Unaudited) HK\$'000 | 2006 (Unaudited) HK\$'000 |
| Interest on: | | |
| Bank loans wholly repayable within five years | 60 | 969 |
| Bank loans not wholly repayable within five years | 2,594 | 1,885 |
| Convertible notes | 93 | 12,247 |
| | <hr/> | <hr/> |
| Total interest | 2,747 | 15,101 |
| Less: Interest expense classified as cost of sales | (20) | (13) |
| | <hr/> | <hr/> |
| Total finance costs for the period | <u>2,727</u> | <u>15,088</u> |

5. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging/(crediting):

| | For the six months ended 30 September | |
|--|--|---------------------------------|
| | 2007 (Unaudited) HK\$'000 | 2006 (Unaudited) HK\$'000 |
| Depreciation | 2,087 | 2,124 |
| Impairment of loans receivable* | 3,500 | 10,000 |
| Impairment of an available-for-sale investment* | – | 11,560 |
| Impairment of a loan to an investee company* | – | 24,838 |
| Loss on disposal of an investment property* | – | 620 |
| Fair value loss on a derivative financial instrument* | 493 | – |
| Fair value gain on a derivative financial instrument | – | (396) |
| Gain on disposal of an available-for-sale investment | – | (6,104) |
| Gain on disposal of items of property, plant and equipment | (81) | – |
| | <hr/> | <hr/> |

* These items are included in "Other expenses" on the face of the interim condensed consolidated income statement.

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6. TAX

No provision for current Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the period (2006: Nil).

| | For the six months ended 30 September | |
|--|--|--|
| | 2007 (Unaudited) HK\$'000 | 2006 (Unaudited) HK\$'000 |
| Group: | | |
| Deferred tax charge/(credit) – Hong Kong | <u>630</u> | <u>(1,523)</u> |

7. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

(a) Basic loss per share

The calculation of basic loss per share amounts is based on (i) the loss for the period attributable to equity holders of the Company of HK\$49,943,000 (2006: HK\$202,900,000) and (ii) the weighted average number of 4,414,285,784 (2006 (restated): 1,919,731,142) ordinary shares in issue during the period, as adjusted to reflect the share consolidation of the Company during the period (note 14(c)).

(b) Diluted loss per share

Diluted loss per share amounts for the six months ended 30 September 2007 and 2006 have not been disclosed, as the share options, warrants and convertible notes outstanding during these periods had an anti-dilutive effect on the basic loss per share for these periods.

8. Dividend

The Board does not recommend the payment of any interim dividend for the period (2006: Nil).

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9. AVAILABLE-FOR-SALE INVESTMENTS

| | 30 September 2007 (Unaudited) HK\$'000 | 31 March 2007 (Audited) HK\$'000 |
|---|---|---|
| Listed equity investments, at fair value: | | |
| Hong Kong | — | — |
| Elsewhere | 16,865 | 7,889 |
| | <u>16,865</u> | <u>7,889</u> |
| Unlisted investments, at cost | 128,105 | 128,105 |
| Less: Provision for impairment | <u>(128,105)</u> | <u>(128,105)</u> |
| | — | — |
| Club membership debenture, at fair value | 830 | 830 |
| | <u>17,695</u> | <u>8,719</u> |

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10. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | 30 September 2007 (Unaudited) HK\$'000 | 31 March 2007 (Audited) HK\$'000 |
|---|---|---|
| Listed equity investments, at market value: | | |
| Hong Kong | 427,744 | 285,098 |
| Elsewhere | 42,145 | 55,689 |
| | <u>469,889</u> | <u>340,787</u> |
| Unlisted securities, at fair value | — | 11,408 |
| | <u>469,889</u> | <u>352,195</u> |

At the balance sheet date, the Group's investments in certain listed securities were pledged to certain financial institutions to secure certain margin financing facilities provided to the Group.

11. LOANS RECEIVABLE

| | 30 September 2007 (Unaudited) HK\$'000 | 31 March 2007 (Audited) HK\$'000 |
|--|---|---|
| Loans receivable | 65,900 | 314,850 |
| Less: Provision for impairment | <u>(20,500)</u> | <u>(17,000)</u> |
| | 45,400 | 297,850 |
| Less: Balances due within one year included in current assets | <u>(45,400)</u> | <u>(296,850)</u> |
| Non-current portion | <u>—</u> | <u>1,000</u> |

Loans receivable represent receivables arising from the money lending business of the Group, and bear interest at rates ranging from Hong Kong dollar prime rate as quoted by The Hongkong and Shanghai Banking Corporation Limited (the "Prime Rate") to 2% above the Prime Rate (31 March 2007: the Prime Rate to 8% above the Prime Rate). The granting of these loans has been approved and monitored by the Company's executive directors in charge of the Group's money lending operations.

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12. INTEREST-BEARING BANK BORROWINGS

| | Effective interest rate (%) | Maturity | 30 September 2007 (Unaudited) HK\$'000 | 31 March 2007 (Audited) HK\$'000 |
|----------------------|-----------------------------------|----------|---|---|
| Current | | | | |
| Bank loans – secured | HIBOR [^] + 1.25 | | 1,872 | 1,872 |
| Bank loans – secured | HIBOR [^] + 1.50 | | 4,008 | 3,173 |
| Bank loans – secured | Prime* – 2.25 | | 279 | 399 |
| Bank loans – secured | Prime* – 2.50 | | 938 | 835 |
| Bank loans – secured | 5.10 | | 2,172 | 2,091 |
| Bank loans – secured | Prime* – 2.80 | | – | 904 |
| | | | 9,269 | 9,274 |
| Non-current | | | | |
| Bank loans – secured | HIBOR [^] + 1.25 | 2021 | 24,100 | 25,036 |
| Bank loans – secured | HIBOR [^] + 1.50 | 2010 | 13,654 | 15,658 |
| Bank loans – secured | Prime* – 2.25 | 2013 | – | 976 |
| Bank loans – secured | Prime* – 2.25 | 2025 | 7,538 | 7,692 |
| Bank loans – secured | Prime* – 2.50 | 2018 | 11,134 | 11,649 |
| Bank loans – secured | 5.10 | 2018 | 25,537 | 26,570 |
| Bank loans – secured | Prime* – 2.80 | 2018 | – | 12,527 |
| | | | 81,963 | 100,108 |
| | | | 91,232 | 109,382 |

[^] Denotes the Hong Kong Interbank Offered Rate.

* Represents the Hong Kong dollar prime lending rate as quoted by Wing Hang Bank Limited or Bank of East Asia Limited.

(a) Certain of the Group's bank loans are secured by:

- (i) mortgages over the Group's leasehold land and buildings situated in Hong Kong, which had an aggregate carrying value at the balance sheet date of approximately HK\$18,745,000 (31 March 2007: HK\$19,269,000);
- (ii) mortgages over the Group's investment properties situated in Hong Kong, which had an aggregate carrying value at the balance sheet date of approximately HK\$152,200,000 (31 March 2007: HK\$168,600,000);
- (iii) a corporate guarantee given by the Company up to HK\$91,260,000 (31 March 2007: HK\$91,260,000) as at the balance sheet date; and
- (iv) a personal guarantee to the extent of HK\$19,000,000 (31 March 2007: HK\$19,000,000) as at the balance sheet date given by a substantial beneficial shareholder of the Company.

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12. INTEREST-BEARING BANK BORROWINGS (continued)

- (b) The Group's investments in securities with an aggregate carrying value at the balance sheet date of approximately HK\$427,744,000 (31 March 2007: HK\$288,806,000) were pledged to certain financial institutions to secure certain margin financing facilities provided to the Group which were not utilised as at 30 September 2007 and 31 March 2007.

13. CONVERTIBLE NOTES

On 6 April 2006, the Company issued redeemable convertible notes with an aggregate principal amount of HK\$300 million (the "2006 CNs") to independent third parties. The 2006 CNs are unsecured, non-interest bearing and will mature on 5 April 2009. The 2006 CNs are convertible at the option of the noteholders into the Company's ordinary shares at a conversion price of HK\$0.025 per share in amounts or integral multiples of HK\$500,000 at any time from date of issue up to seven days prior to (and excluding) the maturity date of the 2006 CNs. The Company will repay the 2006 CNs' holders on the maturity date at 120% of the outstanding principal amount of the 2006 CNs. In addition, the 2006 CNs' holders will be able to require the Company to redeem the 2006 CNs at 110% of the outstanding principal amount of the 2006 CNs during a period commencing the first anniversary of the date of issue of the 2006 CNs and a day falling seven days after the first anniversary of the date of issue of the 2006 CNs. The 2006 CNs outstanding as at 1 April 2007 had face values aggregating HK\$30 million. During the period, the 2006 CNs with face values in the aggregate of HK\$30 million were converted into 1,200 million ordinary shares of the Company of HK\$0.02 each at a conversion price of HK\$0.025 per share, and hence, no 2006 CNs were outstanding as at 30 September 2007.

14. SHARE CAPITAL

| | 30 September 2007 (Unaudited) HK\$'000 | 31 March 2007 (Audited) HK\$'000 |
|---|---|---|
| Authorised: | | |
| 50,000,000,000 (31 March 2007: 25,000,000,000) ordinary shares of HK\$0.10 (31 March 2007: HK\$0.02) each | <u>5,000,000</u> | <u>500,000</u> |
| Issued and fully paid: | | |
| 5,922,226,388 (31 March 2007: 17,413,481,943) ordinary shares of HK\$0.10 (31 March 2007: HK\$0.02) each | <u>592,223</u> | <u>348,270</u> |

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14. SHARE CAPITAL (continued)

A summary of the movements of the Company's issued share capital and share premium account is as follows:

| | Notes | Number of shares in issue | Issued capital HK\$'000 | Share premium account HK\$'000 | Total HK\$'000 |
|-------------------------|-------|---------------------------------|-------------------------------|---|-------------------|
| At 1 April 2007 | | 17,413,481,943 | 348,270 | 461,217 | 809,487 |
| Conversion of 2006 CNs | (a) | 1,200,000,000 | 24,000 | 8,322 | 32,322 |
| Placement of new shares | (b) | 2,340,000,000 | 46,800 | 128,700 | 175,500 |
| Share consolidation | (c) | (16,762,785,555) | – | – | – |
| Placement of new shares | (d) | 744,530,000 | 74,453 | 59,562 | 134,015 |
| Placement of new shares | (e) | 987,000,000 | 98,700 | – | 98,700 |
| Share issue expenses | | – | – | (10,205) | (10,205) |
| At 30 September 2007 | | <u>5,922,226,388</u> | <u>592,223</u> | <u>647,596</u> | <u>1,239,819</u> |

Notes:

- (a) During the period, 1,200,000,000 new ordinary shares of HK\$0.02 each of the Company were issued upon the conversion of the 2006 CNs with face values totalling HK\$30,000,000 issued by the Company. Further details of the conversion are set out in note 13 to the unaudited interim financial information.
- (b) On 14 June 2007, the Company allotted and issued a total of 2,340,000,000 ordinary shares of HK\$0.02 each for cash at a price of HK\$0.075 per share. Further details of the placing are also set out in the Company's announcement dated 14 June 2007.
- (c) The Company effected a capital reorganisation (the "Capital Reorganisation") on 27 July 2007 which involved: (i) a share consolidation (the "Share Consolidation") of every 5 shares in the issued and unissued ordinary share capital of the Company of HK\$0.02 each were consolidated into one consolidated share of HK\$0.10 each; and (ii) the authorised share capital of the Company increased to HK\$5,000,000,000, dividing into 50,000,000,000 consolidated shares of HK\$0.10 each. Further details of the Capital Reorganisation are also set out in the Company's announcements dated 14 June 2007 and 23 July 2007.
- (d) On 2 August 2007, the Company allotted and issued a total of 744,530,000 ordinary shares of HK\$0.10 each for cash at a price of HK\$0.18 per share. Further details of the placing are also set out in the Company's announcement dated 2 August 2007.
- (e) On 27 August 2007, the Company allotted and issued a total of 987,000,000 ordinary shares of HK\$0.10 each for cash at a price of HK\$0.10 per share. Further details of the placing are also set out in the Company's announcement dated 27 August 2007.

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15. DISPOSAL OF SUBSIDIARIES

On 14 May 2007, the Group disposed of its entire equity interest in Top Trinity Assets Limited ("Top Trinity") for a cash consideration of HK\$20,752,000, resulting in a gain of approximately HK\$3,319,000 for the period. The principal activity of Top Trinity is investment holding. Bestford Properties Limited, a wholly-owned subsidiary of Top Trinity, is the registered owner of a property located at Flat B on 22/F together with a portion of the roof immediately thereabove and one car park of Royalton, 118 Pok Fu Lam Road, Hong Kong.

16. CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 30 September 2007 (31 March 2007: Nil).

17. OPERATING LEASE ARRANGEMENTS

The Group leases its investment properties under operating lease arrangements, with leases negotiated for terms ranging from one to three years.

At 30 September 2007, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

| | 30 September 2007 (Unaudited) HK\$'000 | 31 March 2007 (Audited) HK\$'000 |
|---|---|---|
| Within one year | 8,018 | 6,083 |
| In the second to fifth years, inclusive | <u>2,862</u> | <u>1,901</u> |
| | <u>10,880</u> | <u>7,984</u> |

18. COMMITMENTS

| | 30 September 2007 (Unaudited) HK\$'000 | 31 March 2007 (Audited) HK\$'000 |
|---|---|---|
| Contracted, but not provided for: | | |
| Investment at fair value through profit or loss | <u>-</u> | <u>845</u> |

Heritage

19. RELATED PARTY TRANSACTIONS

- (a) In addition to the transactions detailed elsewhere in this unaudited interim financial information, the Group had the following transaction with a related company during the period:

| | For the six months ended 30 September | |
|--|--|-------------|
| | 2007 | 2006 |
| | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 |
| Interest charge to a company, in which a director of the Company is also a director of that company (Note (b)) | <u>647</u> | <u>785</u> |

- (b) During the prior period, the Group granted a loan of HK\$25 million to a company, in which a director of the Company is also a director of that company. The loan, included in loans receivable of the Group as at 30 September 2006, was unsecured, borne interest at Prime Rate and was fully repaid during the period.
- (c) Compensation of key management personnel of the Group:

| | For the six months ended 30 September | |
|---|--|--------------|
| | 2007 | 2006 |
| | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 |
| Short term employee benefits | 3,030 | 2,175 |
| Post-employment benefits | 12 | 30 |
| Share-based payments | — | 2,423 |
| Total compensation paid to key management personnel | <u>3,042</u> | <u>4,628</u> |

Heritage

20. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, the following significant events of the Group, not disclosed elsewhere in this unaudited interim financial information, took place:

- (a) A rights issue (the “2007 Rights Issue”) of one rights share for every two existing shares held by members of the Company on the register of members of the Company on 24 September 2007 was made, at a subscription price of HK\$0.10 per rights share, resulting in the issue of 2,961,113,194 ordinary shares of HK\$0.10 each for a total cash consideration, before expenses, of approximately HK\$246,000,000. Further details of the 2007 Rights Issue are also set out in the Company’s prospectus dated 28 September 2007.
- (b) On 16 October 2007, the Group disposed of its entire equity interest of Earn Best Investments Limited (“Earn Best”) to a third party for a cash consideration of HK\$6 million, resulting in a gain on disposal of approximately HK\$3 million. The principal activity of Earn Best is property investment, which is the registered owner of a leasehold property and a car parking space in Hong Kong.
- (c) On 7 November 2007, the Company put forward to the shareholders a proposed capital reorganisation (the “Proposed Capital Reorganisation”) comprising a capital reduction (the “Capital Reduction”), a share subdivision (the “Subdivision”), a reduction of authorised share capital (the “Reduction of Authorised Share Capital”) and a share consolidation (the “Share Consolidation”), and a proposed bonus issue of warrants (the “Proposed Bonus Warrant Issue”), details of which are set out below:
 - (i) **Proposed Capital Reorganisation**
The Capital Reduction will reduce the issued share capital of the Company by cancelling the paid-up capital of the Company to the extent of HK\$0.08 on each issued share; upon the Capital Reduction taking effect, every authorised but unissued share will be subdivided into five shares of HK\$0.02 each; following the Subdivision, the authorised share capital of the Company will be reduced from HK\$5,000,000,000 to HK\$1,000,000,000 by cancelling 200,000,000,000 unissued shares of HK\$0.02 each; upon the Capital Reduction, the Subdivision and the Reduction of Authorised Share Capital becoming effective, every five shares of HK\$0.02 each in both the issued and unissued share capital of the Company will be consolidated into one consolidated share of HK\$0.10 each.
 - (ii) **Proposed Bonus Warrant Issue**
The Proposed Bonus Warrant Issue is on the basis of one warrant for every five consolidated shares held by members of the Company on the register of members of the Company on 20 December 2007, at a subscription price of HK\$0.60 per consolidated share, and the total number of warrants to be issued will be approximately 355,333,583 after the Proposed Capital Reorganisation.

On 19 December 2007, the Proposed Capital Reorganisation and the Proposed Bonus Warrant Issue were passed by the shareholders of the Company at a special general meeting and the Listing Committee of the Stock Exchange granted the listing of, and permission to deal in, the consolidated shares.

Further details of the Proposed Capital Reorganisation and Proposed Bonus Warrant Issue are also set out in the Company’s circular dated 26 November 2007.

Heritage

21. APPROVAL OF THE UNAUDITED INTERIM FINANCIAL INFORMATION

This unaudited interim financial information was approved and authorised for issue by the Board of Directors on 21 December 2007.

MANAGEMENT DISCUSSION AND ANALYSIS FINANCIAL RESULTS

The Group made an after tax loss of approximately HK\$50 million mainly caused by unrealized loss of approximately HK\$113 million arisen from fair value losses on equity investments at fair value through profit or loss as at financial half year end. As the securities market price fluctuates from time to time, this loss may be reversed by financial year end.

The Group has the following major lines of business:

- (a) **Real Estate Investment:** the three stories of office properties owned by the Group are fully leased and have generated a stable recurrent income. With the gradual increase in the office property rental market, it is expected the upcoming rental revision will further enhance the rental income of the Group.
- (b) **Investments in Listed Securities:** the fair value losses on equity investments at fair value through profit or loss was HK\$113 million. This, however, maybe reversed by year end as the securities market fluctuates all the time.
- (c) **Money Lending Business:** the money lending business continues to be profitable with a profit of around HK\$4 million net of provision. This line of business serves to provide reasonable return for the Group's surplus cash with manageable risk.
- (d) **Investment in Advertising and Lottery related business in the People's Republic of China ("PRC"):** the Group has a 20% interest in a company engaging in advertising and lottery related business in the PRC (the "Joint Venture"). Other than the advertising business, the Joint Venture manages a few shops in Shanghai and Hangzhou which sell both lottery tickets as well as video lottery terminals. It is in active negotiation with one of the largest lottery products companies in the world to cooperate in its national expansion of lotteries selling outlets.
- (e) **Investment in Gaming Related Business in Macau:** The negotiation with a Las Vegas style hotel casino for the provision of certain management services to the casino is still ongoing. It is hopeful that a definitive agreement can be reached as soon as practicable.

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Prospect

Subsequent to the balance sheet date, the Company conducted a rights issue as well as certain corporate reorganization exercises with an aim to increase the capital base of the Company as well as to reduce transactional cost for trading in the Company's securities for all shareholders. As at fiscal half year end, the Group's cash resources stood at HK\$567 million. The Group therefore is in a very advantageous position to take on new business opportunities as and when they arise.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 September 2007, the Group's total assets and borrowings were HK\$1,310.2 million and HK\$91.2 million respectively. The borrowings of the Group carried floating interest rates with reference to Hong Kong dollar prime rate and were made in Hong Kong dollar, and thus, there is no exposure to fluctuations in exchange rate. The gearing ratio (total borrowings/total assets) at 30 September 2007 was 7.0%. As at 30 September 2007, investment properties and leasehold properties amounted to HK\$152.2 million and HK\$18.7 million, respectively were pledged to banks to secure certain loan facilities granted to the Group and investment in securities with carrying amount of HK\$427.7 million were pledged to certain financial institutes to secure margin financing facilities provided to the Group.

DISPOSAL OF SUBSIDIARIES

Details of disposal of the subsidiaries during the period are set out in note 15 to the unaudited interim financial information.

CURRENCY RISK MANAGEMENT

Most cash and bank balances are dominated in Hong Kong dollars. The Group's foreign currency assets are immaterial. The Group's exposure to foreign exchange risk is minimal and as such did not have any requirement to use financial instruments for hedging purpose.

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 30 September 2007 (31 March 2007: Nil).

Heritage

DIRECTORS' AND CHIEF EXECUTIVE'S INTEREST AND SHORT POSITION IN SHARES AND UNDERLYING SHARES

At 30 September 2007, the interests of the directors and chief executive of the Company in the shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and futures Ordinance (the "SFO")), as recorded in the register to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

| Name of director | Number of shares held, capacity and nature of interest | | | Total | Percentage of the Company's issued share capital |
|-----------------------|---|--------------------------------------|--|------------|--|
| | Directly beneficially owned | Through controlled corporation | | | |
| Kwong Kai Sing, Benny | 42,900,000 | – | | 42,900,000 | 0.72% |
| Lo Ki Yan, Karen | 12,000,000 | – | | 12,000,000 | 0.20% |
| Ong, Peter | 23,876,000 | – | | 23,876,000 | 0.40% |
| Poon Chi Wan | 3,300,000 | – | | 3,300,000 | 0.06% |

In addition to the above, certain directors have non-beneficial personal equity interests in certain subsidiaries held for the benefit of the Company solely for the purpose of complying with minimum company membership requirements.

Save as disclosed above, as at 30 September 2007, none of the directors and chief executive of the Company, or any of their associates, had registered any interest or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded in the register to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Heritage

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any directors or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEMES

There was no share option granted and exercised under the New Share Option Scheme during the six months ended 30 September 2007.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTEREST IN SHARES AND UNDERLYING SHARES

At 30 September 2007, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long position:

| Name of shareholder | Capacity in which such interests were held | Number of Shares or underlying Shares | Approximate percentage of existing issued share capital of the Company |
|---------------------------------------|--|---------------------------------------|--|
| Willie International Holdings Limited | Corporate interest | 510,948,000 | 8.63% |

Save as disclosed above, no person, other than the directors and chief executive of the Company, whose interests are set out in the section "Directors' and chief executive's interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

PURCHASE, REDEMPTION OR SALE OF THE COMPANY'S LISTED SECURITIES

There was no purchase, redemption or sale of the Company's listed securities by the Company or any of its subsidiaries during the period.

Heritage

EMPLOYEES, REMUNERATION POLICY AND RETIREMENT BENEFITS SCHEME

The Group selects and promotes staff based on their qualification, experience and suitability for the position offered. The Group's remuneration policy aims to retain and motivate staff. Performance of staff is appraised annually to provide a base for the review of the remuneration package. The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme under the Hong Kong Mandatory Provident Fund Schemes Ordinance, for all its employees.

AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code for the purposes of reviewing and providing supervision over the Group's financial reporting processes and internal controls. The audit committee comprises the five independent non-executive directors of the Company. The Company's unaudited interim financial information for the six months ended 30 September 2007 has been reviewed by the audit committee of the Company.

CORPORATE GOVERNANCE

The Company has complied with the code provisions as set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the six months ended 30 September 2007, except for the following deviations:

Code Provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing. Mr. Kwong Kai Sing, Benny, assumes the roles of both Chairman and Chief Executive Officer of the Company, and is in charge of the overall management of the Company. The Company considers that the combination of the roles of the Chairman and Chief Executive Officer can promote the efficient formulation and implementation of the Company's strategies which will enable the Group to grasp business opportunities efficiently and promptly. The Company considers that through the supervision of its Board and its independent non-executive directors, a balancing mechanism exists so that the interests of the shareholders are adequately and fairly represented.

Heritage

Code Provision A.4.1 stipulates that non-executive directors should be appointed for specific term, subject for re-election. None of the existing directors are appointed for specific term. However, all the directors shall be subject to retirement by rotation at the annual general meetings pursuant to the Company's Bye-laws (Code Provision A.4.2 stipulates that all directors appointed should be subject to retirement by rotation at least once every three years (the "Rotation Period Restriction")). As such, the Board considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the Code.

COMPLICATION WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as the code for securities transactions by directors of the Company. Following specific enquiry by the Company, the directors have confirmed that they have complied with the required standard under the Model Code for the six months ended 30 September 2007.

By the Order of the Board
Kwong Kai Sing, Benny
Chairman

Hong Kong, 21 December 2007