

Heritage

CHAIRMAN'S STATEMENT & MANAGEMENT DISCUSSION AND ANALYSIS

To Shareholders,

On behalf of the Board of Directors, I hereby present the annual report of the Group for the year ended 31 March 2006.

FINANCIAL RESULTS

The Group's audited consolidated loss for the year ended 31 March 2006 was HK\$24,176,000 compared with last year's attributable loss of HK\$19,932,000 (restated). The net assets value of the Group increased from HK\$338,950,000 (restated) as at 31 March 2005 to HK\$821,035,000 as at 31 March 2006.

Revenue for the year amounted to HK\$242,287,000 whilst last year's figure was HK\$91,965,000. Details of the breakdown of the revenue can be seen on note 5 to the financial statements.

On the expenses side, the level of total operating expenses increased in this year mainly due to the provision for impairment of listed securities amounted to HK\$279,000 and the impairment of loans and receivables amounted to HK\$4,744,000. General and administrative expenses increased from last year's figure of HK\$18,728,000 to HK\$21,448,000 in this year being in line with the increase in the size of our operation. Finance costs increased from last year's figure of HK\$3,833,000 (restated) to HK\$4,760,000 this year.

FINAL DIVIDEND

The Directors do not recommend the payment of any final dividend for the financial year.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is an investment holding company with the following major lines of business:

- a) **Real Estate Investment:** the Group has a total of three floors of an office building in Hong Kong, one of which was purchased after the year end at a consideration of HK\$49 million. A large part of the office space is currently leased out with a small portion retained as the principal office of the Group. In addition, the Group owns two shop spaces in North Point one of which was sold subsequent to the year end. The total value of the Group's portfolio stood at HK\$154 million as at year end.
- b) **Investment in Listed Securities:** the Group's fair value gain of listed securities investments through profit or loss was HK\$77.4 million. Since part of the investments is long term in nature, another HK\$53 million fair value gain went to reserve for the current fiscal year. The total portfolio value of this sector stood at HK\$308 million as at year end.



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- c) **Money Lending Business:** the Group's money lending business has been profitable though the profitability was affected by provision against doubtful receivables of approximately HK\$4.7 million. As at fiscal year end, the Group's loan portfolio was HK\$202 million and it is expected a similar level of exposure would be maintained for the coming year.
- d) **Investment in Media Business in the PRC:** In late 2005, the Group announced that it would invest a maximum of HK\$40 million in a new line of business, media business in the PRC. The proposed investment was approved by shareholders in a shareholders meeting but the investment was only made subsequent to the fiscal year end as the investee company underwent a restructuring exercise to prepare itself for a possible listing in the near future. The management is very excited about this new venture as the investee company, Shanghai Newline Advertising Inc., has an exclusive agreement with China Welfare Lottery Issuance Centre to renovate the latter's 50,000 existing lottery ticket selling booths, counters and stands located all over the country in return for the advertising right outside those selling media. This would turn out to be a very extensive and powerful outdoor advertising network nationwide in particularly the number of selling media is expected to grow to 150,000 within the next 5 years time. In addition, since each selling media is Internet enabled, there can be plenty of rooms to add on other interactive content to enhance profitability. Through its close liaison with the China Welfare Lottery Issuance Centre, the investee company's management has established a very cordial relationship with top officials of the Centre which would open up plenty of other investment opportunities within the lottery industry in the PRC. Independent business valuation of this business prepared by professional valuer as at 31 December 2005, before our new subscription of shares, was HK\$600 million.

Prospect

During the year, the Group has further strengthened its equity base through a series of fund raising exercises. As at fiscal year end, the Group's consolidated equity base stood at HK\$821 million. Subsequent to fiscal year end, the Group has also completed a HK\$300 million issuance of convertible bonds. The subscribers include major institutional investor which further reflects the Group's improved rating within the investment community. With the additional cash resources, the Group is in a very strong position to take on new investment opportunities as and when they arise.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 March 2006, the Group's total assets and borrowings were HK\$904,939,000 and HK\$59,075,000 respectively. The borrowings of the Group carried floating interest rates with 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 6.53%. As at 31 March 2006, investment properties and leasehold property amounted to HK\$133,800,000 and HK\$20,317,000, respectively, were pledged to a bank to secure certain loan facilities granted to the Group and investments in securities with carrying amount of HK\$411,808,000 were pledged to certain financial institutes to secure margin financing facilities provided to the Group.

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 benefits scheme under the Hong Kong Mandatory Provident Fund Schemes Ordinance, for all its employees.

CONTINGENT LIABILITIES

The Company has major contingent liabilities relating to guarantees given to banks in connection with facilities granted to subsidiaries of approximately HK\$38,260,000 (2005: HK\$30,000,000).

Finally, I would like to take this opportunity to thank all of my fellow directors and members of staff for their dedicated services, support and contribution during the year. Looking forward to their continual support and excellent services in the coming years.

Kwong Kai Sing, Benny

Chairman

Hong Kong
25 July 2006