

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

I. CORPORATE INFORMATION, BASIS OF PREPARATION AND 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 condensed consolidated financial statements for the six months ended 30 September 2006 have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by 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 unaudited interim condensed consolidated financial statements do 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 2006.

Significant accounting policies

The accounting policies and basis of preparation adopted in the preparation of the unaudited interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 March 2006, except for the adoption of the following amendments to and interpretation of Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA mandatory for annual periods beginning on or after 1 January 2006.

HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

The adoption of the above amendments and interpretation has had no material impact on the Group’s results of operations for the current period or financial position at 30 September 2006 in the Group’s condensed consolidated financial statements.

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these unaudited interim condensed consolidated financial statements. 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.

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

Significant accounting policies (continued)

HKAS 1 Amendment	Capital Disclosures (Note 1)
HKFRS 7	Financial Instruments: Disclosures (Note 1)
HK(IFRIC)-Int 8	Scope of HKFRS 2 (Note 2)
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives (Note 3)
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment (Note 4)

Notes:

1. Effective for annual periods beginning on or after 1 January 2007
2. Effective for annual periods beginning on or after 1 May 2006
3. Effective for annual periods beginning on or after 1 June 2006
4. Effective for annual periods beginning on or after 1 November 2006

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 their rental income potential and/or their 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 their dividend income and capital appreciation.

2. SEGMENT INFORMATION (continued)

Business segments

The following tables presents revenue and results information for the Group's business segments for the six months ended 30 September 2006 and 2005:

	Property investment		Investments in securities		Money lending		Investment holding		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	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Segment revenue:										
Revenue from external customers	3,588	2,698	233,315	103,767	11,755	4,993	-	-	248,658	111,458
Other revenue and gains	-	-	-	-	-	-	3,934	196	3,934	196
Total	3,588	2,698	233,315	103,767	11,755	4,993	3,934	196	252,592	111,654
Segment results	(8,148)	8,400	(149,005)	(77,657)	1,733	3,276	(33,027)	(653)	(188,447)	(66,634)
Unallocated other income and gains									400	1,438
Unallocated expenses									(1,301)	(1,512)
Finance costs									(15,075)	(5,391)
Loss before tax									(204,423)	(72,099)
Tax									1,523	(1,374)
Loss for the period									(202,900)	(73,473)

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; interest income and dividend income from equity investments; and proceeds from sale of equity investments at fair value through profit or loss during the period.

	For the six months ended 30 September	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Gross rental income from investment properties	3,588	2,698
Interest income from money lending operations	11,755	4,993
Dividend income from investments at fair value through profit or loss	2,294	427
Proceeds from sale of equity investments at fair value through profit or loss	231,021	103,340
	248,658	111,458

4. FINANCE COSTS

	For the six months ended 30 September	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest on:		
Bank loans and other borrowings wholly repayable within five years	969	3,380
Bank loans not wholly repayable within five years	1,885	646
Convertible notes	12,247	1,365
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Total interest	15,101	5,391
Less: Interest expense classified as cost of sales	(13)	–
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Total finance costs for the period	15,088	5,391
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5. LOSS BEFORE TAX

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

	For the six months ended 30 September	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Depreciation	2,124	1,067
Write-off a bad debt	–	5,000
Impairment of loans receivable*	10,000	265
Impairment of an available-for-sale investment*	11,560	2,692
Impairment of loan to an investee company*	24,838	–
Loss on disposal of an investment property*	620	–
Gain on disposal of an available-for-sale investment	(6,104)	–
Interest income from money lending operations	(11,755)	(4,993)
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* These items are included in "Other expenses" on the face of the interim condensed consolidated income statement.

6. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits arising in Hong Kong during the period.

	For the six months ended 30 September	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Group:		
Deferred tax charge/(credit) – Hong Kong	<u>(1,523)</u>	<u>1,374</u>

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 (2005: Nil).

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 net loss for the period attributable to ordinary equity holders of the Company for the period of HK\$202,900,000 (2005: HK\$73,473,000) and (ii) the weighted average number of 9,598,655,713 (2005 (restated): 1,527,568,609) ordinary shares in issue during the period. The basic loss per share amount for the six months ended 30 September 2005 has been adjusted to reflect the rights issue of shares during the year ended 31 March 2006.

(b) Diluted loss per share

Diluted loss per share amounts for the six months ended 30 September 2006 and 2005 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 amounts for these periods.

8. DIVIDEND

The Board does not recommend the payment of any interim dividend for the period (2005: Nil).

9. AVAILABLE-FOR-SALE INVESTMENTS

	30 September 2006 (Unaudited) HK\$'000	31 March 2006 (Audited) HK\$'000
Club membership debenture	630	630
Listed equity investments, at fair value:		
Hong Kong	27,456	104,000
Elsewhere	8,051	12,434
	35,507	116,434
Unlisted equity investments, at cost	54,905	128,105
Less: Provision for impairment	(54,880)	(123,184)
	25	4,921
	36,162	121,985

At 30 September 2006, an available-for-sale investment of the Group with a carrying value of approximately HK\$27 million (31 March 2006: HK\$104 million) was pledged to a financial institution to secure certain margin financing facilities provided to the Group.

10. LOAN TO AN INVESTEE COMPANY

The loan to an investee company is unsecured, bears interest at an effective interest rate of approximately 10.2% per annum and repayable after eight years from 21 March 2005 (date of drawdown).

11. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 September 2006 (Unaudited) HK\$'000	31 March 2006 (Audited) HK\$'000
Listed equity investments, at fair value:		
Hong Kong	236,485	307,808
Elsewhere	7,094	–
Unlisted debt securities, at fair value:		
Hong Kong	50,411	–
	293,990	307,808

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

12. LOANS RECEIVABLE

	30 September 2006 (Unaudited) HK\$'000	31 March 2006 (Audited) HK\$'000
Loans receivable	379,200	213,200
Less: Provision for impairment	<u>(20,750)</u>	<u>(10,750)</u>
	358,450	202,450
Less: Balances due within one year included in current assets	<u>(356,450)</u>	<u>(200,450)</u>
Non-current portion	<u>2,000</u>	<u>2,000</u>

Loans receivable represent receivables arising from the money lending business of the Group, and bear interest at rates ranging from 2% below Hong Kong dollar prime rate (the "Prime Rate") to 5% above the Prime Rate per annum (31 March 2006: 2% below the Prime Rate to 3% above the Prime Rate). The granting of these loans are approved and monitored by the Company's executive directors in charge of the Group's money lending operations.

13. INTEREST-BEARING BANK BORROWINGS

	Effective interest rate (%)	Maturity	30 September 2006 (Unaudited) HK\$'000	31 March 2006 (Audited) HK\$'000
Current				
Bank loans – secured	HIBOR [^] + 1.25		1,872	2,520
Bank loans – secured	HIBOR [^] + 1.5		2,394	–
Bank loans – secured	Prime* – 2.25		846	991
Bank loans – secured	Prime* – 2.5		2,596	–
Bank loans – secured	Prime* – 2.8		858	–
Bank loans – secured	Prime*		<u>–</u>	<u>7,726</u>
			8,566	11,237
Non-current				
Bank loans – secured	HIBOR [^] + 1.25	2012	–	24,540
Bank loans – secured	HIBOR [^] + 1.25	2021	25,972	–
Bank loans – secured	HIBOR [^] + 1.5	2010	17,439	–
Bank loans – secured	Prime* – 2.25	2013	1,055	7,858
Bank loans – secured	Prime* – 2.25	2025	7,358	7,940
Bank loans – secured	Prime* – 2.5	2018	39,692	–
Bank loans – secured	Prime* – 2.8	2018	13,003	–
Bank loans – secured	Prime*	2007	<u>–</u>	<u>7,500</u>
			104,519	47,838
			<u>113,085</u>	<u>59,075</u>

[^] Denotes the Hong Kong Interbank Offered Rate.

* Represents the Hong Kong dollar prime rate as quoted by Liu Chong Hang Bank Limited, Wing Hang Bank Limited, and Bank of East Asia Limited.

13. INTEREST-BEARING BANK BORROWINGS (continued)

- (a) The Group's bank loans are secured by:
- (i) mortgages over the Group's land and buildings situated in Hong Kong, which had an aggregate carrying value at the balance sheet date of approximately HK\$19,793,000 (31 March 2006: HK\$20,317,000);
 - (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\$114,500,000 (31 March 2006: HK\$133,800,000);
 - (iii) a corporate guarantee given by the Company up to HK\$113,000,000 (31 March 2006: HK\$38,260,000); and
 - (iv) a personal guarantee to the extent of HK\$1,201,000 given by a holder of the Company's convertible notes at the balance sheet date.
- (b) The Group investments in securities with an aggregate carrying value of approximately HK\$271,035,000 (31 March 2006: HK\$411,808,000) were pledged to certain financial institutions to secure certain margin financing facilities provided to the Group which were not utilised as at 30 September 2006 (31 March 2006: Nil).

14. CONVERTIBLE NOTES

On 6 April 2006, the Company issued redeemable convertible notes of 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 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 7 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, 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. During the period, principal amount of HK\$100 million of the 2006 CNs were converted into 4,000 million ordinary shares of the Company of HK\$0.02 each at a conversion price of HK\$0.025 per share. The 2006 CNs outstanding as at 30 September 2006 had face values aggregating HK\$200 million.

According to HKAS 32 "Financial Instruments: Disclosure and Presentation", the 2006 CNs are required to be separated into liability and equity components on its initial recognition and the liability component is carried at amortised cost using the effective interest method. Accordingly, as at 30 September 2006, the liability component of the outstanding 2006 CNs was stated at amortised cost in the amount of HK\$188,998,000. The equity component of the outstanding 2006 CNs of HK\$6,079,000 as at 30 September 2006 was included in the shareholders' equity.

15. SHARE CAPITAL

	30 September 2006 (Unaudited) HK\$'000	31 March 2006 (Audited) HK\$'000
Authorised:		
25,000,000,000 ordinary shares of HK\$0.02 each	<u>500,000</u>	<u>500,000</u>
Issued and fully paid:		
11,700,081,943 (31 March 2006: 7,134,081,943) ordinary shares of HK\$0.02 each	<u>234,002</u>	<u>142,682</u>

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

	Notes	Number of ordinary shares issued	Issued capital HK\$'000	Share premium account HK\$'000	Total HK\$'000
At 1 April 2006		7,134,081,943	142,682	387,885	530,567
Conversion of 2006 CNs	(a)	4,000,000,000	80,000	22,618	102,618
Exercise of share options	(b)	566,000,000	11,320	2,830	14,150
At 30 September 2006		<u>11,700,081,943</u>	<u>234,002</u>	<u>413,333</u>	<u>647,335</u>

- (a) During the six months ended 30 September 2006, 4,000,000,000 new ordinary shares of HK\$0.02 each of the Company were issued upon the conversion of the convertible notes with face values aggregating HK\$100,000,000 issued by the Company.
- (b) The subscription rights attaching to 566,000,000 share options granted to certain directors of the Company during the period were exercised at a subscription price of HK\$0.025 per share, resulting in the issue of 566,000,000 ordinary shares of HK\$0.02 each for a total cash consideration, before expenses, of approximately HK\$14,150,000.

16. ACQUISITION AND DISPOSAL OF SUBSIDIARIES

(a) Acquisition of a subsidiary

On 30 March 2006, the Group entered into a conditional sale and purchase agreement with an independent third party to acquire the entire issued share capital and shareholders' loans of Wiseteam Assets Limited ("Wiseteam") at a cash consideration of HK\$49,000,000. Wiseteam is the registered owner of a property located at 30/F, China United Centre, 28 Marble Road, North Point, Hong Kong. The acquisition was completed on 5 June 2006.

(b) Disposal of a subsidiary

On 23 August 2006, the Group disposed of its entire interest in a wholly-owned subsidiary, Masters of Masters Limited ("MOM"), to an independent third party for a cash consideration of HK\$480,000, resulting in a loss of approximately HK\$362,000 for the period. MOM was primarily engaged in the provision of model agency and other entertainment related services.

17. CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 30 September 2006 (31 March 2006: Nil).

18. 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 2006, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	30 September 2006 (Unaudited) HK\$'000	31 March 2006 (Audited) HK\$'000
Within one year	4,003	3,977
In the second to fifth years, inclusive	3,364	2,547
	7,367	6,524

19. COMMITMENTS

At 30 September 2006, the Group did not have any material commitments.

At 31 March 2006, the Group had the following material commitments:

- (a) On 30 March 2006, the Group entered into a conditional sale and purchase agreement with an independent third party to acquire the entire issued share capital and the shareholders' loans of Wiseteam at a cash consideration of HK\$49,000,000. A purchase deposit of HK\$4,900,000 was paid upon signing the agreement and the remaining balance of HK\$44,100,000 was payable upon completion.
- (b) On 25 October 2005, the Group entered into a framework agreement (the "Original Agreement") with independent third parties, to conditionally subscribe for a 20% equity interest in Shanghai Newline Advertising Inc. ("Shanghai Newline"), a limited liability company in the People's Republic of China (the "PRC"), at a cash consideration of HK\$20,000,000. The Group also had the right to further increase its shareholding interest in Shanghai Newline to 40% by injecting another HK\$20,000,000 in cash into Shanghai Newline. A deposit of HK\$2,000,000 was paid and the remaining balance of HK\$18,000,000 had to be paid by the Group upon the completion of the subscription, which is subject to, inter alia, the passing of the necessary resolution by the shareholders of the Company, approval from the foreign investment approval authorities and other relevant authorities in the PRC for the proposed acquisition.
- (c) In the prior year ended 31 March 2006, the Group entered into a sale and purchase contract with an independent third party to acquire a motor vehicle at a cash consideration of HK\$1,827,000. A purchase deposit of HK\$450,000 was paid and the remaining balance of HK\$1,377,000 had to be payable upon the delivery of the motor vehicle.

20. RELATED PARTY TRANSACTIONS

- (a) In addition to the transactions and balances detailed elsewhere in these unaudited interim condensed consolidated financial statements, the Group had the following material transaction with a related party during the period:

	For the six months ended 30 September	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Interest charge to a company, in which a director of the Company is also a director of that company (Note)	785	—

Note: The interest was charge at Prime Rate.

20. RELATED PARTY TRANSACTIONS (continued)

(b) Other transaction with a related party

During the 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 at 30 September 2006, is unsecured, bears interest at Prime Rate and is repayable within one year (2005: Nil).

(c) Compensation of key management personnel of the Group:

	For the six months ended 30 September	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Short term employee benefits	2,175	2,034
Post-employment benefits	30	5
Share-based payments	2,423	–
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Total compensation paid to key management personnel	4,628	2,039
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21. POST BALANCE SHEET EVENT

Subsequent to the balance sheet date on 13 December 2006, the Group entered into a non-legally binding letter of intent with a casino owner in Macau (the “Owner”), pursuant to which, the Group had agreed to provide certain management services to the Owner in connection with a VIP area to be established in a Las Vegas style casino in Cotai, Macau. The said management arrangement is subject to formal agreement and finalisation of the terms and conditions thereof. Further details are also set out in an announcement of the Company dated 13 December 2006.

22. APPROVAL OF THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

These unaudited interim condensed consolidated financial statements were approved and authorised for issue by the Board of Directors on 22 December 2006.