



Heritage International Holdings Limited

漢基控股有限公司*

(Incorporated in Bermuda with limited liability)

Interim Report 2004



CONTENTS

	<i>Pages</i>
Condensed Consolidated Profit and Loss Account	1
Condensed Consolidated Balance Sheet	2-3
Condensed Consolidated Statement of Changes in Equity	4
Condensed Consolidated Cash Flow Statement	5
Notes to Condensed Consolidated Financial Statements	6-15
Management Discussion and Analysis	16-23



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 (collectively the “Group”) for the six months ended 30 September 2004 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 2004

	Notes	Unaudited	
		For the six months ended	
		2004	2003
		HK\$'000	HK\$'000
			(Restated)
TURNOVER	3	25,622	14,011
Cost of sales		(12,234)	(9,980)
Gross profit		13,388	4,031
Other revenue and gains		—	2,593
Gain/(loss) on disposal of subsidiaries		(532)	23,867
General and administrative expenses		(6,072)	(5,394)
Unrealised holding loss of other investments		(33,860)	(7,630)
Other operating income, net		1,304	—
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	4	(25,772)	17,467
Finance costs	5	(2,175)	(7,653)
PROFIT/(LOSS) BEFORE TAX		(27,947)	9,814
Tax	6	—	(12)
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES			
ATTRIBUTABLE TO SHAREHOLDERS		(27,947)	9,802
EARNING/(LOSS) PER SHARE	8		
Basic		HK\$(0.007)	HK\$0.004
Diluted		N/A	HK\$0.004



CONDENSED CONSOLIDATED BALANCE SHEET

30 September 2004

	<i>Notes</i>	Unaudited 30 September 2004 HK\$'000	Audited 31 March 2004 HK\$'000
NON-CURRENT ASSETS			
Goodwill		7,375	—
Fixed assets		1,601	885
Investment properties		8,540	13,420
Investments in securities		38,825	38,825
Loan to an investee company	9	40,000	40,000
Loans receivable	10	300	1,725
		<hr/> 96,641	<hr/> 94,855
CURRENT ASSETS			
Investments in securities		68,861	58,902
Properties held for sale		120	120
Loans receivable	10	89,240	122,563
Prepayments, deposits and other receivables		6,549	7,902
Cash and bank balances		132	743
		<hr/> 164,902	<hr/> 190,230
CURRENT LIABILITIES			
Other payables and accrued liabilities		8,836	37,177
Deposit for convertible notes		—	75,000
Interest-bearing bank and other borrowings	11	9,314	906
Tax payable		—	225
		<hr/> 18,150	<hr/> 113,308
NET CURRENT ASSETS		<hr/> 146,752	<hr/> 76,922



CONDENSED CONSOLIDATED BALANCE SHEET *(continued)*

30 September 2004

	<i>Notes</i>	Unaudited 30 September 2004 HK\$'000	Audited 31 March 2004 HK\$'000
TOTAL ASSETS LESS CURRENT LIABILITIES			
		243,393	171,777
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	11	—	2,683
Convertible notes	12	36,000	—
		207,393	169,094
CAPITAL AND RESERVES			
Issued capital	13	42,000	22,440
Reserves		165,393	146,654
		207,393	169,094



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2004 (unaudited)

	Notes	Reserves					Accumulated losses	Total
		Issued capital	Share premium account	Capital redemption reserve	Contributed surplus	Exchange fluctuation reserve		
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Balance at 1 April 2004		22,440	2	1,038	186,548	—	(40,934)	169,094
Conversion of convertible notes	12	1,000	15,000	—	—	—	—	16,000
Placement of new shares	13(a)	10,480	28,296	—	—	—	—	38,776
Issue of compensation shares	13(b)	2,500	2,150	—	—	—	—	4,650
Issue of consideration shares	13(c)	5,580	1,674	—	—	—	—	7,254
Share issue expenses		—	(434)	—	—	—	—	(434)
Net loss for the period		—	—	—	—	—	(27,947)	(27,947)
Balance at 30 September 2004		42,000	46,688*	1,038*	186,548*	—*	(68,881)*	207,393

For the six months ended 30 September 2003 (unaudited)

	Notes	Reserves					Accumulated losses	Total
		Issued capital	Share premium account	Capital redemption reserve	Contributed surplus	Exchange fluctuation reserve		
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	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		6,873	61,834	—	—	—	—	68,707
Share issue expenses		—	(1,411)	—	—	—	—	(1,411)
Cancellation of share premium		—	(177,833)	—	177,833	—	—	—
Offsetting against accumulated losses		—	—	—	(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

* These reserve accounts comprise the consolidated reserves of HK\$165,393,000 as at 30 September 2004 (31 March 2004: HK\$146,654,000) in the condensed consolidated balance sheet.



CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 September 2004

	Unaudited Six months ended 30 September	
	2004 HK\$'000	2003 HK\$'000
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	8,069	(80,778)
NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES	(29,747)	9,981
NET CASH INFLOW FROM FINANCING ACTIVITIES	21,067	70,401
NET DECREASE IN CASH AND CASH EQUIVALENTS	(611)	(396)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	743	560
CASH AND CASH EQUIVALENTS AT END OF PERIOD	132	164
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	132	164



NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2004

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 Institute of Certified Public 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 2004.

2. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

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 the other business segments. Summary details of the business segments are as follows:

- (i) the property development and investment segment engages primarily in the development and sale of properties, and the investments in commercial/industrial premises for their rental income potential and their potential appreciation in values;
- (ii) the investments in securities segment engages in the purchase and sale of securities and the holding of debt and equity investments primarily for interest income, dividend income and capital appreciation;
- (iii) the money lending segment engages in money lending operations in Hong Kong;
- (iv) the investment holding segment engages in holding investments for a continuing strategic or long term purpose, primarily for their dividend income, interest income, capital appreciation and other benefits; and
- (v) the investment management services segment engages in the provision of investment management services to investors in Hong Kong.

In determining the Group’s geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets. Intersegment transactions are conducted at mutually agreed terms.

(a) Business segments

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

	Property development and investment		Investments in securities		Money lending		Investment holdings		Investment management services		Elimination		Consolidated	
	For the six months ended 30 September 2004	2003	For the six months ended 30 September 2004	2003	For the six months ended 30 September 2004	2003	For the six months ended 30 September 2004	2003	For the six months ended 30 September 2004	2003	For the six months ended 30 September 2004	2003	For the six months ended 30 September 2004	2003
	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
Segment revenue:														
Sales to external customers	448	281	12,056	9,180	5,243	4,236	6,986	314	889	—	—	—	25,622	14,011
Other revenue	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Total	448	281	12,056	9,180	5,243	4,236	6,986	314	889	—	—	—	25,622	14,011
Segment results	375	(451)	(34,688)	(6,934)	2,824	1,641	6,976	314	(391)	—	—	1,041	(24,904)	(4,389)
Unallocated interest income and other revenue/gains														26,460
Unallocated expenses														(868)
Profit/(loss) from operating activities														(25,772)
Finance costs														(2,175)
Profit/(loss) before tax														(27,947)
Tax														—
Net profit/(loss) from ordinary activities attributable to shareholders														9,802



(b) *Geographical segments*

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

	Hong Kong		Mainland China		Macau		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	
	2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited) (Restated)	2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)	2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)	2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited) (Restated)
Segment revenue:								
Revenue from external customers	19,066	13,883	—	128	6,556	—	25,622	14,011

3. TURNOVER

Turnover represents gross rental income received and receivable from investment properties; interest income earned from money lending operations; interest income and dividend income from investments in securities; investment management income; and proceeds from sale of other investments during the period.

	Unaudited For the six months ended 30 September	
	2004 HK\$'000	2003 HK\$'000 (Restated)
Gross rental income	448	281
Interest income from money lending operations	5,243	4,236
Interest income from unlisted debt securities	430	314
Dividend income from listed securities	239	—
Dividend income from unlisted securities	6,556	—
Investment management income	889	—
Proceeds from sale of other investments	11,817	9,180
	25,622	14,011

The Group's gain/loss on sale of other investments was included in turnover on the net basis in the prior year's interim financial statements. Subsequent to 30 September 2003, the Group changed its presentation of such gain/loss, as in the opinion of the directors, it is more appropriate to separately present the proceeds from the sale of other investments as "turnover" and the cost of other investments disposed of as "cost of sales".

The effect of this change in presentation was to increase the turnover and the cost of sales for the six months ended 30 September 2004 by HK\$12,234,000, representing the cost of other investments disposed of during that period.

To conform with the current interim period's presentation, the cost of other investments disposed of for the six months ended 30 September 2003 of HK\$8,428,000 has been reclassified as cost of sales, resulting in an increase in the turnover and the cost of sales for that period by the same amount. This has resulted in no change to the amount of accumulated losses as at 1 April 2003.



4. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

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

	Unaudited For the six months ended 30 September	
	2004 HK\$'000	2003 HK\$'000
Depreciation	247	355
Amortisation of goodwill	308	—
Interest income	(5,673)	(6,829)
Loss/(gain) on disposal of other investments, net	416	(752)
	<u>416</u>	<u>(752)</u>

5. FINANCE COSTS

	Unaudited For the six months ended 30 September	
	2004 HK\$'000	2003 HK\$'000
Interest on bank and other borrowings wholly repayable within five years	2,175	9,205
Less: Interest expense classified as cost of sales	—	(1,552)
	<u>2,175</u>	<u>7,653</u>



6. TAX

	Unaudited For the six months ended 30 September	
	2004 HK\$'000	2003 HK\$'000
Company and subsidiaries - current:		
Hong Kong	—	—
Overseas	—	12
	<hr/>	<hr/>
	—	12
Share of tax attributable to associates	—	—
	<hr/>	<hr/>
	—	—
Tax charges for the period	—	12
	<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 (2003: Nil).

Taxes on profits assessable overseas in the prior year were calculated at the rates of tax prevailing in the respective jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

7. INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the period (2003: Nil).

8. EARNING/(LOSS) PER SHARE

(a) Basic earning/(loss) per share

Basic loss per share is calculated based on (i) the net loss from ordinary activities attributable to shareholders for the period of HK\$27,947,000 (2003: net profit of HK\$9,802,000); and (ii) the weighted average number of 3,772,004,753 (2003: 2,258,992,864 (restated)) ordinary shares in issue during the period, as adjusted to reflect the rights issue of the Company after the balance sheet date for all the periods presented.

(b) Diluted earning/(loss) per share

Diluted loss per share amount for the six months ended 30 September 2004 has not been disclosed, as the share options, warrants and convertible notes outstanding during that period had an anti-dilutive effect on the basic loss per share for that period.

Diluted earning per share for the six months ended 30 September 2003 was calculated based on the net profit from ordinary activities attributable to shareholders for that period of HK\$9,802,000. The weighted average number of ordinary shares used in the calculation is the 2,258,992,864 (restated) ordinary shares in issue during that period, as used in the basic earning per share calculation for that period; 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 that period.

9. LOAN TO AN INVESTEE COMPANY

The loan to an investee company is unsecured, interest-free and has no fixed terms of repayment.



10. LOANS RECEIVABLE

	Unaudited 30 September 2004 HK\$'000	Audited 31 March 2004 HK\$'000
Loans receivable	97,700	134,751
Less: Provision for bad and doubtful debts	<u>(8,160)</u>	<u>(10,463)</u>
	89,540	124,288
Less: Balances due within one year included in current assets	<u>(89,240)</u>	<u>(122,563)</u>
Non-current portion	<u>300</u>	<u>1,725</u>

Loans receivable represent receivables arising from the money lending business of the Group, and bear interest at rates ranging from 2% above the Hong Kong dollar prime rate (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.

Included in the loans receivable is a loan granted to an officer of the Company during the year ended 31 March 2004 of HK\$5,000,000 (2003: Nil). Particulars of this loan, disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance, are as follows:

Name	30 September 2004 HK\$'000	Maximum amount outstanding during the period HK\$'000	1 April 2004 HK\$'000
Mr. Wong Siu Lun, Alan	<u>5,000</u>	<u>5,000</u>	<u>5,000</u>

The loan granted to the officer is unsecured, bears interest at Prime Rate plus 2% per annum and is repayable within one year.

11. INTEREST-BEARING BANK AND OTHER BORROWINGS

	<i>Notes</i>	Unaudited 30 September 2004 HK\$'000	Audited 31 March 2004 HK\$'000
Other borrowing repayable within one year or on demand, secured	(a)	6,481	623
Bank loan, secured	(b)	<u>2,833</u>	<u>2,966</u>
		9,314	3,589
Portion classified as current liabilities		<u>(9,314)</u>	<u>(906)</u>
Non-current portion		<u>—</u>	<u>2,683</u>



- (a) The secured other borrowing carry floating interest rates calculated by reference to the Prime Rate. The interest rate thereon at the balance sheet date was 8% (31 March 2004: 8%) per annum.

At 30 September 2004, certain of the Group's investment in securities with an aggregate carrying value of approximately HK\$56,419,000 (31 March 2004: HK\$55,649,000) were pledged to certain financial institutions to secure certain margin financing facilities provided to the Group.

- (b) At 30 September 2004, certain of the Group's investment properties with an aggregate carrying value of approximately HK\$8,540,000 (31 March 2004: HK\$8,540,000) were pledged to a bank to secure a bank loan granted to the Group.

12. CONVERTIBLE NOTES

In April 2004, the Company issued convertible notes with an aggregate face value of HK\$75,000,000 (the "Convertible Notes") to certain third parties. The Convertible Notes are unsecured, bear interest at a rate of 6.8% per annum and have a maturity date on the third anniversary of the date of issue. The Company may redeem the Convertible Notes at 100% of the outstanding principal amount of the Convertible Notes from the date of issue of the Convertible Notes up to 14 days prior to (and excluding) the maturity date. The Convertible Notes may be convertible into shares of the Company in amounts or integral multiples of HK\$1,000,000 at any time from the date of issue of the Convertible Notes up to 14 days prior to (and excluding) the maturity date at a price of HK\$0.16 per share (which was adjusted to HK\$0.15 per share subsequent to the balance sheet date, as a result of a rights issue of the Company subsequent to the balance sheet date, which will become effective on the date of issue of the rights shares (note 19)).

During the period, Convertible Notes with face values aggregating HK\$23,000,000 were redeemed by the Company and HK\$16,000,000 were converted into 100,000,000 ordinary shares of the Company of HK\$0.01 each by the holders of the Convertible Notes (note 13).

Further details of the Convertible Notes are also set out in the circulars of the Company dated 18 August 2003 and 1 December 2003, and an announcement made on 20 February 2004.

13. SHARE CAPITAL

Shares

Authorised:

50,000,000,000 ordinary shares of HK\$0.01 each

Issued and fully paid:

4,199,991,157 (31 March 2004: 2,243,991,157)
ordinary shares of HK\$0.01 each

Unaudited 30 September 2004 HK\$'000	Audited 31 March 2004 HK\$'000
500,000	500,000
42,000	22,440



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

	<i>Notes</i>	Number of ordinary shares in issue	Issued share capital HK\$'000	Share premium account HK\$'000
At 1 April 2004		2,243,991,157	22,440	2
Conversion of Convertible Notes	12	100,000,000	1,000	15,000
Issue of new shares	(a)	1,048,000,000	10,480	28,296
Issue of compensation shares	(b)	250,000,000	2,500	2,150
Issue of consideration shares	(c)	558,000,000	5,580	1,674
Share issue expenses		—	—	(434)
At 30 September 2004		<u>4,199,991,157</u>	<u>42,000</u>	<u>46,688</u>

- (a) On 3 June 2004, the Company entered into a subscription agreement with Fortuna Investments Group Limited ("Fortuna") and Sovicotra Capital Limited ("Sovicotra"), two shareholders of the Company. Pursuant to the subscription agreement, Fortuna and Sovicotra agreed to subscribe for an aggregate of 448,000,000 new ordinary shares of the Company at a price of HK\$0.037 per share. Further details of the transaction are also set out in an announcement of the Company dated 9 June 2004.

On 3 June 2004, the Company also entered into another subscription agreement with Solar Sky International Limited to issue 600,000,000 new ordinary shares of the Company at a price of HK\$0.037 per share. Further details of the subscription agreement are also set out in an announcement and a circular of the Company dated 9 June 2004 and 14 July 2004, respectively.

Pursuant to the above subscription agreements, a total of 1,048,000,000 new ordinary shares of the Company of HK\$0.01 each were allotted and issued for cash at a price of HK\$0.037 per share during the period.

- (b) On 3 June 2004, the Company entered into a settlement agreement with Clinton Engineering Limited ("Clinton") to settle the legal proceedings between the two parties. In consideration of Clinton's agreeing to withdraw the legal proceedings against the Company, the Company agreed to pay to Clinton a total of HK\$4,800,000 by a combination of HK\$150,000 in cash and the remaining HK\$4,650,000 either in cash or 250,000,000 ordinary shares of the Company. HK\$150,000 was paid on 8 June 2004 and the Company settled the remaining HK\$4,650,000 by the issue of 250,000,000 new ordinary shares of the Company during the period. Further details of the settlement agreement are also set out in a circular of the Company dated 14 July 2004.
- (c) On 27 August 2004, the Company entered into a sale and purchase agreement with an independent third party, Sunderland Properties Limited, to acquire 608,000,000 shares of China Sci-Tech Holdings Limited at a consideration of HK\$7,254,000, which was satisfied by the issue of 558,000,000 new ordinary shares of the Company. Further details of the sale and purchase agreement are also set out in an announcement and a circular of the Company dated 6 September 2004 and 23 September 2004, respectively.



14. ACQUISITION AND DISPOSAL OF SUBSIDIARIES

(a) Acquisition of subsidiaries

During the period, the Group acquired 100% equity interests in CU Investment Management Limited and Masters of Masters Limited, which operate entertainment and investment consultant business, respectively, in Hong Kong, for a cash consideration of HK\$2,000,000 each.

(b) Disposal of a subsidiary

On 14 July 2004, the Group disposed of its entire interest in Sun Year Enterprises Limited (“Sun Year”) for a cash consideration of HK\$3,600,000, resulting in a loss for the period of approximately HK\$532,000. Sun Year was primarily engaged in the holding of properties in Mainland China during the period, prior to the disposal.

15. CONTINGENT LIABILITIES

Save as detailed in note 13(b) to the interim financial statements, there was no further material development or realisation of the contingent liabilities of the Group as at 31 March 2004 during the period and up to the date of approval of the interim financial statements.

16. 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 leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 30 September 2004, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Unaudited 30 September 2004 HK\$'000	Audited 31 March 2004 HK\$'000
Within one year	328	580
In the second to fifth years, inclusive	—	147
	<hr style="width: 100%; border: 0.5px solid black;"/> 328 <hr style="width: 100%; border: 0.5px solid black;"/>	<hr style="width: 100%; border: 0.5px solid black;"/> 727 <hr style="width: 100%; border: 0.5px solid black;"/>

(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 2004, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Unaudited 30 September 2004 HK\$'000	Audited 31 March 2004 HK\$'000
Within one year	<u>311</u>	<u>420</u>

17. RELATED PARTY TRANSACTION

In addition to the transactions and balances detailed elsewhere in these interim financial statements, the Group had the following material transaction with a related party during the six months ended 30 September 2003:

During the six months ended 30 September 2003, interest income was earned from a then associate of the Group of HK\$2,529,000, arising from certain loans to the associate during that period. The loans to the associate were unsecured, bore interest at 1.4201% per annum above HIBOR and were disposed of as part of the disposal of a subsidiary during the year ended 31 March 2004.

18. COMPARATIVE AMOUNTS

As further explained in notes 3 and 8 to the interim financial statements, certain comparative amounts have been reclassified to conform with the current period presentation.

19. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, the following significant events of the Group, not disclosed elsewhere in the interim financial statements, were occurred:

- (a) Subsequent to the balance sheet date, a rights issue of the Company (the "Rights Issue") on the basis of one rights share for every two existing shares held by members on the register of members on 18 November 2004 (the record date) was made, at an issue price of HK\$0.012 per rights share, resulting in the issue of 2,099,995,578 ordinary shares of the Company of HK\$0.01 each in December 2004, for a total cash consideration, before issue expenses, of approximately HK\$25.2 million. The Company intends to use the net proceeds from the Rights Issue primarily for investments in commercial properties in Hong Kong. Further details of the Rights Issue are set out in a prospectus of the Company dated 24 November 2004.
- (b) On 29 November 2004, the Group entered into a sale and purchase agreement with a third party for the acquisition of certain properties in Hong Kong for a cash consideration, before related expenses, of HK\$51 million. Further details of the sale and purchase agreement are set out in a circular of the Company dated 20 December 2004.
- (c) On 18 December 2004, the Company entered into a subscription agreement with a third party for the placement of 728,000,000 new ordinary shares of the Company of HK\$0.01 each at a subscription price of HK\$0.04 per share for a total cash consideration, before issue expenses, of approximately HK\$29.1 million. The net proceeds from the issue of new ordinary shares of the Company will be used primarily to finance the acquisition of certain properties and the balance will be used to provide additional general working capital for the Group. Further details of the subscription agreement are set out in an announcement of the Company dated 20 December 2004.

20. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

These unaudited condensed consolidated interim financial statements were approved and authorised for issue by the Board on 28 December 2004.



MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESULTS

The Group's unaudited net loss for the six months ended 30 September 2004 was HK\$27,947,000 compared with a net profit of HK\$9,802,000 recorded in the corresponding period last year. However it should be noted such operating loss was caused mainly by the unrealised holding loss of securities investments of HK\$33.9 million which has mostly been recovered subsequent to the financial half year end. Taking out such unrealised loss, the Group should make a net profit for the period.

Turnover increased from HK\$14,011,000 in last period to HK\$25,622,000 in this period. Details of the segmental analysis of the turnover can be seen on note 2 to the condensed consolidated interim financial statements. General and administrative expenses for the period increased from last period's HK\$5,394,000 to this period's HK\$6,072,000. Due to the continual reduction in the Group's average borrowing level, finance costs decreased from last period's figure of HK\$7,653,000 to HK\$2,175,000 in this period.

BUSINESS REVIEW

Businesses of the Group can be divided into four major categories: investment in casino services and gaming business, property investment, investment in securities and money lending businesses. Brief description of each sector's performance is detailed below.

(a) Investment in casino service and gaming business

The Group was one of the first few listed companies that has direct investment in casino service and gaming business in Macau. The Group's HK\$40 million investment and loan in this sector is bringing positive result. Dividend received from this investment amounted to HK\$18 million for the period from January 2004 (the commencement of operations of such investment) to September 2004. Whilst competition is expected to be keen, the management is still optimistic about the future prospect of casino service and gaming business in Macau. The current investment climate in Macau is heated and profitable investments are difficult to locate. While the management is still actively searching for investments in Macau, part of the resources has been diverted to investment in local securities that have existing investments in or have potential future involvement in Macau.

Earlier this year, the Group has proposed to establish and operate a prevention and rehabilitation of pathological gambling centre in Macau. The centre is meant to address the problematic gambling behavior by actively engaging in emergency consultation service, diagnosis and assessment, medical and psychological treatment as well as tailor-made rehabilitation treatment. Unfortunately, such proposal was not viewed favorably by the gambling operator without the support of the gaming operators, the project has been put on hold.



(b) *Property Investment*

In July 2004, the Group disposed of its interests in certain units in Wyfold Industrial City in Buji, Shenzhen, the Mainland China. Subsequent to the financial half year end, the Group has completed the disposal of its interests in certain units in Workingview Commercial Building on Yiu Wah Street in Causeway Bay, Hong Kong at a profit. In addition the Group has entered into agreements to purchase two floors of a commercial building in North Point at a total consideration of HK\$51,000,000. Upon completion, which is expected to take place in January 2005, this investment will provide a stable rental income for the Group. With the gradual recovery of the property market in Hong Kong, the Group would continue to look for other investments in this area.

(c) *Investment in securities*

The performance of the Group's investment in securities was not satisfactory during the half year under review with a loss of HK\$34.7 million. The holding loss of HK\$33.9 million was however mostly recovered subsequent to the fiscal half year end and it is expected the result from this sector would improve for the whole year.

(d) *Money-lending business*

The Group's money-lending businesses have provided a satisfactory return on our funds employed thereon. Surplus cash resources pending long term investments are utilised in this sector to maximise return in the current low interest rate environment.

PROSPECTS

The Group is constantly looking for investment opportunities in the Pearl River Delta region in its various core business sectors. In the past months, the Group has increased its capital base from HK\$169.1 million as at 31 March 2004 to HK\$207.4 million as at 30 September 2004 and further increased to over HK\$231.9 million via a rights issue of shares. With a strong capital base and a relatively low gearing level, the Group is well positioned to take on new investment opportunities as and when they arise. Though the economy in Hong Kong and the region has improved, there are still areas of concerns, like high unemployment rates and gradual creeping inflation. The management would therefore be very cautious in taking up new investments. Barring any unforeseen circumstances, the management is optimistic about the performance of the Group for the full year.



LIQUIDITY, CAPITAL STRUCTURE AND FINANCIAL RESOURCES

As at 30 September 2004, the Group's total assets and borrowings were HK\$261,543,000 and HK\$9,314,000, 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 3.56% (31 March 2004: 1.26%). As at 30 September 2004, investment properties amounted to HK\$8,540,000 were pledged to a bank to secure a loan facility granted to the Group and investments in securities with carrying amount of HK\$56,419,000 were pledged to a margin finance provider to secure margin financing provided to the Group.

The Company had carried out two placements of shares in June 2004. 448,000,000 new ordinary shares of HK\$0.01 each were allotted and issued for cash to Fortuna Investments Group Limited and Sovicotra Capital Limited, two shareholders of the Company, at a price of HK\$0.037 per share in June 2004. Another 600,000,000 new ordinary shares of HK\$0.01 each were also allotted and issued for cash to an independent third party at a price of HK\$0.037 per share in August 2004. Totally net proceeds of approximately HK\$38.7 million have been raised from the placements and the amount will mainly be used to finance the Group's possible future investment. Further details of the movements in the share capital and convertible notes of the Company are set out in notes 13 and 12 to the interim financial statements, respectively. Details of a rights issue and a placement of shares of the Company subsequent to 30 September 2004 and set out in note 19 to the interim financial statements.

ACQUISITION AND DISPOSAL OF SUBSIDIARIES

Details of the acquisition and disposal of subsidiaries during the period are set out in note 14 to the interim financial statements.

CURRENCY RISK MANAGEMENT

Most cash and bank balances are denominated 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.

PLEDGE OF ASSETS

Details of the charges on the Group's assets are set out in note 11 to the interim financial statements.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Details of the acquisition of certain properties by the Group subsequent to the balance sheet date are set out in note 19 to the interim financial statements. Further details of which are also included in the section "Business Review", under the sub-heading "Property investments" above. The acquisition is expected to be financed primarily by the proceeds from the issue of new shares of the Company subsequent to the balance sheet date and new/available credit facilities of the Group, as well as the internal financial resources of the Group.

CONTINGENT LIABILITIES

Details of the Group's contingent liabilities are set out in note 15 to the interim financial statements.



LITIGATION

On 6 May 2004, five wholly-owned subsidiaries of the Company, namely Alford Investments Limited, Angel Hand Investments Limited, Newest Profits Limited, Success Conquer Limited and Winowise Limited (together, the “Plaintiffs”), filed five writs of summons (the “Writs”) in the High Court, respectively, against two companies, namely Great Gains International Limited and Pacific Kingdom Investments Limited (together, the “Defendants”) for the breach of five agreements for sale and purchase (the “Properties Sale Agreements”) of certain property interests. On 10 December 2004, five consent orders were signed between the Plaintiffs and the Defendants which the Plaintiffs wholly discontinue the action against the Defendants.

POST BALANCE SHEET EVENTS

Details of the Group’s post balance sheet events are set out in note 19 to the interim financial statements.

DIRECTORS’ AND CHIEF EXECUTIVE’S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 30 September 2004, 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:

Long positions in the ordinary shares of the Company

Name of director	Number of shares of HK\$0.01 each held, capacity and nature of interest		Percentage of the Company’s issued share capital
	Directly beneficially held	Through controlled corporation	
Kwong Kai Sing, Benny	—	158,000,000 <i>Note (1)</i>	3.76%
Ong Peter	—	200,000,000 <i>Note (2)</i>	4.76%

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 2004, none of the directors and chief executive of the Company, or any of their associates, had registered any interests 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.

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 SCHEME AND WARRANTS

Share options

The Company operates a share option scheme on 10 October 1996, which was subsequently amended on 30 September 1997, for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations (the "Old Share Option Scheme"). The provisions of the Old Share Option Scheme do not comply with the current requirements of Chapter 17 of the Listing Rules. Accordingly, during the period, the Board proposed to adopt a new share option scheme (the "New Share Option Scheme") to replace the Old Share Option Scheme and to terminate the Old Share Option Scheme with effect from the adoption of the New Share Option Scheme. The New Share Option Scheme will comply with Chapter 17 of the Listing Rules. A summary of the principal terms of the New Share Option Scheme is set out in a circular of the Company dated 10 September 2004.

At the special general meeting of the Company held on 28 September 2004, the ordinary resolution to adopt the New Share Option Scheme and to terminate the Old Share Option Scheme was duly passed by the shareholders of the Company.

During the six months ended 30 September 2004, no share options were granted, cancelled or exercised.



The following share options were outstanding under the Old Share Option Scheme during the six months ended 30 September 2004:

Category of participant	Number of share options			Date of grant of share options *	Exercise period of share options	Exercise price of share options ** HK\$	Price of Company's shares at grant date of options *** HK\$
	At	Granted	At				
	1 April 2004 '000	during the period '000	30 September 2004 '000				
Employee	22,430	—	22,430	30-01-2004	30-01-2004 to 30-01-2014	0.114	0.108

* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital. Pursuant to the provisions of the Old Share Option Scheme, the rights issue of the Company subsequent to the balance sheet date (the "Rights Issue") will constitute an event giving rise to an adjustment to the exercise price of the share options granted under that scheme.

The Company will determine the adjustments required to be made to the exercise price of the share options as a result of the Rights Issue and will give notice to the holders of the share options granted under the Old Share Option Scheme according to the terms of that scheme.

*** The price of the Company's shares disclosed as at the date of grant of the share options is the Stock Exchange closing price on the trading day on which the options were granted.

At 30 September 2004, the Company had 22,430,000 share options outstanding under the Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 22,430,000 additional ordinary shares of the Company and additional share capital of approximately HK\$224,300 and share premium of approximately HK\$2,333,000 (before issue expenses).

Warrants

At 31 March 2004, the Company had 448,779,935 warrants outstanding (the "Warrants"), which entitle the holders thereof to subscribe for 448,779,935 ordinary shares of the Company of HK\$0.01 each in cash in aggregate up to HK\$76,292,589 at an initial subscription price of HK\$0.17 per share, subject to adjustment, from 13 October 2003 to 12 April 2005. Pursuant to the terms of the instrument constituting the Warrants, the subscription price payable on the exercise of subscription rights attached to the Warrants was adjusted from HK\$0.17 to HK\$0.16 per share with effect from 19 November 2004 (being the day following the record date of the Rights Issue) as a result of the Rights Issue. The Warrants are listed and traded on the main board of the Stock Exchange. During the six months ended 30 September 2004, no such warrants were exercised.



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

As at 30 September 2004, 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		Capacity and nature of interest	Number of Ordinary shares of HK\$0.01 each held	Percentage of the Company's issued share capital
Chuang Eugene Yue-Chien	<i>Note</i>	Through a controlled corporation	558,000,000	13.29%
Sunderland Properties Limited		Directly beneficially owned	558,000,000	13.29%
Radford Capital Investment Limited		Directly beneficially owned	267,420,000	6.37%

Note: These shares represented the same parcel of shares and were held by Sunderland Properties Limited ("Sunderland Properties"). Sunderland Properties is a company wholly-owned by Mr Chuang Eugene Yue-Chien.

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, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 30 September 2004, neither the Company nor any of its subsidiaries purchased, sold or 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 (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme.



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.

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, which specifies the best practices to be followed by all directors throughout the six months ended 30 September 2004, 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, 28 December 2004