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Heritage International Holdings Limited

INTERIM FINANCIAL REPORT

The Board of Directors (the "Board") of Heritage International Holdings Limited (the "Company") is pleased to present the unaudited condensed consolidated financial statements of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2003 together with the comparative figures. These interim financial statements have not been audited, but have been reviewed by the Company's audit committee.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30 September 2003

	Notes	Unaudited Six months ended 30 September	
		2003 HK\$'000	2002 HK\$'000
TURNOVER	2	5,583	844
Cost of sales		(1,552)	(542)
Gross profit		4,031	302
Other revenue and gains		2,593	9,929
Gain on disposal of subsidiaries	12(b)	23,867	—
General and administrative expenses		(5,394)	(4,167)
Unrealised holding loss of other investments		(7,630)	—
Loss on transfer of investment securities into other investments, net		—	(2,792)
PROFIT FROM OPERATING ACTIVITIES	2, 3	17,467	3,272
Finance costs	4	(7,653)	(10,899)
PROFIT/(LOSS) BEFORE TAX		9,814	(7,627)
Tax	5	(12)	—
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		9,802	(7,627)
EARNING/(LOSS) PER SHARE	7		
Basic		HK\$0.01	HK\$(0.01)
Diluted		HK\$0.01	N/A

Heritage International Holdings Limited

CONDENSED CONSOLIDATED BALANCE SHEET

30 September 2003

	Notes	Unaudited 30 September 2003 HK\$'000	Audited 31 March 2003 HK\$'000
NON-CURRENT ASSETS			
Fixed assets		1,236	1,572
Investment properties	10	12,549	20,270
Interests in associates	12(b)(ii)	—	352,116
Investments in securities	10	—	28,384
		13,785	402,342
CURRENT ASSETS			
Amount due from an associate	12(b)(ii)	—	217
Investments in securities	8, 10	70,058	51,636
Properties held for sale		120	120
Loans receivable	9	171,426	62,331
Prepayments, deposits and other receivables		22,733	20,933
Cash and bank balances		164	560
		264,501	135,797
CURRENT LIABILITIES			
Tax payable		206	199
Other payables and accrued liabilities		4,436	13,080
Interest-bearing bank and other borrowings	10	71,646	408,878
		76,288	422,157
NET CURRENT ASSETS/(LIABILITIES)		188,213	(286,360)
TOTAL ASSETS LESS CURRENT LIABILITIES		201,998	115,982
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	10	(2,849)	—
		199,149	115,982
CAPITAL AND RESERVES			
Issued capital	11	22,440	15,567
Reserves		176,709	100,415
		199,149	115,982

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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2003 (unaudited)

	Reserves						Total HK\$'000
	Issued capital HK\$'000	Share premium account HK\$'000	Capital redemption reserve HK\$'000	Contributed surplus HK\$'000	Exchange fluctuation reserve HK\$'000	Accumulated losses HK\$'000	
Balance at 1 April 2003	15,567	117,410	1,038	250,161	(6,069)	(262,125)	115,982
Issue of new shares (notes 11(a)&(b))	6,873	61,834	—	—	—	—	68,707
Share issue expenses	—	(1,411)	—	—	—	—	(1,411)
Cancellation of share premium (note 11(c))	—	(177,833)	—	177,833	—	—	—
Offsetting against accumulated losses (note 11(c))	—	—	—	(241,446)	—	241,446	—
Release upon disposal of subsidiaries	—	—	—	—	6,069	—	6,069
Net profit for the period	—	—	—	—	—	9,802	9,802
Balance at 30 September 2003	22,440	—*	1,038*	186,548*	—*	(10,877)*	199,149

For the six months ended 30 September 2002 (unaudited)

	Reserves						Total HK\$'000
	Issued capital HK\$'000	Share premium account HK\$'000	Capital redemption reserve HK\$'000	Contributed surplus HK\$'000	Exchange fluctuation reserve HK\$'000	Accumulated losses HK\$'000	
Balance at 1 April 2002	48,949	13,360	1,038	202,436	(6,069)	(232,838)	26,876
Reduction of capital	(47,725)	—	—	47,725	—	—	—
Rights issue	12,237	90,556	—	—	—	—	102,793
Issue of new shares	2,079	16,703	—	—	—	—	18,782
Share issue expenses	—	(3,420)	—	—	—	—	(3,420)
Net loss for the period	—	—	—	—	—	(7,627)	(7,627)
Balance at 30 September 2002	15,540	117,199	1,038	250,161	(6,069)	(240,465)	137,404

* These reserve accounts comprise the consolidated reserves of HK\$176,709,000 in the condensed consolidated balance sheet.

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CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 September 2003

	Unaudited Six months ended 30 September	
	2003 HK\$'000	2002 HK\$'000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(80,778)	(44,792)
NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES	9,981	(73,398)
NET CASH INFLOW FROM FINANCING ACTIVITIES	70,401	118,155
DECREASE IN CASH AND CASH EQUIVALENTS	(396)	(35)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	560	2,072
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>164</u>	<u>2,037</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	<u>164</u>	<u>2,037</u>

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2003

1. SIGNIFICANT ACCOUNTING POLICIES

These unaudited condensed consolidated interim financial statements of the Group have been prepared in accordance with Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants.

The accounting policies and basis of preparation adopted in the preparation of these interim financial statements are consistent with those used in the Group's audited financial statements for the year ended 31 March 2003, except for the revised SSAP 12 "Income Taxes" has been adopted for the first time in the preparation of the current period's condensed consolidated financial statements.

SSAP 12 (Revised) prescribes the basis for accounting for current and deferred income taxes. The principal impact of the revision of this SSAP in the condensed consolidated financial statements is that it requires full provision for deferred taxes is made for all taxable temporary differences instead of timing differences as previously adopted. The adoption of the revised SSAP 12 has had no major impact on these condensed consolidated financial statements.

2. SEGMENT INFORMATION

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

- the property development and investment segment comprises the development and sale of properties and the investment in commercial/industrial premises for their rental income potential;
- the investments in securities segment engages in the purchase and sales of securities; and
- the money lending segment engages in money lending operations in Hong Kong.

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the customers.

(a) Business segments

The following table presents revenue and profit/(loss) for the Group's business segments.

	Property development and investment		Investments in securities*		Money lending**		Elimination		Consolidated	
	For the six months ended 30 September		For the six months ended 30 September		For the six months ended 30 September		For the six months ended 30 September		For the six months ended 30 September	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Segment revenue:										
Sales to external customers	281	—	1,066	—	4,236	844	—	—	5,583	844
Other revenue	—	—	—	4,015	—	30	—	—	—	4,045
Total	281	—	1,066	4,015	4,236	874	—	—	5,583	4,889
Segment results	(451)	(126)	(6,620)	1,544	1,641	19	1,041	712	(4,389)	2,149
Interest income and unallocated revenue/gains									26,460	5,884
Unallocated expenses									(4,604)	(4,761)
Profit from operating activities									17,467	3,272
Finance costs									(7,653)	(10,899)
Profit/(loss) before tax									9,814	(7,627)
Tax									(12)	—
Net profit/(loss) from ordinary activities attributable to shareholders									9,802	(7,627)

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* *Investments in securities is one of the Group's business segments and, accordingly, the Group's income and expenses from investments in securities were included in the segment revenue and segment results, respectively.*

** *Money lending is also one of the Group's business segments and, accordingly, the interest income and expenses from money lending business were included in the segment revenue and segment results, respectively.*

(b) *Geographical segments*

The following table presents revenue for the Group's geographical segments.

	Hong Kong		Mainland China		Consolidated	
	For the six months ended 30 September		For the six months ended 30 September		For the six months ended 30 September	
	2003	2002	2003	2002	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Segment revenue:						
Sales to external customers	5,455	844	128	—	5,583	844
Other revenue	—	4,045	—	—	—	4,045
	<u>5,455</u>	<u>4,889</u>	<u>128</u>	<u>—</u>	<u>5,583</u>	<u>4,889</u>

3. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting):

	Unaudited	
	For the six months ended 30 September	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Depreciation	355	337
Interest income	(6,829)	(6,728)
Gain on disposal of investment securities, net	—	(4,006)
	<u>—</u>	<u>—</u>

4. FINANCE COSTS

	Unaudited	
	For the six months ended 30 September	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on bank and other borrowings wholly repayable within five years	9,205	11,441
Less: Interest expense classified as cost of sales	(1,552)	(542)
	<u>7,653</u>	<u>10,899</u>

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5. TAX

	Unaudited For the six months ended 30 September	
	2003	2002
	HK\$'000	HK\$'000
Company and subsidiaries		
Hong Kong	—	—
Overseas	12	—
	<hr/>	<hr/>
	12	—
Share of tax attributable to associates	—	—
	<hr/>	<hr/>
	—	—
Tax charges for the period	12	—
	<hr/> <hr/>	<hr/> <hr/>

No provision for Hong Kong profits tax has been made for the period as the Group did not generate any assessable profits arising in Hong Kong during the period (2002: Nil).

Taxes on profits assessable overseas have been calculated at the rates of tax prevailing in the respective jurisdictions in which they operate, based on existing legislation, interpretations and practices in respect thereof.

6. INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the period (2002: Nil).

7. EARNING/(LOSS) PER SHARE

(a) Basic earning/(loss) per share

Basic earning per share is calculated based on (i) the net profit from ordinary activities attributable to shareholders for the period of HK\$9,802,000 (2002: Net loss of HK\$7,627,000); and (ii) the weighted average number of 1,716,134,113 (2002: 821,657,252) ordinary shares in issue during the period.

(b) Diluted earning/(loss) per share

Diluted earning per share is calculated based on the net profit from ordinary activities attributable to shareholders for the period of HK\$9,802,000. The weighted average number of ordinary shares used in the calculation is the 1,716,134,113 ordinary shares in issue during the period, as used in the basic earnings per share calculation; and the weighted average of 9,132,006 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all warrants outstanding during the period.

No diluted loss per share amount was presented for the six months ended 30 September 2002 as the effect of the Company's outstanding share options and warrants during that period were anti-dilutive.

8. INVESTMENTS IN SECURITIES

In accordance with the Group's accounting policy, investments in listed securities are stated at their fair values, which are their quoted market prices at the balance sheet date. Subsequent to the balance sheet date, the market price of the securities in respect of a listed company (the "Investee") in Hong Kong, which was one of the components of the Group's portfolio of investments in listed securities at the balance sheet date, decreased significantly from its market price as at the balance sheet date. In view of such significant decrease, the Directors considered that the market price as at 30 September 2003 was not a good indication of the fair value for the purpose of accounting for the carrying value of the Group's investment in the securities of the Investee as at the balance sheet date. Consequently, the fair value of the Group's investment in the securities of the Investee was stated at the average market price of the securities of the Investee subsequent to the balance sheet date up to the date of this report, a basis considered by the Directors to be more appropriate. The amount of such investment in the securities of the Investee so included in total investments in securities was HK\$17,158,000.

9. LOANS RECEIVABLE

Loans receivable represent receivables arising from the money lending business of the Group, and are unsecured, repayable within twelve months and bear interest at rates ranging from 1.5% above the Prime Rate to 10% per annum. The grant of these loans is approved and monitored by the Company's executive directors in charge of the Group's money lending operations.

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10. INTEREST-BEARING BANK AND OTHER BORROWINGS

	<i>Notes</i>	Unaudited 30 September 2003 HK\$'000	Audited 31 March 2003 HK\$'000
Other loans repayable within one year or on demand:			
Secured	(a)	390	387,878
Unsecured	(b)	<u>71,000</u>	<u>21,000</u>
		71,390	408,878
Bank loan, secured	(c)	<u>3,105</u>	<u>—</u>
		74,495	408,878
Portion classified as current liabilities		<u>(71,646)</u>	<u>(408,878)</u>
Non-current portion		<u><u>2,849</u></u>	<u><u>—</u></u>

- (a) The secured other loans carry floating interest rates calculated by reference to the Prime Rate. The interest rate thereon at the balance sheet date was 6% (31 March 2003: ranged from 7% to 10%) per annum.

Included in secured other loans as at 31 March 2003 were loans from a financial creditor with an aggregate amount of approximately HK\$374,045,000 (the "Loan Payables"). The Loan Payables were disposed of as a part of the disposal of subsidiaries during the period. Details of the Loan Payables are out in note 16(b) to the audited financial statements for the year ended 31 March 2003.

At 30 September 2003, certain of the Group's investment in securities with an aggregate carrying value of approximately HK\$37,014,000 (31 March 2003: HK\$76,666,000) were pledged to certain margin finance providers to secure margin financing provided to the Group.

- (b) The unsecured other loans also carry floating interest rates calculated by reference to the Prime Rate. The interest rates thereon at the balance sheet date was 6% (31 March 2003: 6%) per annum.
- (c) At 30 September 2003, certain of the Group's investment properties with an aggregate carrying value of approximately HK\$7,779,000 (31 March 2003: Nil) were pledged to a bank to secure a mortgage loan granted to the Group.

11. SHARE CAPITAL

Shares

	Unaudited 30 September 2003 HK\$'000	Audited 31 March 2003 HK\$'000
<i>Authorised:</i>		
50,000,000,000 ordinary shares of HK\$0.01 each	<u>500,000</u>	<u>500,000</u>
<i>Issued and fully paid:</i>		
2,243,975,910 (31 March 2003: 1,556,665,445) ordinary shares of HK\$0.01 each	<u>22,440</u>	<u>15,567</u>

Heritage International Holdings Limited

A summary of movements of the Company's share capital was as follows:

	Notes	Number of ordinary shares in issue	Issued share capital HK\$'000	Share premium account HK\$'000
At 1 April 2003		1,556,665,445	15,567	117,410
Placement of new shares	(a)	684,970,000	6,850	61,647
Exercise of warrants	(b)	2,340,465	23	187
Share issue expenses		—	—	(1,411)
Cancellation of share premium	(c)	—	—	(177,833)
At 30 September 2003		2,243,975,910	22,440	—

- (a) Pursuant to two placement agreements dated 24 June 2003, 311,330,000 and 373,640,000 new ordinary shares of HK\$0.01 each were allotted and issued for cash to independent third parties at a price of HK\$0.1 per share on 24 July 2003 and 11 September 2003, respectively.
- (b) During the period ended 30 September 2003, 2,340,465 warrants were exercised and 2,340,465 ordinary shares of HK\$0.01 each were allotted and issued at HK\$0.09 each.
- (c) On 26 September 2003, a special general meeting was convened and the shareholders approved the cancellation of share premium of the Company as follows:

The amount standing to the credit of the share premium account of the Company on 26 September 2003 was cancelled and the credit arising therefrom was applied to the contributed surplus account of the Company.

In addition, the contributed surplus account of the Company was then utilised by the Directors of the Company in accordance with the bye-laws of the Company and all applicable laws, including but not limited to the elimination of accumulated losses of the Company amounted to HK\$241,446,000 as at 31 March 2003.

Share options

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Details of the Company's share option scheme were set out in note 22 to the audited financial statements for the year ended 31 March 2003. During the six months ended 30 September 2003, no share options were granted, cancelled or exercised. As at 30 September 2003, there were no outstanding share options.

Warrants

At 31 March 2003, the Company had 47,635,898 warrants outstanding, which entitle the holders thereof to subscribe 47,635,898 ordinary shares in cash in aggregate up to HK\$4,287,231 at an initial subscription price of HK\$0.09 per share, subject to adjustment, and are exercisable from 25 June 2002 to 30 June 2003, both dates inclusive. During the six months ended 30 September 2003, 2,340,465 warrants were exercised and the remaining 45,295,433 warrants lapsed on 30 June 2003.

Pursuant to an approval of a special general meeting on 26 September 2003, subsequent to the balance sheet date on 13 October 2003, 448,795,182 bonus warrants were issued in the proportion of one warrant for every five existing shares held by the shareholders on 26 September 2003. The subscription price of the bonus warrant is HK\$0.17 per share (subject to adjustments). The subscription period is from 13 October 2003 to 12 April 2005, both dates inclusive.

Subsequent to the balance sheet date in November 2003, 14,455 bonus warrants were exercised.

12. ACQUISITION AND DISPOSAL OF SUBSIDIARIES

(a) Acquisition of a subsidiary

During the period, the Group acquired 100% equity interest in Newick Group Limited, which holds certain properties in Hong Kong, at a consideration of HK\$8,000,000.

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(b) Disposal of subsidiaries

- (i) On 25 June 2003, the Group disposed of its entire interests in Kingarm Company Limited ("Kingarm"), including 100% equity interest and a shareholder loan of HK\$13,885,000, at a cash consideration of HK\$17,000,000, resulting in a gain of approximately HK\$1,933,000. Kingarm engages in holding of properties in Mainland China.
- (ii) On 25 July 2003, the Group disposed of its entire interests in Polywise Investments Limited ("Polywise"), at a cash consideration of HK\$1,000,000. Polywise was a then wholly-owned subsidiary of the Group which held the Group's entire interests in associates. Upon the Group's disposal of its entire interests in Polywise, all associates of the Group were disposed of. A gain of approximately HK\$21,934,000 was recorded for a such disposal.

13. OPERATING LEASE COMMITMENTS

(a) As lessor

The Group leases its investment properties under operating lease arrangements, with leases negotiated for terms of one to two years. The terms of the lease generally also required the tenant to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 30 September 2003, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Unaudited 30 September 2003 HK\$'000	Audited 31 March 2003 HK\$'000
Within one year	661	217
In the second to fifth years, inclusive	278	28
	<u>939</u>	<u>245</u>

(b) As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms of three years.

At 30 September 2003, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Unaudited 30 September 2003 HK\$'000	Audited 31 March 2003 HK\$'000
Within one year	504	504
In the second to fifth years, inclusive	168	420
	<u>672</u>	<u>924</u>

14. RELATED PARTY TRANSACTIONS

During the period, interest income from an associate of the Group of HK\$2,529,000 (2002: HK\$5,266,000) arose from certain loans to the associate. The loans to the associate were unsecured, bore interest at 1.4201% per annum above HIBOR (2002: 1.6590% per annum above HIBOR) and were disposed of as a part of disposal of subsidiaries during the period.

15. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

These unaudited condensed consolidated interim financial statements were approved and authorised for issue by the Board on 17 December 2003.

Heritage International Holdings Limited

MANAGEMENT DISCUSSION AND ANALYSIS

30 September 2003

FINANCIAL RESULTS

The Group's unaudited profit for the six months ended 30 September 2003 was HK\$9,802,000 compared with a loss of HK\$7,627,000 recorded in the corresponding period last year. Net assets value of the Group increased from HK\$115,982,000 as at 31 March 2003 to HK\$199,149,000 as at 30 September 2003.

Turnover increased from HK\$844,000 in last period to HK\$5,583,000 in this period. Details of the segmental analysis of the turnover can be seen on note 2 to the condensed consolidated financial statements. General and administrative expenses for the period increased from last period's HK\$4,167,000 to this period's HK\$5,394,000. Due to the continual reduction in the Group's average borrowing level, finance costs decreased from last period's figure of HK\$10,899,000 to HK\$7,653,000 in this period.

In this period, the Group incurred an unrealised holding loss of HK\$7,630,000 on the investments in securities held at 30 September 2003.

BUSINESS REVIEW

After all the efforts taken by the management since early 2002 to rationalise our businesses and investments, the Group made a profit for the six months ended 30 September 2003.

Property related investments, investment in securities and money-lending businesses were the Group's core businesses during the period. Due to the increase in the working capital of the Group in this period, there was an increase in the size of the operation of the money-lending businesses and hence the interest income derived thereon.

In July 2003, the Group disposed of the loss-making subsidiary, Polywise Investments Limited ("Polywise"), to an independent third party and recorded a gain on disposal of approximately HK\$21,934,000 thereon. After the disposal of Polywise, the operating results of the Group had been greatly improved and the Group's gearing level had also been reduced significantly.

Property investment and development

As mentioned above, the Group had disposed of the subsidiary, Polywise, in July 2003. Polywise held a 30% interest in the property development project of Guangzhou Le Palais which situated in Guangzhou city of the Mainland China. During the period, the Group had also disposed of its entire interest in certain office units in Oriental Building at Jianshe Road, Shenzhen, the Mainland China and recorded a gain of HK\$1,933,000 from such disposal.

On the other hand, we had completed the acquisition of certain office units in Causeway Bay, Hong Kong in June 2003. The Group is also holding units in Wyfold Industrial City in Buji, Shenzhen, the Mainland China at present. Rental income from these property investments represents a mean of steady recurring income for the Group.

In view of recent improvement in the property market, the Group expects that our property investments will benefit from the up-rising property prices and rentals.

Investment in securities

Same as in the previous financial year, the Group invested in a portfolio of diversified securities which included companies with good fundamentals and growth potential. As at 30 September 2003, the fair value of the listed securities held was around HK\$62,558,000 and the investment cost in debt securities was HK\$7,500,000.

Money-lending businesses

Our money-lending businesses kept providing a reasonable return on the funds so employed in the first half of this financial year. Interest income derived from our money-lending businesses for the period amounted to HK\$4,236,000 and the amount of our loans receivable as at 30 September 2003 was HK\$171,426,000.

PROSPECTS

The management is continually exploring business opportunities for the growth and development of the Group whilst strengthening the operation of our existing businesses. Our operating results has been improved and brought to a positive level for this period. The capital base of the Group has increased after the placements of shares in June 2003 and September 2003 respectively for a total net proceeds of HK\$67 millions approximately.

Given the improvement in our financial position, the Group is now in a much better position to take on any new business investment. As announced by the Group previously, we are now looking into possible investments in Macau so as to take advantage of the fast growing economy there. With Dr. Stanley Ho holding a meaningful stake in our Company, we are hopeful that we can capitalise on his extensive relationship in Macau. In identifying potential investment opportunity, the Group will continue to take a cautious approach in making any new investment decision.

Barring any unforeseeable circumstances, we are optimistic about the overall performance of the Group in the second half of this financial year.

LIQUIDITY, CAPITAL STRUCTURE AND FINANCIAL RESOURCES

As at 30 September 2003, the Group's total assets and borrowings were HK\$278,286,000 and HK\$74,495,000 respectively. The borrowings of the Group carried floating interest rates calculated by reference to the 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) was 27%. As at 30 September 2003, investment properties amounted to HK\$7,779,000 were pledged to a bank to secure a loan facility granted to the Group and investments in securities with carrying amount of HK\$37,014,000 were pledged to a margin finance provider to secure margin financing provided to the Group.

Pursuant to a resolution passed by the shareholders of the Company on 26 September 2003, the amount of HK\$177,833,000 standing to the credit of the Company's share premium account was cancelled and transferred to the contributed surplus account on 29 September 2003.

The Company had carried out two placements of shares in July 2003 and September 2003 respectively. 311,330,000 new ordinary shares of HK\$0.01 each were allotted and issued for cash to independent third parties at a price of HK\$0.10 per share in July 2003. Another 373,640,000 new ordinary shares of HK\$0.01 each were also allotted and issued for cash to independent third parties at a price of HK\$0.10 per share in September 2003. Totally net proceeds of approximately HK\$67 millions have been raised from the placements and the amount will mainly be used to finance the Group's possible future investment in Macau.

CONTINGENT LIABILITIES

The Group had certain contingent liabilities as at 30 September 2003, details of which have already been disclosed in the Group's audited financial statements for the year ended 31 March 2003. No further material development or realisation of these contingent liabilities has been occurred during this period and up to the date of approval of the unaudited condensed consolidated financial statements.

Heritage International Holdings Limited

DIRECTORS' INTEREST IN SECURITIES

At 30 September 2003, the interests of the directors and chief executive in the equity or debt securities of the Company or its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO Ordinance"), or which are required to be 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:

Long positions in the ordinary shares of the Company

Name of director	Number of shares of HK\$0.01 each held				Percentage of the Company's issued share capital
	Personal interest	Family interest	Corporate interest	Other interest	
Kwong Kai Sing, Benny	—	—	323,800,000 <i>Note (1)</i>	—	14.43%
Ong Peter	—	—	189,676,257 <i>Note (2)</i>	—	8.45%
Poon Chi Wan	5,820,000	—	—	—	0.26%

Note (1): These shares were held by Fortuna Investments Group Limited ("Fortuna"). Fortuna is a wholly-owned subsidiary of Goldworld Development Limited, a company wholly-owned by Mr. Kwong Kai Sing, Benny.

Note (2): These shares were held by Sovicotra Capital Limited ("Sovicotra"). Sovicotra is a company wholly-owned by Mr. Ong Peter.

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 the minimum company membership requirements.

Save as disclosed above, as at 30 September 2003, none of the directors or chief executive or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporations as defined in the SFO Ordinance or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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 children under 18 years of age, 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 SCHEME

There were neither share options granted nor outstanding during the six months ended 30 September 2003.

Heritage International Holdings Limited

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSON'S INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 September 2003, the following interests of 5% or more of the nominal value 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 Ordinance:

Long positions in the ordinary shares of the Company

Name of shareholder	Note	Number of shares of HK\$0.01 each held	Percentage of the Company's issued share capital
Fortuna Investments Group Limited	(1)	323,800,000	14.43%
Goldworld Development Limited	(1)	323,800,000	14.43%
Sovicotra Capital Limited	(2)	189,676,257	8.45%
Collier Assets Limited	(3)	117,788,960	5.25%
Lo Ki Yan, Karen	(3)	117,788,960	5.25%
Skytop Technology Limited	(4)	113,350,000	5.05%
Perfect Touch Technology Inc.	(4)	113,350,000	5.05%
China Sci-Tech Holdings Limited	(4)	113,350,000	5.05%

Notes:

- (1) These shares represented the same parcel of shares, further details of which are included in the section of "Directors' interests in securities".
- (2) Further details of these shares are included in the section of "Directors' interests in securities".
- (3) These shares represented the same parcel of shares and were held by Collier Assets Limited ("Collier Assets"). Collier Assets is a company wholly-owned by Ms Lo Ki Yan, Karen.
- (4) These shares represented the same parcel of shares and were held by Skytop Technology Limited ("Skytop"). Skytop is a wholly-owned subsidiary of Perfect Touch Technology Inc., a company wholly-owned by China Sci-Tech Holdings Limited.

Save as disclosed above, no person had registered an interest in the share capital of the Company that was required to be recorded pursuant to Section 336 of the SFO Ordinance.

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

During the six months ended 30 September 2003, neither the Company nor any of its subsidiaries purchased, sold and redeemed any of the Company's listed securities.

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.

REVIEW BY AUDIT COMMITTEE

The interim report has been reviewed by the Audit Committee which comprises two independent non-executive directors and one non-executive director.

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COMPLIANCE WITH CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 September 2003, except that the independent non-executive directors of the Company are not appointed for a specific term as required by paragraph 7 of the Code, but are subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Company's bye-laws.

By the Order of the Board

Kwong Kai Sing, Benny

Chairman

Hong Kong, 17 December 2003