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HERITAGE INTERNATIONAL HOLDINGS LIMITED

漢基控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 412)

MAJOR AND CONNECTED TRANSACTIONS

INVESTMENT OF 20% IN FOUND MACAU

AND

HK\$100 MILLION SHAREHOLDERS LOAN

AND

REDEMPTION OF HK\$36 MILLION EXISTING CONVERTIBLE NOTES

AND

ISSUE OF UP TO HK\$150 MILLION NEW CONVERTIBLE NOTES

**Independent Financial Adviser to
the Independent Board Committee and the Independent Shareholders**

 **KIM ENG**

KIM ENG CORPORATE FINANCE (HONG KONG) LIMITED

A letter from the Independent Board Committee is set out on page 23 of this circular and a letter from the independent financial adviser to the Independent Board Committee and the Independent Shareholders is set out on pages 24 to 39 of this circular.

A notice convening the SGM to be held on Monday, 14 March 2005 at The Room, 2/F., Harbour Plaza North Point Hong Kong, 665 King's Road, North Point, Hong Kong at 9:00 a.m. is set out on pages 118 to 120 of this circular. Whether or not Shareholders are able to attend the SGM, Shareholders are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the registered office of the Company at 32/F, China United Centre, No. 28 Marble Road, North Point, Hong Kong, as soon as possible but in any event not less than 48 hours before the time appointed for holding the SGM. Completion and return of the form of proxy will not preclude Shareholders from attending and voting in person at the SGM should Shareholders so wish.

* *For identification purposes only*

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DEFINITIONS

In this circular, the following expressions have the following meanings unless the context requires otherwise:

“Alpha Aim”	Alpha Aim International Limited, a company incorporated in the British Virgin Islands on 18 November 2004 and a wholly-owned subsidiary of China United;
“Associates”	has the meaning ascribed thereto in the Listing Rules;
“Board”	the board of directors of the Company;
“China United”	China United International Holdings Limited (Stock Code: 273), a company incorporated in Hong Kong the shares of which are listed on the Stock Exchange;
“Company”	Heritage International Holdings Limited (Stock Code: 412), a company incorporated in Bermuda, the shares of which are listed on the Stock Exchange;
“Connected Person(s)”	has the meaning ascribed thereto in the Listing Rules;
“Conversion Price”	the initial conversion price of the New Convertible Notes of HK\$0.05 per Share (subject to adjustment as provided in the terms and conditions of the New Convertible Notes);
“Conversion Shares”	such number of new Shares to be issued upon the exercise of the conversion rights attaching to the New Convertible Notes and the FM Convertible Note;
“Directors”	the directors of the Company;
“Existing Convertible Notes”	the convertible notes issued by the Company on 15 April 2004 in the aggregate outstanding principal amount of HK\$36 million, the details of which are referred to in the Company’s announcement dated 20 February 2003 and 11 August 2003;
“FM Acquisition”	the proposed acquisition of 20 FM Shares by Rightmind;
“FM Business”	gambling entertainment and related businesses in Macau;
“FM Convertible Note”	the convertible note to be issued by the Company to Found Macau to satisfy in part its obligation to contribute to the Found Macau Loan as described in the section headed “FM Convertible Note”;
“FM Group”	Found Macau and its subsidiaries;
“FM Investors”	new investors in Found Macau;

DEFINITIONS

“FM Shares”	shares of a par value of US\$1.00 each in the capital of Found Macau;
“FM Transactions”	the FM Acquisition, Found Macau Loan, FM Convertible Note and Shareholders Agreement;
“Fortuna”	Fortuna Investments Group Limited, a limited liability company incorporated in the British Virgin Islands which is a wholly-owned subsidiary of Goldworld Development Limited, a company wholly-owned by Mr. Kwong Kai Sing, Benny, the chairman of the Company;
“Found Macau”	Found Macau Investments International Limited, a company incorporated in the British Virgin Islands;
“Found Macau Loan”	an unsecured shareholders’ loan of HK\$100,000,000 which is interest free and repayable on demand after 8 years from the date of drawdown agreed to be made by Rightmind to Found Macau;
“Founders”	Lao Hin Chun, Filipe Lau and Lourenco Cheong;
“Group”	the Company and its subsidiaries;
“Kim Eng”	Kim Eng Corporate Finance (Hong Kong) Limited, the independent financial adviser appointed to advise the Independent Board Committee on the FM Transactions;
“Independent Board Committee”	the independent board committee appointed by the Directors to advise the Independent Shareholders on the FM Transactions;
“Independent Shareholders”	Shareholders other than Sovicotra, who has a material interest in the FM Transactions, and its Associates;
“Latest Practicable Date”	22 February 2005, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Mr. Lao”	Mr. Lao Hin Chun, one of the Founders;
“Mr. Ong”	Mr. Peter Ong, the managing director of the Company;
“New Convertible Notes”	a series of non-interest bearing convertible redeemable notes in an aggregate principal amount of up to HK\$150 million due on the fifth anniversary from the date of issue;

DEFINITIONS

“Placing”	the conditional placing of the New Convertible Notes pursuant to the Placing Agreement;
“Placing Agent”	Kingston Securities Limited, a limited liability company incorporated in Hong Kong and a corporation deemed licensed under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
“Placing Agreement”	the conditional placing agreement between the Placing Agent and the Company dated 24 January 2005 in relation to the Placing;
“Promissory Note”	the promissory note to be executed by Found Macau in favour of Rightmind to evidence the Found Macau Loan;
“Rightmind”	Rightmind Developments Limited, a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of the Company;
“SFO”	the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong);
“Shares”	shares of a par value of HK\$0.01 each in the Company;
“Shareholder(s)”	holder of (a) Share(s);
“Shareholders Agreement”	the Shareholders Agreement relating to Found Macau dated 22 February 2005 entered into between Found Macau, the Founders, Alpha Aim and Vision Gate in relation to the Found Macau which Rightmind proposes to become a party to via a deed of adherence to be entered into between Found Macau, the Founders, Alpha Aim, Vision Gate and Rightmind;
“SGM”	the special general meeting of the Company to be held on Monday, 14 March 2005 at The Room, 2/F., Harbour Plaza North Point Hong Kong, 665 King’s Road, North Point, Hong Kong at 9:00 a.m. to approve matters related to the Transactions;
“Sovicotra”	Sovicotra Capital Limited, a limited liability company incorporated in the British Virgin Islands which is wholly-owned by Mr. Ong Peter, the managing director;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;

DEFINITIONS

“Transactions”	the FM Acquisition, the Found Macau Loan, the Shareholders Agreement, the Placing, the issue of the New Convertible Notes and the FM Convertible Note and the Conversion Shares upon exercise of the New Convertible Notes and the FM Convertible Note;
“Unity”	Unity Investments International Limited (Stock Code 913) a company whose shares are listed on the Stock Exchange;
“Verbal Agreement”	the Verbal Agreement dated 22 January 2005 entered into between the Founders, Alpha Aim, Vision Gate and Rightmind in relation to the FM Acquisition, the Found Macau Loan (including the FM Convertible Note) and the Shareholders Agreement;
“Vision Gate”	Vision Gate Enterprises Limited, a company incorporated in British Virgin Islands; and
“Warrants”	the warrants issued by the Company, entitling the holders thereof to subscribe for shares at the subscription price HK\$0.16 per Share, subject to adjustment, exercisable between 13 October 2003 to 12 April 2005.



HERITAGE INTERNATIONAL HOLDINGS LIMITED

漢基控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 412)

Executive Directors

Mr. Kwong Kai Sing, Benny

Mr. Ong Peter

Ms. Poon Chi Wan

Non-executive Directors

Mr. Chung Yuk Lun

Independent Non-executive Directors

Mr. Chan Sze Hung

Mr. To Shing Chuen

Mr. Frank H. Miu

Registered Office and Head Office:

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

Principal place of business in Hong Kong:

32/F, China United Centre

No.28 Marble Road

North Point

Hong Kong

25 February 2005

To the Shareholders and for information only to the holders of Warrants

Dear Sir/Madam,

**MAJOR AND CONNECTED TRANSACTIONS
INVESTMENT OF 20% IN FOUND MACAU
AND**

**HK\$100 MILLION SHAREHOLDERS LOAN
AND**

**REDEMPTION OF HK\$36 MILLION EXISTING CONVERTIBLE NOTES
AND**

ISSUE OF UP TO HK\$150 MILLION NEW CONVERTIBLE NOTES

INTRODUCTION

In the announcement of the Company dated 25 January 2005, the Company announced, inter alia, that:

- (i) On 22 January 2005, Rightmind entered into the Verbal Agreement with the Founders, Alpha Aim and Vision Gate whereby Rightmind agreed, amongst other things, to acquire 20 FM Shares from the Founders, enter into the Shareholders Agreement and make a shareholders loan of HK\$100 million to Found Macau, conditional upon the approval of Shareholders at the SGM.

* For identification purposes only

LETTER FROM THE BOARD

- (ii) The Company has on 22 January 2005 given notice to the holders of the Existing Convertible Notes that it will redeem all the outstanding Existing Convertible Notes in full in the aggregate principal amount of HK\$36,000,000 at 100% of the outstanding principal amount, subject to Shareholders approving the issue of the New Convertible Notes at the SGM.
- (iii) On 24 January 2005, the Company entered into Placing Agreement with the Placing Agent in relation to, amongst other things, the Placing, as to the principal amount of HK\$100 million on a fully underwritten basis and as to the principal amount of HK\$50 million on a best effort basis, by the Placing Agent of the New Convertible Notes.

Mr. Lao is the stepfather of Mr. Ong the managing director of the Company and hence an “associate” of a director of the Company treated as a connected person of the Company under Rule 14A.11(4)(b) of the Listing Rules. The FM Transactions constitute major and connected transactions under Rule 14.06 and Rule 14A.13 of the Listing Rules and are subject to approval of independent shareholders at the SGM.

The purpose of this circular is to set out details of (i) the Transactions (including the Placing of the New Convertible Notes) (ii) the letter from the Independent Board Committee to the Independent Shareholders (iii) the recommendation from Kim Eng to the Independent Board Committee and the Independent Shareholders on the FM Transactions and (iv) a notice convening the SGM at which resolutions will be proposed to Shareholders to consider and if thought fit to approve the Transactions.

Found Macau

On 22 February 2005, Alpha Aim acquired 30 FM Shares from the Founders and will as soon as practicable make a loan of HK\$150 million to Found Macau.

As at the Latest Practicable Date, the shareholders of Found Macau are:

- (1) Lao Hin Chun — 19 FM Shares, representing 19% of the issued share capital of Found Macau;
- (2) Filipe Lau — 43 FM Shares, representing 43% of the issued share capital of Found Macau;
- (3) Lourenco Cheong — 20 FM Shares, representing 20% of the issued share capital of Found Macau;
- (4) Alpha Aim — 30 FM Shares; and
- (5) Vision Gate — 1 FM Share, representing 1% of the issued share capital of Found Macau. Vision Gate is required to contribute a shareholders loan in the amount of HK\$5,000,000 in cash on the same terms as the New Found Macau Loan to Found Macau (save as to amount and that it is contributed in cash). This amount has been deposited into Found Macau. The promissory note to evidence the loan will only be issued by Found Macau after the HK\$500,000,000 shareholders loans have been advanced.

LETTER FROM THE BOARD

The Founders acquired the FM Shares at the par value of US\$1.00 for each FM Share.

Vision Gate

Vision Gate is a wholly-owned subsidiary of Unity. Vision Gate is an investment holding company set up to invest in Found Macau and other investments.

Alpha Aim

Alpha Aim is a wholly-owned subsidiary of China United. Alpha Aim is an investment holding company set up to invest in Found Macau and other investments.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Vision Gate and Alpha Aim are not Connected Persons of the Company and are otherwise independent of the Company and Connected Persons of the Company.

THE VERBAL AGREEMENT

Date: 22 January 2005

Parties: the Founders
Alpha Aim
Vision Gate
Rightmind

Terms: Conditional upon approval of the FM Transactions (excluding the Placing) by Shareholders at the SGM:

- (i) Rightmind will acquire 20 FM Shares at US\$20 from the Founders at US\$20;
- (ii) Rightmind will make the Found Macau Loan of HK\$100 million to Found Macau, details of which are described below; and
- (iii) Rightmind will enter into the Shareholders Agreement with Found Macau, the Founders, Vision Gate and Alpha Aim.

If shareholders approve the FM Transactions but not the Placing at the SGM, the Company intends to fund its obligation under the New Found Macau Loan by internal sources, equity or debt fund raising exercises or a combination thereof depending on market conditions.

If the terms of the Shareholders Agreement when executed are materially different to that set out below, the Company will notify Shareholders by way of an announcement.

LETTER FROM THE BOARD

The shareholding structure of Found Macau on completion of the Verbal Agreement will be:-

- (1) The Founders — 49%
- (2) Alpha Aim — 30%
- (3) Vision Gate — 1%
- (4) Rightmind — 20%

The Verbal Agreement has not been reduced to writing as at the Latest Practicable Date.

THE SHAREHOLDERS AGREEMENT

The Shareholders Agreement was entered into on 22 February 2005 between Found Macau, the Founders, Alpha Aim and Vision Gate. Rightmind proposes to become party to the Shareholders Agreement via a deed of adherence to be entered between Found Macau, the Founders, Alpha Aim, Vision Gate and Rightmind.

Parties to the agreement:

- (1) Found Macau
- (2) the Founders
- (3) Alpha Aim
- (4) Vision Gate
- (5) Rightmind

The Shareholders Agreement provides certain minority protections (e.g. reserved matters, matters relating to board and shareholders' meetings and other provisions relating to the rights and obligation of the shareholders. The principal terms of the Shareholders Agreement are set out below.

Board of directors of Found Macau

Each shareholder is entitled to nominate one person to the board of directors of Found Macau for every 10 FM Shares held by it. The present directors of Found Macau are Lao Hin Chun, Filipe Lau and Lourenco Cheong. Rightmind will have the right (but no obligation) to nominate two persons to the board of directors of Found Macau. After HK\$500 million of shareholders loans are raised, assuming that all shareholders of Found Macau who hold 10 FM Shares or more fully exercise their rights to nominate directors, Found Macau will have a maximum of 13 directors.

New Investors

The shareholders of Found Macau must use all reasonable endeavours to locate by 31 March 2005 (or such other date as the shareholders of Found Macau other than the Founders may agree) new FM Investors to invest up to HK\$500 million (including the Found Macau Loan and the shareholders

LETTER FROM THE BOARD

loan of HK\$5 million and HK\$150 million made and to be made by Vision Gate and Alpha Aim respectively) by way of shareholders loans in Found Macau, on the same terms as the Found Macau Loan (save as to amount and how it is to be satisfied). In the event that FM Investors are located, the Founders will sell the relevant number of FM Shares to the FM Investors at par value and each Investor is required to contribute HK\$5,000,000 as shareholders loan for each FM Share acquired. The shareholders loans are to be advanced to Found Macau on demand of Found Macau after completion of the FM Transactions.

The purpose of this arrangement is to allow Rightmind to maintain a minimum 20% shareholding in Found Macau when new investors invest in the Company whilst the Founders' shareholding is reduced. The Founders are not expected to provide any shareholders loans to Found Macau. The Founders will serve on the board of Found Macau for the purposes of introducing investment projects to Found Macau and to locate new investors. Once a total of HK\$500 million of shareholders loans is raised, the Founders are expected to have no further shareholding in Found Macau, save that they may be directly or indirectly interested in the 2 new FM Shares as described in the section headed "New Issue of FM Shares" below. The existing shareholders of Found Macau (other than the Founders) are entitled (but not obliged) to make further investments in Found Macau under this arrangement. If there are insufficient new investors in Found Macau on 31 March 2005 (or such other date as the shareholders of Found Macau other than the Founders may agree), the Founders will transfer all of their shares at par value to the other shareholders pro rata to each shareholders' loan as a proportion of the total shareholders' loans. The Company does not have any present intention to make additional investment in or contribute additional shareholders' loan to Found Macau.

Non-competition

The Founders will warrant in the Shareholders Agreement that:

- (1) the FM Group will be the sole owner of all intellectual property rights required for the carrying on of the FM Business and such rights shall not be subject any encumbrances and/or limitations and/or restrictions;
- (2) the FM Group will be given the first right of refusal in respect of all projects related to the FM Business which are introduced to any member of the FM Group and/or the Founders or their respective associates and should Found Macau decide not to accept any project, no party ("Offeree") which is related to Found Macau (except for an FM Group company), the Founders, directors of Found Macau or any of them or their associates may accept an offer of such project on terms which on more favourable terms to such Offeree than those on which such project was offered to Found Macau.

Repayment of shareholders' loan / Dividend

For so long as any shareholders' loans are outstanding, Found Macau shall not declare, make or pay any dividends or other distributions whatsoever. Found Macau shall repay the shareholders' loan from time to time as soon as it can lawfully do so under the laws of the British Virgin Islands and a

LETTER FROM THE BOARD

like proportion of each shareholders' loan shall be repaid at the same time so that no part of shareholders' loan shall be repaid unless a like proportion of each of the shareholders' loan is simultaneously repaid. As at the Latest Practicable Date, the form of repayment has not been decided.

Termination of the Shareholders Agreement

The Shareholders Agreement will terminate upon the earlier of:

- (1) a written agreement to terminate by all parties to the Agreement; or
- (2) the liquidation, dissolution or winding up of Found Macau; or
- (3) Found Macau raising HK\$500 million (inclusive of the Found Macau Loan and the shareholders' loans from Vision Gate and Alpha Aim) as contemplated under the Shareholders Agreement (as the Founders should no longer be shareholders of Found Macau by then). The shareholders of Found Macau have agreed to use reasonable endeavours to locate new Investors to invest in the form of loans of HK\$500 million by 31 March 2005 (or such other date as the shareholders of Found Macau may agree).

New Issue of FM Shares

The shareholders of Found Macau will agree that once HK\$500 million of shareholders loans (in whatever form) is raised by Found Macau, Found Macau shall issue 2 new FM Shares at the par value of US\$1.00 each to such persons (currently intended to be a company held by employees, directors of Found Macau etc. but who have not been identified at the date of this announcement) as the board of Found Macau shall approve. When the shareholders' loans (in whatever form) of HK\$500 million is repaid in full, the holders of the 2 new FM Shares shall be entitled to share in dividends of Found Macau pro-rata to their shareholding and such 2 new FM Shares shall in all respects rank pari passu to all other FM Shares. Based on the terms of the Shareholders Agreement for such issue of 2 new FM Shares, the dilution effect is expected to be minimal.

The reason for this arrangement is to provide incentives to the employees and directors of Found Macau to locate new investors, to source new investment projects and manage such projects for Found Macau and generally to contribute towards the success of Found Macau. This arrangement however will allow them to reap returns only when the shareholders' loans are repaid.

FOUND MACAU LOAN

Subject to approval by Shareholders at the SGM, the Found Macau Loan in the amount of HK\$100,000,000 to be made by Rightmind to Found Macau shall be satisfied as to a minimum of HK\$50,000,000 in cash (to be funded from the net proceeds of the Placing) and as to the balance by the issue by the Company of the FM Convertible Note as described in the section headed "FM Convertible Note" below. The Found Macau Loan will be unsecured, interest free and repayable after 8 years from the date of drawdown on demand and will be evidenced by the Promissory Note to be executed by Found Macau in favour of Rightmind once the shareholders loans in the amount of HK\$500 million have been advanced to Found Macau.

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Once advanced, the Found Macau Loan constitutes an advance to an entity under Rule 13.13 of the Listing Rules. The Company intends to fund the Found Macau Loan with the net proceeds of the Placing of the New Convertible Notes or the issue of the FM Convertible Note.

GENERAL INFORMATION

Found Macau

Found Macau is an investment holding company and it intends to invest in gambling, entertainment and related businesses (currently expected to be businesses including but not limited to the operation of hotels, food and beverage facilities etc.) in Macau through its subsidiaries. Found Macau is intended to act as a holding company and will make investments through subsidiaries to be formed. Found Macau is in the process of incorporating subsidiaries for future investments. Found Macau has presently identified two investment targets in Macau and expects to enter into preliminary agreements shortly but no assurance is given that they will be entered into or as to their terms. One of the identified targets is a vacant piece of land in Macau of approximately 260,000 square feet, the acquisition consideration of which is expected to be in the region of HK\$240 million to HK\$300 million. Found Macau currently intends to build a hotel housing a casino on the land. The second identified target relates to the lease of a property of approximately 10,000 to 15,000 square feet hotel already in operation in Macau and then renovating, decorating, preparation and delivery of this property to a casino or slot machine operator on terms to be agreed. The cost of this investment is expected to be in the region of HK\$150 million. As at the Latest Practicable Date, the terms and exact details of such investments are subject to negotiation and finalisation and there has been no further development on these investments since the date of the announcement relating to the Transactions. Based on information provided to the Company by Found Macau, Found Macau has no current right or intention to directly engage in the operation of casinos.

To the best of the knowledge of the Company, the owners of the vacant pieces of land and the lease are not Connected Persons of the Company.

As set out in the Accountants Report on Found Macau in Appendix I of this circular, Found Macau incurred a net loss of HK\$81,900 from the date of incorporation of Found Macau to 31 December 2004. Found Macau has not commenced operation since the date of incorporation to 31 December 2004 and has not incurred any expenses, except for certain formation and preliminary costs.

As set out in the Accountants Report on Found Macau in Appendix I of this circular, as at 31 December 2004, Found Macau has net liabilities of HK\$81,120.

LETTER FROM THE BOARD

Upon completion of acquisition of 20% equity shares of Found Macau and advancement of HK\$100,000,000 loan to Found Macau and issue of New Convertible Notes, there will be an increase in loan to investee companies of approximately HK\$100,000,00, a increase of HK\$7,000,000 bank balances and an increase in convertible notes with the principal amount of HK\$114,000,000 (calculated by subtracting the principal amount of the Existing Convertible Notes of HK\$36,000,000 from the principal amount of the New convertible Notes of HK\$150,000,000).

The Founders

The Founders possess substantial experience in managing casino, hotel, entertainment and casino related business in Macau.

Mr. Lao Hin Chun, aged 64 has over 40 years of experience in the property development, construction and building material and garment related businesses. Mr. Lao is the Administrador of Companhia De Betao Pronto Lda. Mr. Lao is also very active in participating and supporting charitable social activities in Macau and is currently the Presidente of Fundo De Beneficencia Dos Leitoresdo Jornal Ou Mun and a Membro Permanentes of Associacao Comercial De Macau. Moreover, Mr. Lao is also the Membro Do Comite Nacional Da Conferencia Consultiva Politica Da Republica Popular Da China.

Mr. Filipe Lau, aged 61 has over 30 years of experience in providing advice and project management services to several enterprises engaged in property development, operation of casinos, hotels, restaurants and entertainment related businesses in Macau.

Mr. Lourenco Cheong, aged 40 has over 15 years of experience in promoting business opportunities and prospects in Macau to international investors as well as helping businessmen in Macau to invest aboard and/or expand their products and businesses overseas. Mr. Cheong was the Executive Director of Macau Trade And Investment Promotion Institute and is the Managing Director of Belor Company Limited and was involved in providing consultancy services to (i) international investors investing in Macau; and (ii) Macau enterprises in seeking joint venture partners and/or expanding their businesses overseas.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, save and except for Mr. Lao (stepfather of Mr. Ong), the Founders, Vision Gate and Alpha Aim are not Connected Persons of the Company and are otherwise independent of the Company and Connected Persons of the Company.

The Group is principally engaged in investment holding. The principal activities of the Group include investment in casino services and gaming business, property investment, investment in securities and money lending business.

Rightmind is a wholly-owned subsidiary of the Company that was established for the investment in Found Macau and other investments.

LETTER FROM THE BOARD

REASONS FOR THE TRANSACTION

The acquisition price of US\$20 for the 20 FM Shares is based on the par value of US\$1 per FM Share. Found Macau's intention is to raise HK\$500 million in the form of shareholders loans. The provision of the Found Macau Loan of HK\$100 million by Rightmind is based on Rightmind's shareholding interest of 20% in Found Macau upon approval of the FM Transactions. The Company is of the view that terms of the FM Transactions are a good opportunity for the Company to invest in Found Macau, which now is close (subject to contract) to agreeing formally the acquisition of previously identified investment targets in the process of locating and evaluating potential investment opportunities in Macau generally. So far as the Company is aware, Found Macau does not have other identified investment targets as at the Latest Practicable Date save for those disclosed above. The Company is of the view that the investment in Found Macau will be beneficial for the Group as the Group can leverage on the prominent social network of the Founders and the financial strength of the other Found Macau Shareholders to capture the growth opportunities in Macau.

IMPLICATIONS UNDER THE LISTING RULES

The Group will through its wholly-owned subsidiary, Rightmind, hold a 20% equity stake in Found Macau after completion of the FM Acquisition but Found Macau will not become a subsidiary of the Company as a result of the FM Acquisition. Found Macau has not commenced business yet and as at the Latest Practicable Date not involved in the operation of any casino and entertainment business.

No licence is required in Hong Kong for the operation of the casino and entertainment business in Macau if the casino and entertainment operations are conducted exclusively offshore. The Company will use its best endeavours (insofar as it is able in its capacity as a shareholder in Found Macau to do so) to ensure that for as long as the Company has a direct or indirect interest in the Found Macau, the casino and entertainment business carried out by Found Macau will comply with the applicable laws in the areas where such activities operate and will not contravene the Gambling Ordinance (Cap 148 of the Laws of Hong Kong) insofar as it is applicable.

Shareholders should be aware that under the Guidelines issued by the Stock Exchange in relation to "Gambling Activities undertaken by listed applicants and/or listed issuers" dated 11 March 2003, should the Group be engaged in gambling activities and operation of such gambling activities (i) fail to comply with the applicable laws in the areas with such activities operate and/or (ii) contravene the Gambling Ordinance such that the Company or its business may be considered unsuitable for listing under Rule 8.04 of the Main Board Listing Rules, the Stock Exchange may direct the Company to take remedial action, and/or may suspend the dealings in, or may cancel the listing of, its securities.

Mr. Lao is the stepfather of Mr. Ong the managing director of the Company and hence an "associate" of a director of the Company treated as a connected person of the Company under Rule 14A.11(4)(b) of the Listing Rules. The FM Transactions constitute major and connected transactions under Rule 14.06 and Rule 14A.13 of the Listing Rules and are subject to approval of independent shareholders at the SGM. Mr. Ong, Sovicotra, which is wholly-owned by Mr. Ong, which has a material interest in the Transactions and their respective Associates are required to abstain from voting at the SGM on the Transactions. Save and except for Sovicotra, Mr. Ong and their respective

LETTER FROM THE BOARD

Associates, as at the Latest Practicable Date, the Directors are not aware of any other shareholder with a material interest in the Transactions which is required to abstain from voting. As at the Latest Practicable Date and so far as the Company is aware, Sovicotra, Mr. Ong and their respective Associates do not hold any Shares in the Company. If Sovicotra, Mr. Ong or their respective Associates hold Shares at the time of the SGM, they are required to abstain from voting such Shares at the SGM.

EXISTING CONVERTIBLE NOTES

The Company has given notice to the holders of the Existing Convertible Notes that it will redeem all the outstanding Existing Convertible Notes in full in the aggregate principal amount of HK\$36,000,000 at 100% of the outstanding principal amount, subject to Shareholders approving the issue of the New Convertible Notes at the SGM. The redemption will be made in accordance with the terms of the Existing Convertible Note save that the timing for completion is different and that it is a conditional redemption. Completion of the redemption shall take place on the 30th day after the SGM (or such other date as the Company and the holders of the Existing Convertible Notes may agree). The Company has indicated to the holders of the Existing Convertible Notes that they can contact the Placing Agent in the event they wish to subscribe for the New Convertible Notes and set off with the Company the subscription monies payable by them to the Company for the New Convertible Note against the amount payable by the Company to them on redemption of the Existing Convertible Notes. The redemption will be funded by part of the proceeds of the Placing.

PLACING OF NEW CONVERTIBLE NOTES

The Placing Agreement

Date: 24 January 2005

Parties: the Placing Agent and the Company

The Company entered into the Placing Agreement with the Placing Agent in relation to the Placing by the Placing Agent of the New Convertible Notes.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Placing Agent is not a Connected Person of the Company and is otherwise independent of the Company and Connected Persons of the Company.

Issuer

The Company.

Placees

Not less than six individual, institutional and/or professional investors, who are independent third parties and not connected persons of the Company as defined under the Listing Rules.

LETTER FROM THE BOARD

So far as the Company is aware, Found Macau and the Founders have no present intention to subscribe for the New Convertible Note (save for the FM Convertible Notes to be issued to Found Macau).

Placing Commission

The Placing Agent has agreed to place the New Convertible Notes as to the principal amount of HK\$100 million on a fully underwritten basis and as to the additional principal amount of HK\$50 million on a best efforts basis. The Company shall pay to the Placing Agent a fee equal to two per cent of the aggregate principal amount of HK\$100 million of the Notes for which it has underwritten and a fee equal to two per cent of the aggregate principal amount of the Notes (up to an amount of HK\$50 million) in which the Placing Agent has on a best efforts basis procured subscribers. These fees were agreed after arm's length negotiations between the Company and the Placing Agent. The Board considers that these fees to be in line with the market standards. The net proceeds of the Placing will be approximately HK\$145 million, if the New Convertible Notes are fully placed.

Terms of the New Convertible Notes

Principal amount

Up to HK\$150,000,000

Denomination

HK\$500,000

Maturity

The New Convertible Notes will mature on the fifth anniversary from the date of issue.

Interest

The New Convertible Notes will be non-interest bearing.

Redemption date

The Company may redeem the New Convertible Notes at 100% of the outstanding principal amount of the New Convertible Notes at any time from the date of issue until a date 7 days prior to (and excluding) the maturity date of the New Convertible Notes.

Conversion

The outstanding principal amount of the New Convertible Notes may be converted into the Shares in amounts or integral multiples of HK\$500,000 at any time from the date of issue up to 7 days before (and excluding) the maturity date of the New Convertible Notes.

LETTER FROM THE BOARD

Conversion Price

The Conversion Price of HK\$0.05 per Share (subject to adjustment as provided in the terms and conditions of the New Convertible Notes) represents (i) a premium of approximately 19.05% to the closing price of HK\$0.042 per Share quoted on the Stock Exchange on 21 January 2005 the day prior to suspension of dealings in the Shares; and (ii) a premium of approximately 13.9% to the average closing price of HK\$0.0439 per Share as quoted from the Stock Exchange from 10 January 2005 to 21 January 2005, both dates inclusive, being the last ten full trading days immediately before the date of suspension of trading in shares (24 January 2005) and (iii) a premium of 78.57% to the closing price of the Shares on the Latest Practicable Date.

The Conversion Price was agreed after arm's length negotiations between the Placing Agent and the Company. The Board considers that the Conversion Price is fair and reasonable and is in the interests of the Shareholders and the Company as a whole. The Board also considers that the timing of the Placing to be appropriate in view of the FM Transactions and market conditions.

Shares to be issued upon conversion

The Shares to be issued upon conversion of the New Convertible Notes will when issued and rank equally in all respects among themselves and with the Shares in issue on the relevant date of conversion. If all the New Convertible Notes are converted at the Conversion Price of HK\$0.05 per Share (subject to adjustment as provided in the terms and conditions of the New Convertible Notes), a total of 3,000 million Shares will be issued. These Shares represent approximately 40.58% of the issued share capital of the Company as at the Latest Practicable Date, and approximately 28.87% of the issued share capital of the Company as enlarged by the new Shares to be issued upon conversion of the New Convertible Notes (assuming no further shares are issued by the Company from the date of this announcement till the date of conversion).

Voting rights of holders of the New Convertible Notes

The holders of the New Convertible Notes will not have any right to attend or vote at any meetings of the Company by virtue of their being the holders of the New Convertible Notes.

Transferability

The New Convertible Notes will not be transferable to persons who are connected persons of the Company as defined in the Listing Rules without the prior written consent of the Company. The Company will inform the Stock Exchange upon the Company becoming aware that any of the New Convertible Notes have been or are to be transferred to any connected persons of the Company (as defined under the Listing Rules).

Application for listings

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares which may fall to be issued upon conversion of the New Convertible Notes. No listing of the New Convertible Notes will be sought on the Stock Exchange or any other stock exchanges.

LETTER FROM THE BOARD

TERMINATION

The Placing is subject to termination if before 9 a.m. (Hong Kong time) on the date for Completion of the Placing Agreement if in the reasonable opinion of the Placing Agent the success of the Placing or the business or financial prospects of the Group would or might be affected by:

1. any material breach of any of the representations and warranties set out in the Placing Agreement; or
2. any of the following events:
 - (i) the introduction of any new law or regulation or any change in existing laws or regulations or change in the interpretation or application thereof; or
 - (ii) the occurrence of any event, development or change (whether or not local, national or international or forming part of a series of events or changes occurring or continuing before, on and/or after the date hereof and including an event or change in relation to or a development of an existing state of affairs) of a political, military, industrial, financial, economic or other nature, whether or not sui generis with any of the foregoing, resulting in a material adverse change in, or which might be expected to result in a material adverse change in, political, economic or stock market conditions; or
 - (iii) the imposition of any moratorium suspension or material restriction on trading in securities generally on the Stock Exchange occurring due to exceptional financial circumstances or otherwise; or
 - (iv) a change or development involving prospective change in taxation in Hong Kong or the People's Republic of China or the implementation of exchange controls which shall or might materially and adversely affect the Company or its present or prospective shareholders in their capacity as such; or
 - (v) any change or deterioration in the conditions of local, national or international securities markets occurs.

The Board is not aware of the occurrence of any of such events as at the date of this circular.

Conditions of the Placing

Completion of the Placing is conditional upon the fulfilment of the following conditions:

- (1) the Listing Committee of the Stock Exchange granting (either unconditionally or subject only to conditions to which the Company, does not reasonably object) listing of and permission to deal in the Conversion Shares;

LETTER FROM THE BOARD

- (2) the Stock Exchange having approved (either unconditionally or subject only to conditions to which the Company does not reasonably object) the issue of the New Convertible Notes, or the Company not having received any objection from the Stock Exchange to the issue of the New Convertible Notes;
- (3) the passing by the Shareholders of a resolution to approve the Placing Agreement, the issue of the New Convertible Notes and Conversion Shares at the SGM; and
- (4) approval of the Bermuda Monetary Authority of the issue of the New Convertible Notes (including the FM Convertible Note) and the Conversion Shares, if required.

Completion

The Placing is to be completed on the third business day (or such other date as may be agreed between the Company and the Placing Agent) after satisfaction of the conditions under the paragraph headed “Conditions of the Placing” above. The Placing Agreement will lapse if the conditions are not satisfied by 30 April 2005, or such other date as may be agreed between the Company and the Placing Agent. If the Placing Agreement lapses, none of the parties shall have any claims against the others save for any prior breaches of the Placing Agreement.

FM CONVERTIBLE NOTE

To the extent the New Convertible Notes in the principal amount of HK\$50 million which the Placing Agent has agreed to place on a best efforts basis are not fully placed, the Company shall issue the FM Convertible Note in the principal amount equivalent to the amount that has not been placed and otherwise on the same terms as the New Convertible Notes to Found Macau. The FM Convertible Note will be issued to Found Macau to partially satisfy Rightmind’s obligation to make the Found Macau Loan. The FM Convertible Note, if issued, will form part of the New Convertible Notes and will be issued on the same terms as the New Convertible Note as described above. If the New Convertible Notes in the aggregate principal amount of HK\$150 million are fully placed by the Placing Agent or if shareholders do not approve the FM Transactions at the SGM, the FM Convertible Note will not be issued.

LETTER FROM THE BOARD

SHAREHOLDING STRUCTURE

Name of Shareholders	As at the Latest Practicable Date		After the Placing of the New Convertible Notes in the principal amount of HK\$150 million and assuming full conversion of the New Convertible Notes at HK\$0.05 per Share ^{Note 1}		After the Placing of the New Convertible Notes by the Placing Agent up to the principal amount of HK\$100 million and assuming the FM Convertible Note is issued to Found Macau in the principal amount of HK\$50 million and assuming full conversion of the New Convertible and Found Macau Convertible Notes at HK\$0.05 per Share ^{Note 1}	
	Shares	% of shareholding	Shares	% of shareholding	Shares	% of shareholding
PUBLIC SHAREHOLDERS						
Collier Assets Limited	737,000,000	9.97	737,000,000	7.09	737,000,000	7.09
Found Macau	Nil	Nil	Nil	Nil	1,000,000,000	9.62
Holder of New Convertible Notes	Nil	Nil	3,000,000,000	28.87	2,000,000,000	19.24
Others	6,654,986,735	90.03	6,654,986,735	64.04	6,654,986,735	64.05
Total	7,391,986,735	100	10,391,986,735	100	10,391,986,735	100

Note 1: The calculation does not take into account the exercise of subscription rights by holders of the Warrants and assumes no further shares are issued from the Latest Practicable Date till the date of conversion of the New Convertible Notes or Found Macau Convertible Notes.

As at the Latest Practicable Date, the Company does not have a “controlling shareholder” as such term is defined in the Listing Rules. After completion of the FM Transactions and assuming the FM Convertible Note is issued to Found Macau up to the principal amount of HK\$50 million, Found Macau exercises its conversion rights in full at the conversion price of HK\$0.05 per share and there is no change in shareholding of the Company compared with that set out in the table above, Found Macau will become the single largest shareholder of the Company.

REASONS FOR THE PLACING

The Board considers that (i) the Placing is an appropriate means of raising capital for the Company to redeem the Existing Convertible Note (with accrued interest) and to fund the Found Macau Loan (ii) the Placing will not have an immediate dilution effect on the shareholding of the existing Shareholders; and (iii) the recent improvement in the market sentiments provides a good opportunity for the Company to raise funds.

LETTER FROM THE BOARD

USE OF PROCEEDS

If the New Convertible Notes are fully placed, the net proceeds of the Placing will be approximately HK\$145 million, which is to be used as to approximately HK\$38 million to redeem the Existing Convertible Notes (with accrued interest), up to HK\$100 million to fund the Found Macau Loan and the balance for general working capital. If the New Convertible Notes are placed up to underwritten principal amount of HK\$100 million only, the net proceeds of the Placing will be approximately HK\$97 million, which will be used as to approximately HK\$38 million to redeem the Existing Convertible Notes (with accrued interest), HK\$50 million to fund the cash portion of the Found Macau Loan and the balance for general working capital.

FUND RAISING ACTIVITIES BY THE COMPANY DURING THE PAST 12 MONTHS

Date of announcement	Date of agreement	Nature of transaction	Places/ subscriber/ allottee	Amount of fund raised	Number of Shares issued from the activities	Percentage of Number of Shares issued/ total number of existing Shares of the Company (approximately)	Intended use of proceeds	Use of proceeds according to the intended use	Use of proceeds other than the intended use
9 June 2004	3 June 2004	Top-up placing of existing Shares and top-up subscription of new Shares under general mandate	Independent third party	Approximately HK\$16.1 million	448,000,000 Shares	10.67%	Possible future investment in Pearl River Delta Region	Nil	Approximately HK\$16.1 million retained as general working capital of the Group
9 June 2004	3 June 2004	Subscription of new Shares by a subscriber under specific mandate	Independent third party	Approximately HK\$21.9 million	600,000,000 Shares	14.29%	Possible future investment in Pearl River Delta Region	Nil	Approximately HK\$21.9 million retained as general working capital of the Group
9 June 2004	3 June 2004	Settlement of legal proceedings by mean of issue of new Shares under specific mandate	Independent third party	Nil	250,000,000 Shares	5.95%	Not applicable	Not applicable	Not applicable
6 September 2004	27 August 2004	Issue of new Shares under general mandate to acquire shares in China Sci-Tech Holdings Limited	Independent third party	Nil	558,000,000 Shares	13.29%	Not applicable	Not applicable	Not applicable
27 October 2004	27 October 2004	Rights Issue	Shareholders	Approximately 23.5 million	2,099,995,578	32.00%	Investment in commercial properties	Used	N/A
18 January 2005	18 January 2005	Placing of Shares under general mandate	Collier Assets Limited	Approximately 29.1 million	728,000,000	9.85%	Investment in commercial properties	Used	N/A
				Total: Approximately HK\$90.6 million	Total: 4,683,995,578 Shares				Total: Approximately HK\$38 million

LETTER FROM THE BOARD

Save as for the above, there have been no equity fund raising activities conducted by the Group in the past 12 months.

PROCEDURES FOR DEMANDING A POLL BY SHAREHOLDERS

Bye Law 69 of the Company's Articles of Association sets out the following procedure by which Shareholders may demand a poll.

At any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands) demanded:

- (i) by the chairman;
- (ii) by at 3 members present in person or by proxy or representative for the time being entitled to vote at the meeting;
- (iii) by any member or members present in person or by proxy or representative and representing not less than one-tenth of the total voting rights of all the members having the right to attend and vote at the meeting; or
- (iv) by any member or members present in person or by proxy or representative and holding shares in the Company conferring a right to attend and vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

SGM

The notice of the SGM is set out on page 118 to page 120 of this circular. A form of proxy for use at the SGM is enclosed. At the SGM resolutions will be proposed, among other things, to approve the FM Transactions, the Placing and the issue of New Convertible Notes. Sovicotra, Mr. Ong and their respective Associates are required to abstain from voting on the Transactions. As at the Latest Practicable Date and so far as the Company is aware, Mr. Ong, Sovicotra and their respective Associates do not hold any Shares in the Company. If Sovicotra, Mr. Ong or their respective Associates hold Shares at the time of the SGM, they are required to abstain from voting such Shares at the SGM. Whether or not Shareholders are able to attend the SGM, Shareholders are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the registered office of the Company at 32/F, China United Centre, No. 28 Marble Road, North Point, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding the SGM. Completion and return of the form of proxy will not preclude Shareholders from attending and voting in person at the SGM should Shareholders so wish.

LETTER FROM THE BOARD

RECOMMENDATION

The Directors (except for the Independent Board Committee and except for Mr. Ong who abstained from voting on the FM Transactions at the relevant board meeting) are of the opinion that the FM Transactions are fair and reasonable and in the interests of the Company and Shareholders as a whole and recommends Shareholders to vote in favour of the resolution to approve the FM Transactions proposed at the SGM.

Your attention is drawn to the letter from the Independent Board Committee set out on page 23 of this circular which contains the recommendation of the Independent Board Committee to the Independent Shareholders concerning the FM Transactions and the letter from Kim Eng set out on page 24 to 39 of this circular containing its advice to the Independent Board Committee and the Independent Shareholders in this regard. The Independent Board Committee, having taken into account the advice of Kim Eng in relation to the FM Transactions, is of the opinion that the FM Transactions are not in the best interests of the Company and the Shareholders as a whole and are not fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, the Independent Board Committee recommended the Independent Shareholders not to vote in favour of the relevant resolutions to be proposed at the SGM to approve the FM Transactions.

The Board (including the independent non-executive directors but excluding Mr. Ong who abstained from voting on the Placing at the relevant board meeting) is of the opinion that the Placing is fair and reasonable and in the interests of the Company and Shareholders as a whole and recommends Shareholders to vote in favour of the resolution proposed to approve the Placing at the SGM.

Your attention is also drawn to the additional information set out in Appendices to this circular.

By Order of the Board
Heritage International Holdings Limited
Kwong Kai Sing, Benny
Chairman



HERITAGE INTERNATIONAL HOLDINGS LIMITED

漢基控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 412)

25 February 2005

To the Shareholders,

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTIONS:

**INVESTMENT OF 20% IN FOUND MACAU
AND
HK\$100 MILLION SHAREHOLDERS LOAN**

We have been appointed as members of the Independent Board Committee to advise you in connection with the FM Transactions, details of which are set out in the letter from the Board in a circular dated 25 February 2005 issued by the Company to the Shareholders (the “Circular”), of which this letter forms a part. The terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

Your attention is drawn to the letter from Kim Eng Corporate Finance (Hong Kong) Limited concerning its advice to us regarding the FM Transactions as set out on pages 24 to 39 of the Circular. Having considered the advice given by Kim Eng Corporate Finance (Hong Kong) Limited and the principal factors and reasons taken into consideration by them in arriving at its advice, we are of the opinion that the FM Transactions are not in the best interests of the Company and its Shareholders as a whole, and are not fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders not to vote in favour of the ordinary resolutions to be proposed at the SGM to approve the FM Transactions.

Yours faithfully

By order of the board of

Independent Board Committee

Chan Sze Hung, To Shing Chuen and Frank H. Miu

Independent non-executive Directors

* For identification purposes only

LETTER FROM KIM ENG

The following is the text of a letter of advice from Kim Eng Corporate Finance (Hong Kong) Limited, which has been prepared for the purpose of incorporation into this circular, setting out its advice to the Independent Board Committee and Independent Shareholders in connection with the FM Transactions.



Kim Eng Corporate Finance (Hong Kong) Limited

Room 1901, Bank of America Tower

12 Harcourt Road, Central

Hong Kong

25 February 2005

The Independent Board Committee
and Independent Shareholders
Heritage International Holdings Limited
32th Floor China United Centre
28 Marble Road
North Point
Hong Kong

Dear Sirs,

**MAJOR AND CONNECTED TRANSACTIONS
INVESTMENT OF 20% IN FOUND MACAU AND HK\$100 MILLION
SHAREHOLDERS LOAN,
REDEMPTION OF HK\$36 MILLION EXISTING CONVERTIBLE NOTES,
AND
ISSUE OF UP TO HK\$150 MILLION NEW CONVERTIBLE NOTES**

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and Independent Shareholders on the terms and conditions of the FM Transactions. Details of the FM Transactions are set out in the letter from the Board contained in the circular to Shareholders dated 25 February 2005 (the “Circular”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 22 January 2005, Rightmind, entered into a Verbal Agreement with the Founders whereby Rightmind agreed, amongst other things, to acquire 20 FM Shares, enter into the Shareholders Agreement and make a shareholders loan of HK\$100 million to Found Macau, conditional upon the approval of Shareholders at the SGM and that the shareholders loan will be satisfied at the election of Rightmind by payment of a minimum of HK\$50,000,000 in cash and the balance by the issue of the FM Convertible Note.

LETTER FROM KIM ENG

The FM Transactions constitute a major and connected transactions for the Company under Rule 14.06 and Rule 14A.13 of the Listing Rules, and are subject to approval of Shareholders at the SGM by virtue of the fact that Mr. Lao is the stepfather of Mr. Ong and hence an “associate” of a Director of the Company treated as a connected person of the Company under Rule 14A.11(4)(b) of the Listing Rules.

The SGM will be convened to approve, among other things, the FM Transactions. By virtue of the Listing Rules, the resolutions for the connected transactions are required to be approved by Independent Shareholders and voted by way of a poll.

Mr. Filipe Lau, Lao, Lourenco Cheong and their respective Associates do not hold any Shares as at the Latest Practicable Date. Mr. Ong beneficially holds 331,000,000 Shares representing approximately 4.48% of the issued share capital of the Company as at the Latest Practicable Date.

Sovicotra, which is wholly-owned by Mr. Ong, who has a material interest in the FM Transactions, is required to abstain from voting at the SGM on the FM Transactions. Save and except for Sovicotra, there is no shareholder with a material interest in the FM Transactions which is required to abstain from voting.

INDEPENDENT BOARD COMMITTEE

The Board currently consists of three executive Directors, being Mr. Kwong Kai Sing, Benny, Mr. Ong and Ms. Poon Chi Wan, one non-executive Director, being Mr. Chung Yuk Lun, and three independent non-executive Directors, being Mr. Chan Sze Hung, Mr. To Shing Chuen and Mr. Frank H. Miu.

The Independent Board Committee comprising all the independent non-executive Directors namely Mr. Chan Sze Hung, Mr. To Shing Chuen and Mr. Frank H. Miu, has been formed to consider the terms and conditions of the FM Transactions and give an advice and make recommendation to the Independent shareholders and Independent Board Committee in this respect.

BASIS OF OUR OPINION

In forming our opinion as to whether the terms of the FM Transactions are fair and reasonable and in the interest of the Company and Shareholders as a whole, we have relied on the information and representations contained in the Circular and have assumed that all information and representations made or referred to in the Circular were true, accurate and complete at the time when they were made and continued to be true, accurate and complete as at the date of the Circular.

We have also assumed that all statements of belief, opinion and intention made by the Directors contained in the Circular were reasonably made by them after their due enquiry and careful consideration and that there are no other facts the omission of which would make any statement in the Circular misleading in any material respect.

LETTER FROM KIM ENG

Our review and analyses were based upon the information provided by the Company which is set out below:

- the terms and conditions under the Verbal Agreement dated 22 January 2005 entered into between Found Macau, Alpha Aim, Vision Gate and Rightmind in relation to the FM Acquisition and the Found Macau Loan (including the FM Convertible Note and Shareholders Agreement);
- the annual report of the Company for the year ended 31 March 2004 (the “Annual Report”);
- the unaudited interim report of the Company for six months ended 30 September 2004;
- the terms and conditions of the Placing Agreement including the Placing, the issue of the New Convertible Notes and the Conversion Shares upon exercise of the New Convertible Notes; and
- the Circular.

In addition to the information provided by the Company, we have also reviewed the publications on the official website of the Statistics and Census Service, Government of Macau Special Administrative Region.

We consider that we have reviewed sufficient information to reach a reasonably informed view to justify our reliance on the accuracy of the information contained in the Circular as aforesaid and to provide reasonable grounds for our advice.

Furthermore, we have no reason to doubt the truth, accuracy and/or completeness of the information and representations as provided to us by the Directors. We have not conducted any independent in-depth investigation into nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation in relation to the terms and conditions of the FM Transactions which comprise the FM Acquisition, Found Macau Loan, Shareholders Agreement and FM Convertible Note, we have considered the following principal factors and reasons:

1. Reason for and Benefits of the Entering into the FM Transactions

1.1 FM Acquisition and the Found Macau Loan

The current principal activities of the Group include, without limitation, investments in casino services and gaming business, property investment, investment in securities and money lending business.

LETTER FROM KIM ENG

Under the Verbal Agreement, Rightmind proposed to acquire a 20% interest in Found Macau at a price of US\$20 which is based on the par value of US\$1 per FM Share. The Directors consider that the FM Transactions will be beneficial to the Group as the Group can leverage on the prominent social network of the Founders and the financial strength of the other Found Macau Shareholders to capture the growth opportunities in Macau.

As set out in the Accountant's Report on Found Macau in Appendix II of this circular, Found Macau incurred a net loss of approximately HK\$81,900 for the period from 1 October 2004 to 31 December 2004. Found Macau had not commenced operation at the Latest Practicable Date and has not incurred any expenses, except for certain formation and preliminary costs.

Under the FM Transactions, Rightmind will make a shareholders loan of HK\$100 million to Found Macau which will be satisfied as to HK\$50,000,000 by cash and as to the balance by part of the proceeds of the New Convertible Notes or the proposed issue of FM Convertible Note. As the shareholders loan to Found Macau, the Found Macau Loan will be contributed by Rightmind in proportion to its then shareholding interest of 20% in Found Macau upon completion of the FM Transactions.

We note from the Company's interim report 2004 for the six months ended 30 September 2004 that the Group was one of the first few listed companies that has direct investment in casino service and gaming business in Macau. Whilst competition is keen, the Board is still optimistic about the future prospect of casino service and gaming business in Macau and that it is still actively searching for further investments in Macau. The Board is of the view that its investment in Found Macau is consistent with the Group's overall business strategy.

As referred to in the letter from the Board, the Company is of the view that the terms of the FM Transactions are a good opportunity for the Group to further increase its investment in Macau. Found Macau has presently identified two investment targets in Macau and expects to enter into preliminary agreements shortly but no assurance is given that they will be entered into or as to their terms. There has been no further progress on these investments since the announcement dated 22 January 2005. One of the identified targets is a vacant piece of land in Macau of approximately 260,000 square feet, the acquisition consideration of which is expected to be in the region of HK\$240 million to HK\$300 million. Found Macau currently intends to build a hotel housing a casino on the land. The second identified target relates to the lease of an approximately 10,000 to 15,000 square feet hotel already in operation in Macau and the renovation, decoration, preparation and delivery of this property to a casino or slot machine operator on terms to be agreed. The cost of this investment is expected to be in the region of HK\$150 million. The terms and exact details of such investments are subject to negotiation and finalisation.

LETTER FROM KIM ENG

We have discussed with the Directors, among other things, the status of Found Macau's investment projects, and were advised that these projects were still subject to negotiation and finalization. The Directors also confirmed that there were no concrete business plans or proposals prepared for the investment projects of Found Macau. Based on such limited information, we are unable to draw any definitive conclusions as to whether any terms of such investment projects will be or could be finalized or put into a formal agreement before the completion of the FM Transactions, and cannot assess or estimate the profit-generating ability of Found Macau.

As such, based on the current status of Found Macau and facts discussed above, we consider that the entering into the FM Acquisition and the Found Macau Loan are, at present, not in the interest of the Company as far as Independent Shareholders are concerned.

1.2 FM Convertible Note

1.2.1 Reason for the Proposed Issue of FM Convertible Note

Under the FM Transactions, the FM Convertible Note will be issued to Found Macau in the event that the New Convertible Notes are not fully placed. The FM Convertible Note will then be issued in the principal amount equivalent to the amount that the New Convertible Notes that have not been placed, and will be on the same terms as stipulated under the New Convertible Notes.

As set out in the letter from the Board, the FM Convertible Note will be issued to Found Macau to partially satisfy Rightmind's obligation to make the Found Macau Loan as described under Section 1.1 above.

LETTER FROM KIM ENG

1.2.2 Principal Terms of the FM Convertible Note

Conversion Price

We have compared the conversion price of the FM Convertible Note with the closing price of the Shares and the net asset value of the Shares for different periods. Details of the premium/discounts of the convertible prices are set out in the following table.

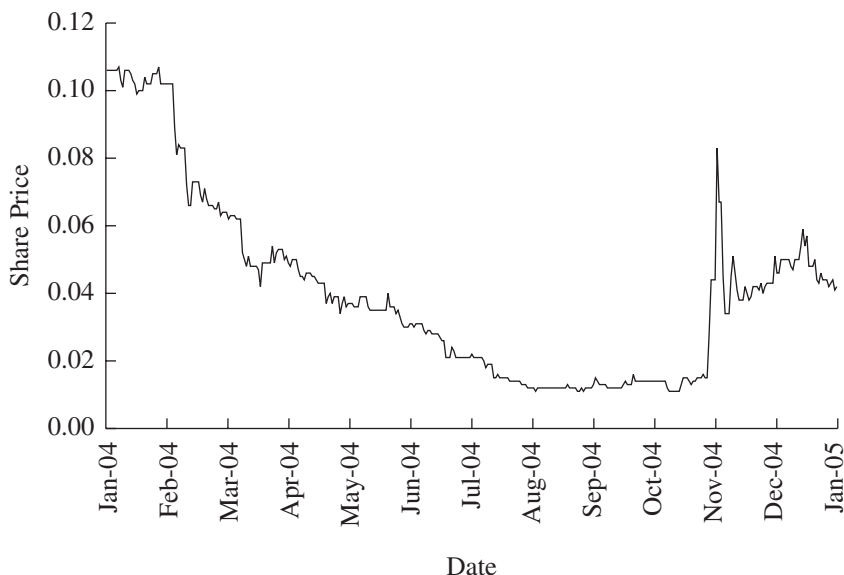
Period	Premium/(Discount) of the conversion price of HK\$0.05 over/to the closing price/average closing price per Share or net asset value per Share	
	<i>(HK\$)</i>	
Closing price per Share as at 21 January 2005 (being the last trading day of the Shares prior to the suspension of dealing in Shares)	0.042	19.05%
Average closing price per Share for 10 average trading days up to and including 10 January 2005	0.0439	13.90%
Average closing price per Share for 30 average trading days up to and including 13 December 2004	0.0464	7.76%
Average closing price per Share for 60 average trading days up to and including 11 November 2004	0.0388	28.87%
Closing price per Share as at the Latest Practicable Date	0.028	78.57%
Unaudited net asset value per Share as at 30 September 2004 (<i>Note 1</i>)	0.028	78.57%
Audited net asset value per Share as at 31 March 2004 (<i>Note 2</i>)	0.0229	118.3%

Note:

- (1) Based on 7,391,986,735 existing issued Shares as at the Latest Practicable Date, the unaudited net asset value of the Company as at 30 September 2004 is about HK\$207 million.
- (2) Based on 7,391,986,735 existing issued Shares as at the Latest Practicable Date, the audited net asset value of the Company as at 31 March 2004 is about HK\$169 million.

LETTER FROM KIM ENG

The following chart illustrates the closing price performance of the Shares for the previous 12 month period:



The closing prices of HK\$0.107 per Share on 27 January 2004 and 16 February 2004 represent the highest Closing Share prices recorded in the previous 12 month period. The lowest share prices of HK\$0.011 per Share recorded on 23 August 2004, 14 and 16 September and 29 October 2004 are below the conversion price of HK\$0.05 per Share.

Independent Shareholders should note that:

- a) the conversion price of the FM Convertible Note represented a premium of 78.57% to the unaudited net asset value of the Group as at 30 September 2004 per Share; and
- b) the conversion price represents a premium of 28.87% over the average closing price per Share throughout the 60 days period.

Based on the aforesaid, we consider that the conversion price of the FM Convertible Note is fair and reasonable.

Interest Rate and Maturity

The terms and conditions set out under the FM Convertible Note are the same as the terms and conditions as in the New Convertible Notes. Therefore the principal amount under FM Convertible Note will also bear zero interest rate commencing for the date of its issue. Details of the terms and conditions of the New Convertible Notes are set out in section headed “New Convertible Notes” in the letter from the Board.

LETTER FROM KIM ENG

As far as market comparables are concerned, we have identified 7 recent cases of issuance of convertible notes by companies listed on the Stock Exchange since February 2004. Brief details of these issues are set out as follows:

Stock code	Company	Date of Announcement	Principal amount of convertible note (HK\$ million)	Years to Maturity	Interest rate per annum (%)
412	The Company	22 Jan 2005	150.0	5	Nil
273	China United International Holdings Limited	12 Jan 2005	200.0	5	Nil
563	Neo-China Group (Holding) Ltd	30 Jun 2004	100.0	3	1.0
613	Yugang International Ltd	14 Jun 2004	70.0	3	3.0
1031	Medtech Group Company Limited	16 Jun 2004	20.0	2	4.0
878	Soundwill Holdings Limited	23 Jun 2004	147.0	4	3.0
172	Goldbond Group Holdings Limited	1 Apr 2004	70.0	3	Nil
959	A-Max Holdings Limited	20 Feb 2004	14.6	5	1.5

The FM Convertible Note matures 5 years from the date of its issue. By comparison, we note that the terms to maturity of the comparable notes range from 2 years to 5 years and that the average term of the comparable notes is approximately 3.6 years. As the term to maturity in the FM Convertible Note lies in the upper range of the market comparable notes, the Group is given a longer period of time to fulfil its payment obligations to the holders of the FM Convertible Note. Therefore we consider that this is in the interests of the Company and Shareholders as a whole.

As far as the cost of funding of the Company is concerned, the Directors advised that the Group had outstanding borrowings from banks or other lenders in an aggregate amount of HK\$37,096,071 as at the 31 December 2004 (which included the Existing Convertible Notes of HK\$36 million), with interest rates ranging from 6.8% per annum to 7.5% per annum. By the above comparison, we consider that having a zero interest rate on the FM Convertible Note, if issued, is in the interest of the Company.

1.3 Shareholders Agreement

Rightmind proposed to enter into a shareholders' agreement with Found Macau, the Founders, Alpha Aim and Vision Gate.

LETTER FROM KIM ENG

Under the Shareholders Agreement, the shareholders of Found Macau must use all reasonable endeavours to locate by 31 March 2005 (or such other date as the shareholders of Found Macau other than the Founders may agree) new FM Investors to invest up to HK\$500 million (including the New Found Macau Loan and the shareholders loan of HK\$5 million and HK\$150 million made by Vision Gate and Alpha Aim respectively) by way of shareholders loans in Found Macau, on the same terms as the Found Macau Loan. In the event that there are insufficient new investors in Found Macau by 31 March 2005 or such other date, the Founders will transfer all of their shares at par value to the other shareholders pro rata to each shareholder's loan as a proportion of the total shareholders' loans.

Each shareholder for every 10 FM Shares held by it is entitled to nominate one person to the board of directors of Found Macau. The basis of board composition is relative to the respective shareholding percentages of each of the shareholders, which in our view, is fair and reasonable.

The Shareholders Agreement will also provide certain minority protections to shareholders of Found Macau including but not limited to (i) repayment of shareholder's loan; (ii) distribution of dividend policy; (iii) non-competition clause; and the issue of FM Shares. Details of the principal terms are set out in the section headed "The Shareholders Agreement" in the Letter from the Board.

We are of the view that all the terms of the Shareholders Agreement are fair and reasonable as far as Independent Shareholders are concerned.

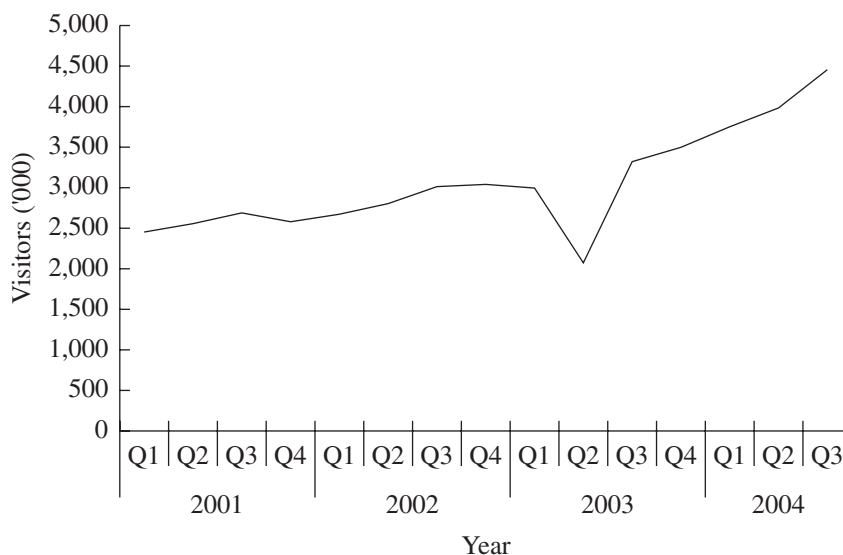
2. Operating Environment of Found Macau

Found Macau intends to invest in gambling, entertainment and related business (currently expected to be businesses including but not limited to the operation of hotels, food and beverage facilities etc.) in Macau through its subsidiaries. Furthermore, Found Macau is intended to act as a holding company and to make investments through subsidiaries to be formed.

Tourism is the backbone industry of Macau's economy. The Directors expect that the tourism industry will continue to expand in the coming years due to the relaxation of the rules governing the entry of visitors from the PRC to Macau under the individual visit scheme, which started in July 2003 to allow travelers from the PRC to visit Macau on an individual basis under the individual visit scheme.

In assessing the operating environment of Found Macau, we have looked into the tourism industry in Macau in particular by visitor arrivals and hotel occupancy rates during the period from 2001 to 2004.

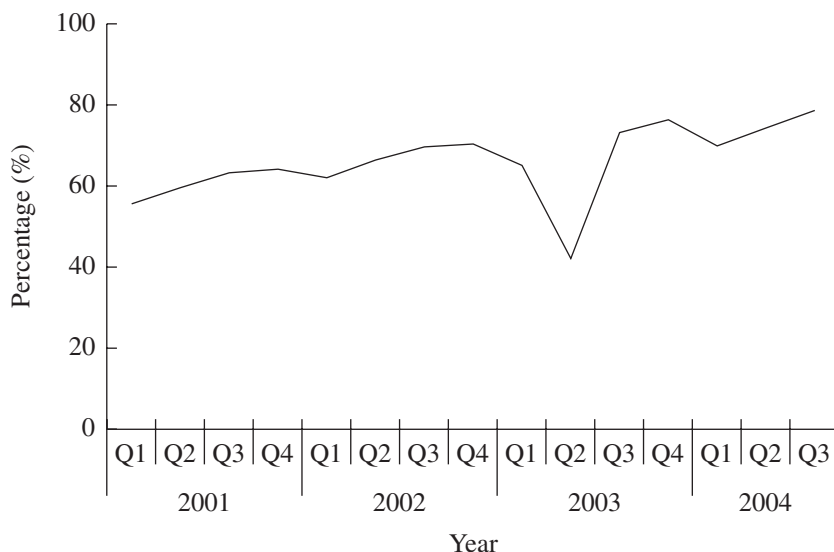
Chart 1: Visitor arrivals in Macau from 2001 to 2004



Source: Statistics and Census Service, Government of Macau Special Administrative Region

Macau’s economy has expanded by leaps and bounds since the establishment of the Macau Special Administrative Region (MSAR) in December 1999. As illustrated in the above Chart 1, total visitor arrivals exceeded 10 million in 2001 and surged approximately 12% to approximately 11.5 million in 2002. Due to the impact of the outbreak of the Severe Acute Respiratory Syndrome (“SARS”) in 2003, the lowest number of arrivals of 596,628 was recorded in May 2003, which accounted for only 5% of the annual total. Total visitor arrivals for the nine months ended 30 September 2004 recorded notable year-on-year growth of approximately 45.3% from approximately 8.4 million to approximately 12.2 million.

Chart 2: Hotel Occupancy Rates in Macau from 2001 to 2004



Source: Statistics and Census Service, Government of Macau Special Administrative Region

LETTER FROM KIM ENG

As illustrated in the above Chart 2, Macau's average hotel occupancy rates increased by 17.9% from 2003 to 2004. Due to the SARS incident, the lowest occupancy rate of 42% was recorded in second quarter of 2003. In 2004, the average hotel occupancy rate for the first three quarters is 74%, which increased by 23% for the first three quarters in 2003.

Based on the above statistics, we are of the view that the relaxation of travel restrictions in the PRC will continue to stimulate Macau's tourism industry as well as its casino and hotels businesses, and if such policies remain unchanged, there will be good business opportunities and a favorable operating environment for Found Macau.

3. Effect on the Financial Position of the Group

Working Capital

Based on the interim report of the Company for the six months ended 30 September 2004, the cash and bank balance as at 30 September 2004 was about HK\$132,000.

The Company intends to finance the Found Macau Loan of HK\$100 million to be made by Rightmind to Found Macau as to a minimum of HK\$50 million in cash (to be funded from the net proceeds of the Placing) and as to the balance by the issue of the FM Convertible Note.

In the event that the New Convertible Notes are placed up to the underwritten principal amount of HK\$100 million only (in such case the FM Convertible Note will be issued), the net proceeds of the Placing of HK\$97 million will be used as to HK\$36 million to redeem the Existing Convertible Notes (with accrued interest), HK\$50 million to fund for the cash portion of the Found Macau Loan and the balance for general working capital.

In the event that the New Convertible Notes are fully placed, the net proceeds of the Placing will be approximately HK\$145 million, which will be used as to approximately HK\$36 million to redeem the Existing Convertible Notes (with accrued interest), up to HK\$100 million to fund for the Found Macau Loan and the balance for general working capital.

Based on the proposed use of the net proceeds of the Placing, the working capital position of the Group will be improved upon completion of the issue of the New Convertible Note. However, as stated in the letter from the Board, if Independent Shareholders approve the FM Transactions but not the Placing at the SGM, the Company intends to fund its obligation under the Found Macau Loan by internal resources, equity or debt fund raising exercises or a combination thereof depending on market conditions. In such event, there may be a material adverse impact on Group's liquidity position upon completion of FM Transactions.

Profit and Loss Figure and Net Asset Value

The New Convertible Note is non-interest bearing. Therefore it will not bring additional financing costs to the Group.

LETTER FROM KIM ENG

Based on the interim report of the Company for the six months ended 30 September 2004, the unaudited net asset value of the Company was approximately HK\$207.4 million and the unaudited net asset value per Share was approximately HK\$0.05 as at 30 September 2004.

Upon completion of the issue of the New Convertible Note and based on the assumption that the New Convertible Note will be fully converted into new Share at the conversion price, the net asset value of the Company is expected to increase. The unaudited net asset value per Share will be maintained at HK\$0.05 as the conversion price of HK\$0.05 is equivalent to the Group's unaudited net asset value per Share as at 30 September 2004.

Taking into account of the unforeseen risks in respect of “*Risk of Suspension and Cancellation of Listing of the Company's Shares*” stated in section 4.(d) “*Other Areas for Shareholders' Attention*” of the IFA Letter which may or may not occur, we are unable to assess the possible impact on the future earnings of the Group as a result of the FM Transactions.

Gearing Ratio

Based on the unaudited consolidated balance sheet of the Company as at 30 September 2004, the gearing ratio, which is calculated as the total debts of HK\$54.2 million over the Company's equity of about HK\$207.4 million, was approximately 0.26. Upon issue of the New Convertible Notes in full and before conversion of the New Convertible Notes into new Shares, and taking into account the redemption of the Existing Convertible Notes of HK\$36 million (with accrued interest), the gearing ratio of the Company, based on the above unaudited balances as at 30 September 2004, will be increased to 0.81. We consider that such increase in the gearing ratio of the Group will have a material adverse impact on the Group's financial position.

LETTER FROM KIM ENG

Possible Dilution Effects

Set out below is a table of the shareholding structure of the Company as at the Latest Practicable Date and after completion of the Transactions and based on the assumption that the New Convertible Notes and the FM Convertible Note are fully converted into new Shares at the conversion price of HK\$0.05 per Share:

Name of Shareholders	As at the Latest Practicable Date	After the Placing of the New Convertible Notes in the principal amount of HK\$150 million and assuming full conversion of the New Convertible Notes at HK\$0.05 per Share	After the Placing of the New Convertible Notes and/or the FM Convertible Note and assuming the New Convertible Notes and/or the FM Convertible Note is fully converted up to the principal amount of HK\$100 million (for the FM Acquisition and the Found Macau Loan)	After the Placing of the New Convertible Notes by the Placing Agent up to the principal amount of HK\$100 million and assuming the FM Convertible Note is issued to Found Macau in the principal amount of HK\$50 million and assuming full conversion of the New Convertible and Found Macau Convertible Notes at HK\$0.05 per Share
	<i>% of shareholding</i>	<i>% of shareholding</i>	<i>% of shareholding</i>	<i>% of shareholding</i>
PUBLIC SHAREHOLDERS				
Collier Assets Limited	9.97	7.09	7.85	7.09
Found Macau Holders of New Convertible Notes	Nil	Nil	Nil	9.62
Others	Nil	28.87	21.3	19.25
	<u>90.03</u>	<u>64.04</u>	<u>70.85</u>	<u>64.04</u>
Total	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>

LETTER FROM KIM ENG

Despite there is no immediate dilution effect on the shareholding interests of the Independent Shareholders as the New Convertible Notes and/or the FM Convertible Notes may or may not be converted into the Shares prior to its maturity, the shareholding of the existing Independent Shareholders as a whole of may be diluted from 100% to:

- (i) 71.13% upon full conversion of the New Convertible Notes and/or FM Convertible Note at the conversion price of HK\$0.05 per Share in the principal amount of HK\$150 million;
- (ii) 78.70% upon full conversion of the New Convertible Notes and/or FM Convertible Note at the conversion price of HK\$0.05 per Share up to the amount of HK\$100 million (to finance for the FM Acquisition and the Found Macau Loan); and
- (iii) 71.13% upon full conversion of the FM Convertible Note issued to Found Macau at the conversion price of HK\$0.05 per Share in the principal amount of HK\$100 million.

Based on the above shareholding dilution effect, we are of the view that the impact on shareholding dilution as a result of the issue of the New Convertible Notes and/or the FM Convertible Note is material and not favorable so far as Independent Shareholders are concerned.

4. **Other Areas for Shareholders' Attention**

(a) Developing stage of the Group's Gambling Business

As set out in the letter from the Board, Found Macau is an investment holding company and it intends to invest in gambling, entertainment and related business in Macau through its subsidiaries to be formed. Found Macau has no current right or intention to directly engage in the operation of casinos. As at the Latest Practicable Date, the Group has not participated in any gambling businesses in Macau. Shareholders should note that, since the Group's gambling business in Macau, through its investment in Found Macau, is still in its developing stage, its turnover and operating performance might fluctuate in near future.

(b) Regulatory Restrictions

Shareholders should also note that there is no assurance that the Company and/or Found Macau will obtain all requisite consents and approvals, if required, from the relevant regulatory authorities for pursuance of gambling business.

LETTER FROM KIM ENG

(c) Risk of Gambling Business

The four-decade monopoly of gambling industry in Macau came to an end when the Macau Government liberalized its gambling and tourism industry in 2002. Recently, about 1 to 1.2 million visitor arrivals in Macau are recorded every month. The increased number of tourists from mainland China and the liberalization of the gambling industry attract new concessionaires in co-operation to develop Macau's gambling industry and intensify competition in the gambling industry in Macau, which may or may not affect the profitability of the Group and/or Found Macau in future.

(d) Risk of Suspension and Cancellation of Listing of the Company's Shares

Should the operation of gambling activities that Found Macau may engage in (i) fail to comply with the applicable laws in the areas where such activities operate; and/or (ii) contravene the Gambling Ordinance, the Company or its business may be considered unsuitable for listing under Rule 8.04 of the Listing Rules. Depending on the circumstances of the case, the Stock Exchange may direct the Company to take remedial action, and/or may suspend dealings in, or may cancel the listing of, its securities pursuant to Rule 6.01 of the Listing Rules.

RECOMMENDATION

Having considered the principal factors and reasons as referred to above, we wish to draw the attention of the Shareholders the following to the fact that, as a result of the completion of the FM Transactions, the Shareholders would be faced with the following risks:

- (i) the uncertainty as to whether or not, Found Macau will be capable to generate any profit contribution to itself or to the Group as a whole from its identified and unidentified investment projects in Macau; and
- (ii) the material effect on dilution of shareholding interest of Independent Shareholders as a result of the conversion of the New Convertible Notes and/or the FM Convertible Note in respect of the FM Transactions.

We consider that the above risks are not in the interests of the Shareholders and should not be acceptable. However, we have also identified that the FM Transactions, if proceeded with, would offer the Shareholders a good opportunity for the Company to participate into the identified and unidentified investment projects of Found Macau which may enable the Group to capture the growing opportunities of the expanding Macau economy in the coming years.

In the course of the Independent Shareholders' evaluation of their decision as to whether or not to approve the FM Transactions at the SGM, we would recommend the Independent Shareholders to weigh carefully the balance of merits and risks inherent in the FM Transactions as referred to above.

LETTER FROM KIM ENG

We consider that there is a possibility whereby any or all of the risks as identified above may or may not materialize, whilst the merits of the FM Transactions are mostly our factual observations. Therefore, weighing between the respective risks and advantages of the FM Transactions as referred to above, we are of the view that the overall terms and conditions of the FM Transactions are not in the interests of the Company and Independent Shareholders as a whole and would advise the Independent Board Committee to recommend to the Independent Shareholders not to vote in favor of the resolutions to be proposed at the SGM to consider and, if thought fit, approve the FM Transactions.

Yours faithfully,

For and on behalf of

Kim Eng Corporate Finance (Hong Kong) Limited

Fabian Shin

Director



K.S. Liu & Company, CPA Limited

Certified Public Accountants

廖廣生會計師事務所有限公司

Unit 1003, 10/F,
Rightful Centre,
12 Tak Hing Street,
Tsim Sha Tsui,
Kowloon,
Hong Kong

25 February 2005

The Directors
Heritage International Holdings Limited
32/F, China United Centre
28 Marble Road
North Point
Hong Kong

Dear Sirs,

We set out below our report on the financial information regarding Found Macau Investments International Limited (“Found Macau”) to be acquired by Heritage International Holdings Limited (the “Company”) pursuant to a verbal agreement (the “Verbal Agreement”) dated 22 January 2005 made between Lao Hin Chun, Filipe Lau, Lourenco Cheong Alpha Aim International Limited, Vision Gate Enterprises Limited and Rightmind Developments Limited (“Rightmind”) (a wholly-owned subsidiary of the Company), prepared on the basis as set out in Section E 1. (a) below, for inclusion in the circular issued by the Company dated 25 February 2005 (the “Circular”). Pursuant to the Verbal Agreement, Rightmind will acquire 20 shares (representing 20% equity interest) in Found Macau at a consideration of US\$20 and make a loan of HK\$100 million to Found Macau. Upon completion of the Verbal Agreement, Found Macau will become an associate of the Company.

Found Macau was incorporated in the British Virgin Islands on 1 October 2004 under the name of Profit Sharp Limited as a limited liability company. The current name of Found Macau Investments International Limited was adopted on 3 December 2004 pursuant to a sole director’s resolution. Found Macau has not commenced operation since the date of incorporation to 31 December 2004 and has not incurred any expenses, except for certain formation and preliminary costs. Up to the date of this report, except for the Shareholders Agreement relating to Found Macau dated 9 December 2004 and the Termination Deed relating to such shareholders agreement dated 11 January 2005, Found Macau had not entered into any material contracts or agreements. No audited accounts of Found Macau have been prepared up to the date of this report.

For the purpose of this report, we have examined the management accounts of Found Macau for the period from its date of incorporation to 31 December 2004 (the "Relevant Period"), which were prepared in accordance with accounting principles generally accepted in Hong Kong, in accordance with the Statements of Auditing Standards and Auditing Guideline "Prospectuses and the reporting accountant" issued by the Hong Kong Institute of Certified Public Accountants.

The income statement, the statement of changes in equity and the cash flow statement of Found Macau for the Relevant Period and of the balance sheet of Found Macau as at 31 December 2004 (the "Financial Statements") as set out in this report have been prepared, and are presented on the basis as set out in Section E 1. (a) below.

The Financial Statements are the responsibility of the directors of Found Macau who approve their issuance. The directors of the Company are responsible for the content of the Circular relating to Found Macau in which this report is included. It is our responsibility to compile the Financial Statements together with the notes thereto, to form an independent opinion on such information and to report our opinion to you.

In our opinion, the Financial Statements together with the notes thereto give, for the purpose of this report, a true and fair view of the results and cash flows of Found Macau for the Relevant Period, and of the state of affairs of Found Macau as at 31 December 2004.

A. INCOME STATEMENT

	<i>Note</i>	Period from 1 October 2004 (date of incorporation) to 31 December 2004 <i>HK\$</i> <i>(unaudited)</i>
Turnover	2	—
Other operating expenses		<u>(81,900)</u>
Loss from ordinary activities before taxation	3	(81,900)
Taxation	4	<u>—</u>
Net loss for the period		<u><u>(81,900)</u></u>

B. STATEMENT OF CHANGES IN EQUITY

	Issued capital <i>HK\$</i>	Accumulated losses <i>HK\$</i>	Total <i>HK\$</i>
Share issued	780	—	780
Net loss for the period	<u>—</u>	<u>(81,900)</u>	<u>(81,900)</u>
At 31 December 2004 (unaudited)	<u>780</u>	<u>(81,900)</u>	<u>(81,120)</u>

C. BALANCE SHEET

	<i>Note</i>	At 31 December 2004 <i>HK\$</i> <i>(unaudited)</i>
ASSETS AND LIABILITIES		
Current asset		
Due from shareholders	5	780
Current liability		
Accrued charges		<u>(81,900)</u>
NET LIABILITIES		<u>(81,120)</u>
CAPITAL AND RESERVE		
Issued capital	6	780
Accumulated losses		<u>(81,900)</u>
		<u>(81,120)</u>

D. CASH FLOW STATEMENT

**Period from
1 October 2004
(date of incorporation
to 31 December 2004**

HK\$

(unaudited)

OPERATING ACTIVITIES

Loss before taxation	(81,900)
Increase in due from shareholders	(780)
Increase in accrued charges	<u>81,900</u>

Cash used in operations (780)

FINANCING ACTIVITIES

Issued of shares 780

Cash and cash equivalents at end of period —

E. NOTES TO THE FINANCIAL INFORMATION**1. PRINCIPAL ACCOUNTING POLICIES**

The Financial Information has been prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Institute of Certified Public Accountants and under the historical cost convention. The principal accounting policies adopted by Found Macau in arriving at the Financial Information set out in this report are set out below:

(a) Going concern

The Financial Information has been prepared in conformity with the principles applicable to a going concern. The applicability of these principles is dependent upon the outcome of formal agreement and execution of the Verbal Agreement and the New Shareholders Agreement in view of the excess of liabilities over assets.

(b) Taxation

The charge for current income tax is based on the results for the period as adjusted for items that are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided using the liability method, on all temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The deferred tax liabilities or assets are measured at the tax rates that are expected to apply to the period when the asset is recovered or liability is settled, based on the tax rates and the tax laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, tax losses and credits can be utilised.

(c) Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

2. TURNOVER

Found Macau has no turnover during the period since its incorporation.

3. LOSS FROM ORDINARY ACTIVITIES BEFORE TAXATION

**Period from
1 October 2004
(date of incorporation)
to 31 December 2004**

HK\$

(unaudited)

This is stated after charging:

Auditors' remuneration

—

Directors' emoluments

—

—

4. TAXATION

Hong Kong Profits Tax has not been provided as Found Macau has no assessable profits for the period.

Reconciliation of tax expense

**Period from
1 October 2004
(date of incorporation)
to 31 December 2004**

HK\$

(unaudited)

Loss from ordinary activities before tax

(81,900)

Income tax at Hong Kong profits tax rate of 17.5%

(14,332)

Unrecognised tax losses

14,332

Tax expense for the period

—

—

Deferred taxation has not been recognised as Found Macau had no temporary differences as at 31 December 2004.

5. DUE FROM SHAREHOLDERS

The amounts due are unsecured, interest-free and have no fixed repayment term.

6. ISSUED CAPITAL

At 31.12.2004

HK\$

(unaudited)

Authorised:

50,000 ordinary shares of US\$1 each

390,000

Issued and fully paid:

100 ordinary shares of US\$1 each

780

Found Macau was incorporated in the British Virgin Islands with limited liability on 1 October 2004 with US\$50,000 authorised share capital of 50,000 ordinary shares of US\$1 each. On incorporation, 1 ordinary share of US\$1 was issued at par to provide initial working capital for Found Macau. On 9 December 2004, 99 ordinary shares of US\$1 were issued at par to provide further working capital for Found Macau.

7. SUBSEQUENT EVENTS

Subsequent to 31 December 2004, shareholders of Found Macau entered into the Termination Deed and Verbal Agreement as described in this circular.

8. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Found Macau in respect of any period subsequent to 31 December 2004.

Yours faithfully

K.S. Liu & Company,**C.P.A. Limited***Certified Public Accountants*

Hong Kong

Liu Kwong Sang*F CPA (Practising) P01586*

**APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION
ON THE ENLARGED GROUP**

For illustrative purpose only, set out below is the unaudited pro forma combined financial information of the Group after completion of the Transactions (the “Enlarged Group”). The pro forma combined financial information is prepared in accordance with Paragraph 4.29 of the Listing Rules for the purpose of providing investors with information to illustrate the effect of the Transactions on financial statements of the Enlarged Group.

I. UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

The following is a summary of the unaudited pro forma statement of assets and liabilities of the Enlarged Group. It is based on the unaudited consolidated balance sheet of the Group as at 30 September 2004, as shown in the interim reports of the Company set out in the Appendix III to the Circular, and assuming that the FM Transactions had been completed as at 30 September 2004 for the purpose of illustrating how the FM Transactions might have affected the financial position of the Group as at 30 September 2004. It is also assumed that the redemption of Existing Convertible Notes and placing of New Convertible Notes had been completed as at 30 September 2004. As it is prepared for illustrative purpose only, because of its nature, it may not give a true picture of the financial position of the Enlarged Group as at 30 September 2004 or any future date.

	The Group <i>HK\$'000</i>	Pro forma adjustment for the acquisition of 20% equity shares of Found Macau, the advance of New Found Macau Loan, redemption of Existing Convertible Notes and placing of New Convertible Notes <i>HK\$'000</i>	Enlarged Group <i>HK\$'000</i>
Non-current assets			
Goodwill	7,375	—	7,375
Fixed assets	1,601	—	1,601
Investment properties	8,540	—	8,540
Investment in securities	38,825	—	38,825
Loan to an investee company	40,000	100,000 ⁽¹⁾	140,000
Loans receivable	300	—	300
	<u>96,641</u>	<u>100,000</u>	<u>196,641</u>

	The Group <i>HK\$'000</i>	Pro forma adjustment for the acquisition of 20% equity shares of Found Macau, the advance of New Found Macau Loan, redemption of Existing Convertible Notes and placing of New Convertible Notes <i>HK\$'000</i>	Enlarged Group <i>HK\$'000</i>
Current assets			
Investment in securities	68,861	—	68,861
Properties held for sale	120	—	120
Loans receivable	89,240	—	89,240
Prepayments, deposits and other receivables	6,549	—	6,549
Cash and bank balances	<u>132</u>	<u>7,000⁽²⁾</u>	<u>7,132</u>
	<u>164,902</u>	<u>7,000</u>	<u>171,902</u>
Current liabilities			
Other payables and accrued liabilities	8,836	(2,000) ⁽⁴⁾	6,836
Deposit for convertible notes borrowings	—	—	—
Interest-bearing bank and other borrowings	9,314	—	9,314
Tax payable	<u>—</u>	<u>—</u>	<u>—</u>
	<u>18,150</u>	<u>(2,000)</u>	<u>16,150</u>
Net current assets	<u>146,752</u>	<u>9,000</u>	<u>155,752</u>
Total assets less current liabilities	<u>243,393</u>	<u>109,000</u>	<u>352,393</u>
Non-current liabilities			
Interest-bearing bank and other borrowings	—	—	—
Convertible notes	<u>36,000</u>	<u>114,000^{(4),(5)}</u>	<u>150,000</u>
	<u>36,000</u>	<u>114,000</u>	<u>150,000</u>
NET ASSETS	<u><u>207,393</u></u>	<u><u>(5,000)</u></u>	<u><u>202,393</u></u>

Notes:

- (1) These represent the adjustments in relation to the acquisition of 20% equity shares in Found Macau by cash of US\$20 and the advance of New Found Macau Loan of HK\$100,000,000.
- (2) The Company will issue a principal sum of HK\$150 million New Convertible Notes for cash. The proceeds from the issue, net of issuing expenses of HK\$5 million, will be used to redeem the Existing Convertible Notes of HK\$36 million and the accrued interest of approximately HK\$2 million. The remaining balance of HK\$107 million will be used to fund the Found Macau Loan and the balance for general working capital. To the extent the New Convertible Notes in the principal amount of HK\$50 million which the Placing Agent has agreed to place on a best efforts basis are not fully placed, the Company shall issue the FM Convertible Note in the principal amount equivalent to the amount that has not been placed and otherwise on the same terms as the New Convertible Notes to Found Macau.
- (3) The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“new HKFRS”), which are effective for accounting periods beginning on or after 1 January 2005. The preparation and presentation of the Company’s results and financial position will be affected by the new HKFRS starting from the Company’s financial year ending 31 December 2005. The directors consider that the adoption of the new HKFRS would not have any material impact on the preparation of the unaudited pro forma statement of assets and liabilities.
- (4) These represent the adjustments in relation to the redemption of Existing Convertible Notes of HK\$36 million and the repayment of accrued interest of approximately HK\$2 million.
- (5) Placement of New Convertible Notes and FM Convertible Note in aggregate of HK\$150 million are assumed to be fully subscribed for. All issuing expenses to be incurred amounting to approximately HK\$5 million.

II. REPORT FROM THE AUDITORS OF THE COMPANY ON THE UNAUDITED PRO
FORMA FINANCIAL INFORMATION**K.S. Liu & Company, CPA Limited***Certified Public Accountants*

廖廣生會計師事務所有限公司

Unit 1003, 10/F,
Rightful Centre,
12 Tak Hing Street,
Tsim Sha Tsui,
Kowloon,
Hong Kong

25 February 2005

The Directors
Heritage International Holdings Limited
32/F, China United Centre
28 Marble Road
North Point
Hong Kong

Dear Sirs

We report on the unaudited pro forma financial information (“unaudited Pro Forma Financial Information”) of Heritage International Holdings Limited (the “Company”) and its subsidiaries (hereafter collectively referred to as the “Group”) set out on pages 47 to 49 under the heading of “Unaudited Pro Forma Financial Information on the Enlarged Group” in Appendix II of the Company’s circular dated 25 February 2005 in connection with a major and connected transaction regarding the acquisition of a company for pursuance of gambling, entertainment and related business in Macau (“FM Transactions”) and the redemption of existing convertible notes and the placing of new convertible notes. The unaudited Pro Forma Financial Information has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the FM Transactions and the redemption of existing convertible notes and the placing of new convertible notes might have affected the relevant financial information of the Group as at 30 September 2004.

Responsibilities

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

It is our responsibility to form an opinion, as required by paragraph 4.29 of the Listing Rules, on the unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 “Reporting on pro forma financial information pursuant to the Listing Rules” issued by the Auditing Practices Board in the United Kingdom. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the unaudited Pro Forma Financial Information with the directors of the Company.

Our work does not constitute an audit or review in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants, and accordingly, we do not express any such assurance on the unaudited Pro Forma Financial Information.

The unaudited Pro Forma Financial Information has been prepared on the bases set out in Section I of Appendix I for illustrative purpose only and, because of its nature, it may not be indicative of the financial position of the Group as at 30 September 2004 or at any future date.

Opinion

In our opinion:

- (a) the unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated therein;
- (b) such basis is consistent with the accounting policies of the Company; and
- (c) the adjustments are appropriate for the purposes of the unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29 of the Listing Rules.

Yours faithfully
K.S. Liu & Company,
C.P.A. Limited
Certified Public Accountants
Hong Kong
Liu Kwong Sang
FCPA (Practising) P01586

1. SUMMARY OF FINANCIAL INFORMATION OF THE GROUP

The following table summarises the results, assets, liabilities and minority interests of the Group for the last three financial years, as extracted from the published audited financial statements and reclassified as appropriate.

Results

	For the year ended 31 March		
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i> (Restated)*	2002 <i>HK\$'000</i>
TURNOVER			
Continuing operations	80,307	53,546	5,035
Discontinued operations	—	—	—
	<u>80,307</u>	<u>53,546</u>	<u>5,035</u>
LOSS FROM OPERATING ACTIVITIES			
Continuing operations	(12,813)	(5,739)	(206,123)
Discontinued operations	—	—	—
	(12,813)	(5,739)	(206,123)
Finance costs	(7,411)	(23,538)	(28,539)
Share of profits and losses of associates	—	—	(2,933)
LOSS BEFORE TAX	(20,224)	(29,277)	(237,595)
Tax	(31)	(10)	(478)
NET LOSS FROM ORDINARY ACTIVITIES			
ATTRIBUTABLE TO SHAREHOLDERS			
	<u>(20,255)</u>	<u>(29,287)</u>	<u>(238,073)</u>
LOSS PER SHARE			
Basic	<u>(HK\$0.01)</u>	<u>(HK\$0.02)</u>	<u>(HK\$3.02)</u>
Diluted	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

The Group does not have any extraordinary or exceptional items for each of the three years ended 31 March 2002, 2003, 2004.

Financial Position

	As at 31 March		
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
FIXED ASSETS	885	1,572	1,608
INVESTMENT PROPERTIES	13,420	20,270	—
LOAN TO AN INVESTEE COMPANY	40,000	—	—
LONG TERM LOAN RECEIVABLE	1,725	—	—
INTERESTS IN ASSOCIATES	—	352,116	339,139
INVESTMENTS IN SECURITIES	38,825	28,384	30,125
NET CURRENT ASSETS/(LIABILITIES)	76,922	(286,360)	(343,996)
LONG TERM LOANS AND PAYABLES	<u>(2,683)</u>	<u>—</u>	<u>—</u>
	<u>169,094</u>	<u>115,982</u>	<u>26,876</u>

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31 MARCH 2004

Set out below is the audited consolidated financial statements of the Group for the year ended 31 March 2004, which is reproduction of pages 18 to 62 of the 2004 annual report of the Company.

Consolidated Profit and Loss Account For the year ended 31 March 2004

	<i>Notes</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i> (Restated)
TURNOVER	5	80,307	53,546
Cost of sales		<u>(88,526)</u>	<u>(53,068)</u>
Gross profit/(loss)		(8,219)	478
Other revenue and gains		3,314	14,730
Unrealised holding gain/(loss) of listed other investments, net		12,645	(6,792)
Gain on disposal of subsidiaries/associates	26(b)	23,867	—
General and administrative expenses		(10,628)	(9,179)
Loss on transfer of investment securities to other investments, net		—	(2,792)
Other operating expenses, net		<u>(33,792)</u>	<u>(2,184)</u>
LOSS FROM OPERATING ACTIVITIES	6	(12,813)	(5,739)
Finance costs	9	<u>(7,411)</u>	<u>(23,538)</u>
LOSS BEFORE TAX		(20,224)	(29,277)
Tax	10	<u>(31)</u>	<u>(10)</u>
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	11	<u>(20,255)</u>	<u>(29,287)</u>
LOSS PER SHARE	12		
Basic		<u>(HK\$0.01)</u>	<u>(HK\$0.02)</u>
Diluted		<u>N/A</u>	<u>N/A</u>

Consolidated Balance Sheet
31 March 2004

	<i>Notes</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
NON-CURRENT ASSETS			
Fixed assets	13	885	1,572
Investment properties	14	13,420	20,270
Interests in associates	16	—	352,116
Investments in securities	17	38,825	28,384
Loan to an investee company	18	40,000	—
Loans receivable	20	1,725	—
		<u>94,855</u>	<u>402,342</u>
CURRENT ASSETS			
Amount due from an associate	16	—	217
Investments in securities	17	58,902	51,636
Properties held for sale	19	120	120
Loans receivable	20	122,563	62,331
Prepayments, deposits and other receivables		7,902	20,933
Cash and bank balances		743	560
		<u>190,230</u>	<u>135,797</u>
CURRENT LIABILITIES			
Other payables and accrued liabilities		37,177	13,080
Deposits for convertible notes	21	75,000	—
Interest-bearing bank and other borrowings	22	906	408,878
Tax payable		225	199
		<u>113,308</u>	<u>422,157</u>
NET CURRENT ASSETS/(LIABILITIES)		<u>76,922</u>	<u>(286,360)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		171,777	115,982
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	22	2,683	—
		<u>169,094</u>	<u>115,982</u>
CAPITAL AND RESERVES			
Issued capital	23	22,440	15,567
Reserves	25(a)	146,654	100,415
		<u>169,094</u>	<u>115,982</u>

Consolidated Statement of Changes in Equity
For the year ended 31 March 2004

	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	
At 1 April 2002		48,949	13,360	1,038	202,436	(6,069)	(232,838)	26,876
Capital reorganisation								
- Reduction of capital	23(a)(i)	(47,725)	—	—	47,725	—	—	—
- Rights issue	23(a)(iii)	12,237	90,556	—	—	—	—	102,793
Issue of new shares	23(b)&(c)	2,106	16,913	—	—	—	—	19,019
Share issue expenses		—	(3,419)	—	—	—	—	(3,419)
Net loss for the year		—	—	—	—	—	(29,287)	(29,287)
At 31 March 2003 and 1 April 2003		15,567	117,410	1,038	250,161	(6,069)	(262,125)	115,982
Placement of new shares	23(d)	6,850	61,647	—	—	—	—	68,497
Exercise of warrants	23(e)	23	190	—	—	—	—	213
Share issue expenses		—	(1,412)	—	—	—	—	(1,412)
Cancellation of share premium	23(f)(i)	—	(177,833)	—	177,833	—	—	—
Offsetting against accumulated losses	23(f)(ii)	—	—	—	(241,446)	—	241,446	—
Release upon disposal of subsidiaries/ associates	26(b)	—	—	—	—	6,069	—	6,069
Net loss for the year		—	—	—	—	—	(20,255)	(20,255)
At 31 March 2004		<u>22,440</u>	<u>2*</u>	<u>1,038*</u>	<u>186,548*</u>	<u>—*</u>	<u>(40,934)*</u>	<u>169,094</u>
Retained by:								
Company and subsidiaries		22,440	2	1,038	186,548	—	(40,934)	169,094
Associates		—	—	—	—	—	—	—
At 31 March 2004		<u>22,440</u>	<u>2</u>	<u>1,038</u>	<u>186,548</u>	<u>—</u>	<u>(40,934)</u>	<u>169,094</u>
Company and subsidiaries		15,567	117,410	1,038	250,161	—	(265,323)	118,853
Associates		—	—	—	—	(6,069)	3,198	(2,871)
At 31 March 2003		<u>15,567</u>	<u>117,410</u>	<u>1,038</u>	<u>250,161</u>	<u>(6,069)</u>	<u>(262,125)</u>	<u>115,982</u>

* These reserve accounts comprise the consolidated reserves of HK\$146,654,000 (2003: HK\$100,415,000) in the consolidated balance sheet.

Consolidated Cash Flow Statement
For the year ended 31 March 2004

	<i>Notes</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		(20,224)	(29,277)
Adjustments for:			
Interest income from an associate	6	(2,529)	(10,481)
Other interest income	6	(779)	(243)
Depreciation	6	712	947
Unrealised holding loss/(gain) of listed other investments, net		(12,645)	6,792
Gain on disposal of listed investment securities, net	6	—	(4,006)
Provisions against properties held for sale	6	—	880
Loss on transfer of investment securities to other investments, net		—	2,792
Gain on disposal of subsidiaries	26(b)	(23,867)	—
Revaluation deficit/(surplus) of investment properties	6	(871)	4,804
Provision for the settlement of legal proceedings	6	4,800	—
Provision for bad and doubtful debts	6	10,463	—
Provision for impairment of investment securities	6	19,400	—
Write back of provision for compensation loss	6	—	(3,500)
Finance costs	9	<u>7,411</u>	<u>23,538</u>
Operating loss before working capital changes		(18,129)	(7,754)
Decrease in prepayments, deposits and other receivables		13,268	14,287
Decrease/(increase) in other investments		33,763	(9,417)
Increase in loans receivable		(72,420)	(81,331)
Increase/(decrease) in other payables and accrued liabilities		(9,522)	6,488
Increase/(decrease) in other borrowings		<u>(34,209)</u>	<u>21,000</u>
Cash used in operations		(87,249)	(56,727)
Interest received		779	243
Interest paid		(56)	(267)
Overseas tax paid		<u>(5)</u>	<u>—</u>
Net cash outflow from operating activities		<u>(86,531)</u>	<u>(56,751)</u>

	<i>Notes</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of fixed assets		(25)	(357)
Acquisition of subsidiaries	26(a)	(7,985)	(5,552)
Purchases of investment securities		(28,525)	(65,709)
Disposal of investment securities		—	22,113
Purchases of held-to-maturity securities		—	(7,500)
Disposal of held-to-maturity securities		—	5,040
Loan to an investee company		(40,000)	—
Disposal of subsidiaries	26(b)	<u>17,985</u>	<u>—</u>
Net cash outflow from investing activities		<u>(58,550)</u>	<u>(51,965)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from rights issue of shares	23	—	102,793
Proceeds from issue of new shares	23	68,710	19,019
Share issue expenses	23	(1,412)	(3,419)
Drawdown of bank and other borrowings		3,150	13,830
Repayment of bank and other borrowings		(184)	(25,019)
Deposits for convertible notes received	21	<u>75,000</u>	<u>—</u>
Net cash inflow from financing activities		<u>145,264</u>	<u>107,204</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			
		183	(1,512)
Cash and cash equivalents at beginning of year		<u>560</u>	<u>2,072</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR			
		<u><u>743</u></u>	<u><u>560</u></u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		<u><u>743</u></u>	<u><u>560</u></u>

Balance Sheet
31 March 2004

	<i>Notes</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
NON-CURRENT ASSETS			
Interests in subsidiaries	15	245,016	123,261
Investments in securities	17	<u>—</u>	<u>2,834</u>
		<u>245,016</u>	<u>126,095</u>
CURRENT ASSETS			
Investments in securities	17	—	18,812
Properties held for sale	19	120	120
Other receivables		326	7,529
Cash and bank balances		<u>101</u>	<u>522</u>
		<u>547</u>	<u>26,983</u>
CURRENT LIABILITIES			
Other payables and accrued liabilities		6,678	2,866
Deposits for convertible notes	21	75,000	—
Interest-bearing bank and other borrowings	22	<u>—</u>	<u>7,482</u>
		<u>81,678</u>	<u>10,348</u>
NET CURRENT ASSETS/(LIABILITIES)		<u>(81,131)</u>	<u>16,635</u>
		<u>163,885</u>	<u>142,730</u>
CAPITAL AND RESERVES			
Issued capital	23	22,440	15,567
Reserves	25(b)	<u>141,445</u>	<u>127,163</u>
		<u>163,885</u>	<u>142,730</u>

Notes to Financial Statements**31 March 2004****1. CORPORATE INFORMATION**

The principal activity of the Company is investment holding. The principal activities of the Group consisted of property development and investment, investments in securities, money lending and investment holding.

2. IMPACT OF A REVISED HONG KONG STATEMENT OF STANDARD ACCOUNTING PRACTICE (“SSAP”)

The revised SSAP 12 “Income taxes” is effective for the first time for the preparation of the current year’s financial statements.

This SSAP prescribes new accounting measurement and disclosure practices. The major effects on the Group’s accounting policies and on the amounts disclosed in these financial statements of adopting the revised SSAP 12 are summarised as follows:

SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

This SSAP has had no significant impact for these financial statements on the amounts recorded for income taxes. However, the related note disclosures are now more extensive than previously required. These disclosures are presented in note 10 to the financial statements and include a reconciliation between the accounting profit and the tax charge for the year.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**BASIS OF PREPARATION**

These financial statements have been prepared in accordance with the SSAPs, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of investment properties and certain investments in securities, as further explained below.

BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 March 2004. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

SUBSIDIARIES

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company’s profit and loss account to the extent of dividends received and receivable. The Company’s interests in subsidiaries are stated at cost less any impairment losses.

ASSOCIATES

An associate is a company, not being a subsidiary, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates are included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. However, if the Group's share of losses of an associate equals or exceeds the carrying amount of an investment, the Group ordinarily discontinues including its share of further losses. The investment is reported at nil value. Additional losses are provided for to the extent that the Group has incurred obligations or made payments on behalf of the associate to satisfy obligations of the associate that the Group has guaranteed or otherwise committed. If the associate subsequently reports profits, the Group resumes including its share of those profits only after its share of the profits equals the share of net losses not recognised.

JOINT VENTURE COMPANIES

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

- (a) a subsidiary, if the Group has unilateral control over the joint venture company;
- (b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control over the joint venture company;
- (c) an associate, if the Group does not have unilateral or joint control, but holds generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or
- (d) a long term investment in investment security, if the Group holds less than 20% of the joint venture company's registered capital and/or has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

IMPAIRMENT OF ASSETS

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

FIXED ASSETS AND DEPRECIATION

Fixed assets, other than investment properties, are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold improvements	20%
Furniture, fixtures and office equipment	20%
Motor vehicles	30%

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

INVESTMENT PROPERTIES

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year, except where the unexpired term of the lease is 20 years or less, in which case depreciation is provided on the then carrying amount over the remaining term of the lease.

Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

On disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

INVESTMENTS IN SECURITIES

Investments in securities include held-to-maturity securities, investment securities and other investments.

Held-to-maturity securities

Held-to-maturity securities are investments in dated debt securities which the Group has the expressed intention and ability to hold to maturity, and are stated at cost adjusted for the amortisation of premiums or discounts arising on acquisition, less any impairment losses which reflect their credit risk.

Investment securities

Investment securities are listed and unlisted equity securities, which are intended to be held for a continuing strategic or long term purpose. Investment securities are included in the balance sheet at cost less any impairment losses, on an individual investment basis.

When a decline in the fair value of a security below its carrying amount has occurred, unless there is evidence that the decline is temporary, the carrying amount of the security is reduced to its fair value, as estimated by the directors. The amount of the impairment is charged to the profit and loss account for the period in which it arises. When the circumstances and events which led to the impairment in value cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged is credited to the profit and loss account to the extent of the amount previously charged.

Other investments

Other investments in securities are listed and unlisted equity and debt securities, which are not classified as held-to-maturity securities or investment securities, and are stated at their fair values at the balance sheet date, on an individual investment basis.

The fair values of such listed securities are normally their quoted market prices at the balance sheet date, provided the securities are actively traded in a liquid market, whereas the fair values of such unlisted securities and listed securities that are not actively traded in a liquid market are estimated by the directors having regard to, inter alia, the prices of the most recent reported sales or purchases of the securities, or other appropriate valuations.

The gains or losses arising from changes in the fair values of such securities are credited or charged to the profit and loss account in the period in which they arise.

PROPERTIES HELD FOR SALE

Properties held for sale are stated at the lower of cost and net realisable value, which is determined by the directors with reference to the prevailing market prices, on an individual property basis.

CASH AND CASH EQUIVALENTS

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

PROVISIONS

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

INCOME TAX

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

OPERATING LEASES

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

FOREIGN CURRENCIES

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries and associates are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries and associates are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

EMPLOYEE BENEFITS

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits 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. Contributions are made based on a percentage of the employees’ basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group’s employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group’s employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

Share option scheme

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. The financial impact of share options granted under the share option scheme is not recorded in the Company’s or the Group’s balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

REVENUE RECOGNITION

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (i) rental income, on a time proportion basis over the lease terms;
- (ii) from the sale of equity and debt securities, on a trade-date basis;
- (iii) dividend income, when the shareholders' right to receive payment has been established; and
- (iv) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

RELATED PARTIES

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

4. 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; and
- (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.

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 tables present revenue, loss and certain asset, liability and expenditure information for the Group's business segments.

GROUP

	Property development and investment		Investments in securities		Money lending		Investment holding		Eliminations		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Restated)								(Restated)
Segment revenue:												
Revenue from external customers	808	428	59,533	51,133	8,523	1,985	11,443	—	—	—	80,307	53,546
Other revenue	59	—	—	4,006	—	—	721	—	—	—	780	4,006
Total	<u>867</u>	<u>428</u>	<u>59,533</u>	<u>55,139</u>	<u>8,523</u>	<u>1,985</u>	<u>12,164</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>81,087</u>	<u>57,552</u>
Segment results	<u>19,559</u>	<u>(3,157)</u>	<u>(13,841)</u>	<u>(6,695)</u>	<u>(6,408)</u>	<u>470</u>	<u>(7,260)</u>	<u>—</u>	<u>1,970</u>	<u>770</u>	<u>(5,980)</u>	<u>(8,612)</u>
Unallocated interest income and other revenue/gains											2,534	11,100
Unallocated expenses											<u>(9,367)</u>	<u>(8,227)</u>
Loss from operating activities											(12,813)	(5,739)
Finance costs											<u>(7,411)</u>	<u>(23,538)</u>
Loss before tax											(20,224)	(29,277)
Tax											<u>(31)</u>	<u>(10)</u>
Net loss from ordinary activities attributable to shareholders											<u>(20,255)</u>	<u>(29,287)</u>

GROUP

	Property development and investment		Investments in securities		Money lending		Investment holding		Eliminations		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Restated)											
Segment assets	13,734	33,180	58,902	80,020	128,061	62,355	82,768	—	—	—	283,465	175,555
Unallocated assets											1,620	362,584
Total assets											285,085	538,139
Segment liabilities	8,455	986	623	9,000	—	21,038	29,700	—	—	—	38,778	31,024
Unallocated liabilities											77,213	391,133
Total liabilities											115,991	422,157
Other segment information:												
Unallocated depreciation											712	947
Impairment losses recognised in the profit and loss account	—	—	—	—	—	—	19,400	—	—	—	19,400	—
Other non-cash revenue/(expenses)	(3,929)	(5,684)	12,645	(9,584)	(10,463)	—	—	—	—	—	(1,747)	(15,268)
Capital expenditure	7,779	25,074	—	—	—	—	—	—	—	—	7,779	25,074
Unallocated capital expenditure											25	911
											7,804	25,985

(b) GEOGRAPHICAL SEGMENTS

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments.

GROUP

	Hong Kong		Mainland China		Macau		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Restated)						(Restated)	
Segment revenue:								
Revenue from external customers	68,517	53,118	347	428	11,443	—	80,307	53,546
Other external revenue	780	4,006	—	—	—	—	780	4,006
	<u>69,297</u>	<u>57,124</u>	<u>347</u>	<u>428</u>	<u>11,443</u>	<u>—</u>	<u>81,087</u>	<u>57,552</u>
Other segment information:								
Segment assets	236,237	165,235	4,880	20,571	43,968	—	285,085	185,806
Capital expenditure	<u>7,804</u>	<u>911</u>	<u>—</u>	<u>25,074</u>	<u>—</u>	<u>—</u>	<u>7,804</u>	<u>25,985</u>

5. 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; and proceeds from sale of other investments during the year.

	GROUP	
	2004	2003
	HK\$'000	HK\$'000
		(Restated)
Gross rental income	808	428
Interest income from money lending operations	8,523	1,985
Interest income from unlisted debt securities	839	379
Dividend income from listed securities	237	1,665
Dividend income from unlisted securities	11,443	—
Proceeds from sale of listed other investments	<u>58,457</u>	<u>49,089</u>
	<u>80,307</u>	<u>53,546</u>

The Group's gain/loss on sale of other investments was included in turnover on the net basis in the prior year's financial statements. During the current year, 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 year ended 31 March 2004 by HK\$85,502,000, representing the cost of other investments disposed of during the current year.

To conform with the current year's presentation, the cost of other investments disposed of for the year ended 31 March 2003 of HK\$52,196,000 has been reclassified as cost of sales, resulting in an increase in the turnover and the cost of sales for that year by the same amount. This has resulted in no change to the amount of accumulated losses as at 1 April 2002.

6. LOSS FROM OPERATING ACTIVITIES

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

	<i>Notes</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Depreciation	13	712	947
Staff costs (excluding directors' remuneration (<i>note 7</i>)):			
Wages, salaries and allowances		1,636	1,356
Retirement benefits scheme contributions (defined contribution scheme)*		<u>64</u>	<u>76</u>
		<u>1,700</u>	<u>1,432</u>
Auditors' remuneration		820	718
Minimum lease payments under operating leases in respect of land and buildings		532	504
Provision for bad and doubtful debts**	20	10,463	—
Provision for impairment of investment securities**	17	19,400	—
Provisions against properties held for sale**		—	880
Provision for the settlement of legal proceedings**	29(a)	4,800	—
Revaluation deficit/(surplus) of investment properties**	14	(871)	4,804
Loss on sale of listed other investments, net		27,045	3,107
Write back of provision for compensation loss**		—	(3,500)
Gross and net rental income from investment properties		(808)	(428)
Gain on disposal of listed investment securities, net		—	(4,006)
Interest income from an associate		(2,529)	(10,481)
Other interest income		<u>(779)</u>	<u>(243)</u>

* At 31 March 2004, the Group had no material forfeited contributions available to reduce its contributions to the retirement benefits scheme in future years (2003: Nil).

** These items are included in "Other operating expenses, net" on the face of the consolidated profit and loss account.

7. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	GROUP	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Fees*	<u>252</u>	<u>253</u>
Other emoluments of executive directors:		
Salaries, allowances and benefits in kind	2,591	2,376
Retirement benefits scheme contributions	<u>33</u>	<u>24</u>
	<u>2,624</u>	<u>2,400</u>
	<u><u>2,876</u></u>	<u><u>2,653</u></u>

* Fees included HK\$252,000 (2003: HK\$240,000) payable to the independent non-executive directors of the Company. There were no other emoluments payable to the independent non-executive directors during the year (2003: Nil).

The number of directors whose remuneration fell within the following bands is as follows:

	Number of directors	
	2004	2003
HK\$		
Nil - 1,000,000	5	4
1,500,001 - 2,000,000	<u>1</u>	<u>1</u>
	<u><u>6</u></u>	<u><u>5</u></u>

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2003: Nil).

During the year, no share options were granted to the directors in respect of their services to the Group (2003: Nil).

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2003: two) directors, details of whose remuneration are disclosed in note 7 above. Details of the remuneration of the remaining two (2003: three) non-director, highest paid employees are as follows:

	GROUP	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries, allowances and benefits in kind	704	877
Retirement benefits scheme contributions	<u>19</u>	<u>31</u>
	<u>723</u>	<u>908</u>

The remuneration of two (2003: three) non-director, highest paid employees fell within the nil to HK\$1,000,000 band for the year ended 31 March 2004.

During the year, 22,430,000 share options were granted to one of the above two non-director, highest paid employees in respect of his/her services to the Group, further details of which are set out in note 24 to the financial statements. No value in respect of the above share options granted has been charged to the consolidated profit and loss account, or is otherwise included in the above non-director, highest paid employees' remuneration disclosures because, in the absence of a readily available market value for the options on the Company's shares, the directors were unable to arrive at an accurate assessment of the value of the options granted.

9. FINANCE COSTS

	GROUP	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on:		
Other borrowings wholly repayable within five years	10,379	24,410
Bank loans not wholly repayable within five years	<u>56</u>	<u>—</u>
Total interest	10,435	24,410
Less: Interest expense classified as cost of sales	<u>(3,024)</u>	<u>(872)</u>
Total finance costs for the year	<u>7,411</u>	<u>23,538</u>

10. TAX

No provision for Hong Kong profits tax has been made for the year as the Group did not generate any assessable profits arising in Hong Kong during the year (2003: Nil). The Hong Kong profits tax rate has been increased from 16.0% to 17.5% and became effective from the year of assessment 2003/2004, and so is applicable to the assessable profits arising in Hong Kong for the whole of the year ended 31 March 2004. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Group:		
Current - overseas	<u>31</u>	<u>10</u>

A reconciliation of the tax credit applicable to loss before tax using the Hong Kong statutory tax rate in which the Company and the majority of subsidiaries are domiciled to the tax charge at the effective tax rate, and a reconciliation of the applicable rate (i.e., the statutory tax rate) to the effective tax rate, are as follows:

	GROUP			
	2004		2003	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Loss before tax	<u>(20,224)</u>		<u>(29,277)</u>	
Tax credit at the statutory tax rate	(3,539)	(17.5)	(4,684)	(16.0)
Income not subject to tax	(6,817)	(33.7)	(2,853)	(9.7)
Expenses not deductible for tax	6,824	33.7	6,510	22.2
Tax losses utilised from previous periods	(200)	(1.0)	(37)	(0.1)
Tax loss for the year not recognised	3,772	18.7	1,068	3.6
Others	<u>(9)</u>	—	<u>6</u>	—
Tax charge at the Group's effective rate	<u>31</u>	<u>0.2</u>	<u>10</u>	<u>—</u>

There was no material unprovided deferred tax in respect of the year and as at the balance sheet date (2003: Nil).

At 31 March 2004, the Group had tax losses arising in Hong Kong of HK\$96,436,000 (2003: HK\$98,078,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in the Company and subsidiaries that have been loss-making for some time.

At 31 March 2004, there was no significant unrecognised deferred tax liability (2003: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, as the Group has no liability to additional tax should such amounts be remitted.

11. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31 March 2004 dealt with in the financial statements of the Company was HK\$46,143,000 (2003: HK\$15,090,000) (note 25(b)).

12. LOSS PER SHARE

(a) Basic loss per share

Basic loss per share is calculated based on (i) the net loss from ordinary activities attributable to shareholders of HK\$20,255,000 (2003: HK\$29,287,000); and (ii) the weighted average number of 1,980,060,784 (2003: 1,194,999,043) ordinary shares in issue during the year.

(b) Diluted loss per share

No diluted loss per share amounts have been presented for the years ended 31 March 2004 and 2003, as the effect of the Company's share options and warrants outstanding during these years were anti-dilutive.

13. FIXED ASSETS

GROUP

	Leasehold improvements <i>HK\$'000</i>	Furniture, fixtures and office equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:				
At beginning of year	471	452	1,754	2,677
Additions	<u>18</u>	<u>7</u>	<u>—</u>	<u>25</u>
At 31 March 2004	<u>489</u>	<u>459</u>	<u>1,754</u>	<u>2,702</u>
Accumulated depreciation:				
At beginning of year	124	151	830	1,105
Provided during the year	<u>96</u>	<u>91</u>	<u>525</u>	<u>712</u>
At 31 March 2004	<u>220</u>	<u>242</u>	<u>1,355</u>	<u>1,817</u>
Net book value:				
At 31 March 2004	<u>269</u>	<u>217</u>	<u>399</u>	<u>885</u>
At 31 March 2003	<u>347</u>	<u>301</u>	<u>924</u>	<u>1,572</u>

14. INVESTMENT PROPERTIES

	GROUP	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
At beginning of year, at valuation	20,270	—
Acquisition of subsidiaries (<i>note 26(a)</i>)	7,779	25,074
Disposal of a subsidiary (<i>note 26(b)</i>)	(15,500)	—
Surplus/(deficit) on revaluation credited/(charged) to profit and loss account (<i>note 6</i>)	<u>871</u>	<u>(4,804)</u>
At 31 March, at valuation	<u>13,420</u>	<u>20,270</u>
Analysis by geographical location:		
Long term leases situated in Hong Kong	8,540	—
Medium term leases situated in Mainland China	<u>4,880</u>	<u>20,270</u>
	<u>13,420</u>	<u>20,270</u>

The Group's investment properties were revalued by Legend Surveyors Limited and Centaline Surveyors Limited, independent professionally qualified valuers, on an open market basis, based on their existing use, at 31 March 2004. The investment properties are leased to third parties under operating leases, further summary details of which are included in note 28(a) to the financial statements.

The Group's investment properties situated in Hong Kong, with an aggregate carrying value at the balance sheet date of approximately HK\$8,540,000 (2003: Nil), were pledged to secure a bank loan granted to the Group (note 22).

Further particulars of the Group's investment properties are included on page 65.

15. INTERESTS IN SUBSIDIARIES

	COMPANY	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares, at cost	1	1
Amounts due from subsidiaries	697,439	555,459
Amounts due to subsidiaries	<u>(5,477)</u>	<u>(4,272)</u>
	691,963	551,188
Provisions against amounts due from subsidiaries	<u>(446,947)</u>	<u>(427,927)</u>
	<u>245,016</u>	<u>123,261</u>

The balances with subsidiaries are unsecured and have no fixed terms of repayment. Certain of the balances bear interest at Hong Kong dollar prime rate (the "Prime Rate") per annum.

Particulars of the principal subsidiaries at the balance sheet date are as follows:

Name	Place of incorporation	Nominal value of issued and fully paid ordinary share capital		Percentage of equity attributable to the Company		Principal Activities
				Direct	Indirect	
Brilliant Crown Trading Limited	Hong Kong	HK\$	1,000,000	—	100	Holding of motor vehicles
Dollar Group Limited	British Virgin Islands	US\$	1	—	100	Investments in securities
Double Smart Finance Limited	Hong Kong	HK\$	2	—	100	Money lending
Heritage Strategic Enterprises Limited	Hong Kong	HK\$	10,000	—	100	Provision of corporate services
Mass Nation Investments Limited	British Virgin Islands	US\$	1	—	100	Investment holding
Newick Group Limited*	British Virgin Islands	US\$	1	—	100	Property investment
Overseas Global Limited	British Virgin Islands	US\$	1	—	100	Investment holding
Planner Ford Limited	Hong Kong	HK\$	2	—	100	Provision of corporate services
Prostar Hong Kong Limited	Hong Kong	HK\$	2	100	—	Provision of corporate services
Sun Year Enterprises Limited	Hong Kong	HK\$	2	—	100	Property investment

* Being subsidiary newly acquired during the year. Further details of the acquisition are included in note 26(a) to the financial statements.

During the year, Polywise Investments Limited (“Polywise”) and Kingarm Company Limited were disposed of to third parties. Further details of the disposals are included in note 26(b) to the financial statements.

Except for the following companies, all of the above subsidiaries operate in the place of their incorporation:

- (i) Kingarm Company Limited and Sun Year Enterprises Limited were incorporated in Hong Kong but operate in Mainland China; and
- (ii) Dollar Group Limited was incorporated in the British Virgin Islands but operates in Hong Kong.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

16. INTERESTS IN ASSOCIATES

On 25 July 2003, the Group disposed of its entire interest in Polywise, 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 interest in Polywise, all the associates of the Group were disposed of.

	Group	
	2004 HK\$'000	2003 HK\$'000
Loans to an associate	—	352,116
Amount due from an associate	—	217
	—	352,333
Portion classified as current assets	—	(217)
Non-current portion	—	352,116

As at 31 March 2003, the loans to the associate were unsecured, bore interest at rates ranging from 1.402% to 1.659% per annum above HIBOR and were not repayable within one year. The amount due from the associate at 31 March 2003 was unsecured, interest-free and had no fixed terms of repayment.

Particulars of the associates, all of which are corporations, at 31 March 2003 were as follows:

Company	Place of incorporation/ registration and operations	Nominal value of issued and fully paid share capital/ paid-up capital	Percentage of ownership interest attributable to the Group		Principal activities
			2004	2003	
Guangzhou Chong Hing Property Development Company Limited	People's Republic of China (the "PRC")	RMB170,000,000	—	30	Property development
Linktime International Development Limited	British Virgin Islands	Ordinary US\$10	—	30	Inactive
Speed World Investment Limited	Hong Kong	Ordinary HK\$100	—	30	Investment holding

All the above associates were indirectly held by the Company at 31 March 2003 and were not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

All the above associates have a financial year ending 31 December.

17. INVESTMENTS IN SECURITIES

	Group		Company	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Investment securities, at cost:				
Unlisted equity investments	28,525	—	—	—
Convertible bond issued by an unlisted investee company*	<u>29,700</u>	<u>—</u>	<u>—</u>	<u>—</u>
	58,225	—	—	—
Less: Provision for impairment	<u>(19,400)</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>38,825</u>	<u>—</u>	<u>—</u>	<u>—</u>
Other investments, at fair value:				
Hong Kong listed equity securities	51,402	64,100	—	21,646
Unlisted debt securities	<u>—</u>	<u>8,420</u>	<u>—</u>	<u>—</u>
	<u>51,402</u>	<u>72,520</u>	<u>—</u>	<u>21,646</u>
Held-to-maturity securities, at amortised cost:				
Unlisted debt securities	<u>7,500</u>	<u>7,500</u>	<u>—</u>	<u>—</u>
Total investments in securities	97,727	80,020	—	21,646
Less: Portion of other investments and held-to-maturity securities classified as current assets:				
Hong Kong listed equity securities	(51,402)	(51,636)	—	(18,812)
Unlisted debt securities	<u>(7,500)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Non-current portion	<u><u>38,825</u></u>	<u><u>28,384</u></u>	<u><u>—</u></u>	<u><u>2,834</u></u>
Market value of Hong Kong listed equity securities, at 31 March	<u><u>64,511</u></u>	<u><u>64,100</u></u>	<u><u>—</u></u>	<u><u>21,646</u></u>

* On 29 March 2004, the Group acquired a subordinate convertible bond (the “Convertible Bond”) issued by an investee company (the “Investee”). The Convertible Bond with a face value of HK\$29,700,000 carrying the right of conversion into shares of the Investee at HK\$1.50 per share (subject to adjustment). The Convertible Bond is non-transferable, unsecured, bears interest at 6% per annum and will mature on the third anniversary from its date of issue. Subsequent to the balance sheet date, on 25 June 2004, the Convertible Bond was fully converted into 19,800,000 shares of the Investee.

At the balance sheet date, the Group's and the Company's investments in securities with an aggregate carrying value of approximately HK\$55,649,000 (2003: HK\$76,666,000) and nil (2003: HK\$21,646,000), respectively, were pledged to certain financial institutions to secure certain margin financing facilities provided to the Group and the Company.

At the date of the approval of these financial statements, the market value of listed equity securities held by the Group and the Company as at the balance sheet date was approximately HK\$39,129,000 (2003: HK\$55,474,000) and nil (2003: HK\$16,871,000), respectively.

Included in other investments of the Group as at 31 March 2004 were investments in 20% or more of the nominal value of the issued ordinary share capital of certain equity investees (the "Equity Investees"). The Equity Investees were not treated as associates, because in the opinion of the directors, the Equity Investees were acquired and held with a view to the ultimate realisation of capital gain from the subsequent disposal.

Particulars of the Equity Investees are as follows:

Company name	Place of incorporation	Class of shares held	Percentage of the nominal value of issued ordinary share capital held by the Group	
			2004	2003
Green Choice Technology Limited	British Virgin Islands	Ordinary	25	25
PiLink International Limited	British Virgin Islands	Ordinary	22	22
World Class Technology Limited	British Virgin Islands	Ordinary	20	20
King Kong International Investments Limited	Macau	Ordinary	20	—

18. LOAN TO AN INVESTEE COMPANY

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

19. PROPERTIES HELD FOR SALE

The properties held for sale of the Group and the Company were stated at their net realisable value as at the balance sheet date.

20. LOANS RECEIVABLE

	Group	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Loans receivable	134,751	62,331
Less: Provision for bad and doubtful debts	<u>(10,463)</u>	<u>—</u>
	124,288	62,331
Less: Balances due within one year included in current assets	<u>(122,563)</u>	<u>(62,331)</u>
Non-current portion	<u>1,725</u>	<u>—</u>

Loans receivable represent receivables arising from the money lending business of the Group, and bear interest at rates ranging from 1.5% above the Prime Rate to 10.0% 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 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:

Group	31 March	Maximum amount outstanding during the year	1 April
	2004 <i>HK\$'000</i>	<i>HK\$'000</i>	2003 <i>HK\$'000</i>
Mr. Wong Siu Lun, Alan	<u>5,000</u>	<u>15,000</u>	<u>—</u>

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

21. DEPOSITS FOR CONVERTIBLE NOTES

Pursuant to a placing agreement and a supplemental agreement entered into between the Company, and a placing agent and a financial adviser on 11 August 2003 and 10 November 2003, respectively, the Company has agreed, through the placing agent, to place convertible notes up to HK\$75,000,000 (the "Convertible Notes") to third parties on or before 1 March 2004 (subsequently agreed to extend to 30 April 2004). 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 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.

In March 2004, the Company received from the placing agent deposits for the Convertible Notes totalling HK\$75,000,000. Subsequent to the balance sheet date on 15 April 2004, the Convertible Notes were issued by the Company. Subsequent to the issuance and upto the date of approval of the financial statements, 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.

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.

22. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Bank loan, secured (<i>note 14</i>)	<u>2,966</u>	<u>—</u>	<u>—</u>	<u>—</u>
Other borrowings:				
Secured (<i>note 17</i>)	623	387,878	—	7,482
Unsecured	<u>—</u>	<u>21,000</u>	<u>—</u>	<u>—</u>
	<u>623</u>	<u>408,878</u>	<u>—</u>	<u>7,482</u>
	<u>3,589</u>	<u>408,878</u>	<u>—</u>	<u>7,482</u>
Bank loan repayable:				
Within one year	283	—	—	—
In the second year	290	—	—	—
In the third to fifth years, inclusive	921	—	—	—
Beyond five years	<u>1,472</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>2,966</u>	<u>—</u>	<u>—</u>	<u>—</u>
Other borrowings repayable:				
Within one year or on demand	<u>623</u>	<u>408,878</u>	<u>—</u>	<u>7,482</u>
Total borrowings	3,589	408,878	—	7,482
Portion classified as current liabilities	<u>(906)</u>	<u>(408,878)</u>	<u>—</u>	<u>(7,482)</u>
Non-current portion	<u>2,683</u>	<u>—</u>	<u>—</u>	<u>—</u>

The Group's secured other borrowings carry floating interest rates calculated by reference to the Prime Rate. The interest rates thereon at the balance sheet date were 8% per annum (2003: ranged from 7% to 10% per annum).

As at 31 March 2003, the Group's unsecured other borrowings either carry fixed interest rates or floating interest rates calculated by reference to the Prime Rate. The interest rates thereon at the balance sheet date were 6% per annum.

23. SHARE CAPITAL

SHARES

	Company	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Authorised:		
50,000,000,000 ordinary shares of HK\$0.01 each	<u>500,000</u>	<u>500,000</u>
Issued and fully paid:		
2,243,991,157 (2003: 1,556,665,445) ordinary shares of HK\$0.01 each	<u>22,440</u>	<u>15,567</u>

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

	<i>Notes</i>	Number of shares in issue	Issued share capital <i>HK\$'000</i>	Share premium account <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2002		4,894,896,474	48,949	13,360	62,309
Capital reorganisation:					
— Reduction of capital	(a)(i)	—	(47,725)	—	(47,725)
— Consolidation of shares	(a)(ii)	(4,772,524,063)	—	—	—
— Rights issue	(a)(iii)	1,223,724,110	12,237	90,556	102,793
Issue of new shares	(b) & (c)	210,568,924	2,106	16,913	19,019
Share issue expenses		<u>—</u>	<u>—</u>	<u>(3,419)</u>	<u>(3,419)</u>
At 31 March 2003 and 1 April 2003		1,556,665,445	15,567	117,410	132,977
Placement of new shares	(d)	684,970,000	6,850	61,647	68,497
Exercise of warrants	(e)	2,355,712	23	190	213
Share issue expenses		—	—	(1,412)	(1,412)
Cancellation of share premium	(f)(i)	<u>—</u>	<u>—</u>	<u>(177,833)</u>	<u>(177,833)</u>
At 31 March 2004		<u>2,243,991,157</u>	<u>22,440</u>	<u>2</u>	<u>22,442</u>

Notes:

(a) On 24 May 2002, a special general meeting was convened and the shareholders approved a capital reorganisation of the Company as follows:

(i) Reduction of capital

The par value of all issued shares of the Company was reduced from HK\$0.01 per share to HK\$0.00025 per share (the "Reduced Share"). The credit arising from such reduction has been credited to the contributed surplus of the Company.

(ii) Consolidation of shares

Every forty issued Reduced Share was consolidated into one ordinary share of HK\$0.01 (the “Consolidated Share”).

(iii) Rights issue with bonus issue

1,223,724,110 ordinary shares (the “Rights Shares”) were issued at a price of HK\$0.084 each (being a premium of HK\$0.074 per share) based on ten Rights Shares for every Consolidated Share with total cash proceeds of approximately HK\$100 million, net of expenses (the “Rights Issue”).

The reduction of capital and the consolidation of share were effective from 24 May 2002. The Rights Issue was completed in June 2002.

- (b) During the year ended 31 March 2003, 197,108,924 warrants were exercised and 197,108,924 ordinary shares of HK\$0.01 each were allotted and issued at HK\$0.09 per share.
- (c) On 5 July 2002, 13,460,000 ordinary shares of HK\$0.01 each were allotted and issued to a share option holder at HK\$0.095 per share.
- (d) 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\$0.10 per share on 24 July 2003 and 11 September 2003, respectively.
- (e) During the year ended 31 March 2004, 2,355,712 warrants were exercised and 2,340,465 and 15,247 ordinary shares of HK\$0.01 each were allotted and issued at HK\$0.09 and HK\$0.17 per share, respectively.
- (f) On 26 September 2003, a special general meeting was convened and the shareholders approved the cancellation of the share premium of the Company as follows:
 - (i) The amount standing to the credit of the share premium account of the Company on 26 September 2003 amounting to HK\$177,833,000 was cancelled and the credit arising therefrom was applied to the contributed surplus account of the Company; and
 - (ii) 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 the applicable laws, including but not limited to the elimination of the accumulated losses of the Company as at 31 March 2003 amounting to HK\$241,446,000.

Further details of the changes in the Company’s share capital after the balance sheet date are set out in note 31 to the financial statements.

SHARE OPTIONS

Details of the Company’s share option scheme and the share options issued under the scheme are included in note 24 to the financial statements.

WARRANTS

At 31 March 2003, 47,651,145 warrants at a subscription price of HK\$0.09 per share were outstanding. During the year, 2,355,712 warrants were exercised for 2,355,712 ordinary shares of HK\$0.01 each at a price of HK\$0.09 per share. The remaining 45,295,433 warrants were expired/lapsed on 30 June 2003.

During the year, a bonus issue of warrants was made in the proportion of one warrant for every five shares held by members on the register of members on 26 September 2003, resulting in 448,795,182 warrants being issued. Each warrant entitles the holder thereof to subscribe for one ordinary share of HK\$0.01 at a subscription price of HK\$0.17 per share, payable in cash and subject to adjustment, from 13 October 2003 to 12 April 2005. Of which, up to the balance sheet date, 15,247 warrants were exercised for 15,247 ordinary shares of HK\$0.01 each at a price of HK\$0.17 per share.

At the balance sheet date, the Company had 448,779,935 warrants outstanding. The exercise in full of such warrants would, under the present capital structure of the Company, result in the issue of 448,779,935 additional shares of HK\$0.01 each and additional share capital of approximately HK\$4,488,000 and share premium of approximately HK\$71,805,000 (before issue expenses).

24. SHARE OPTION SCHEME

The Company operates a share option scheme (the “Scheme”) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. Eligible participants of the Scheme include the Company’s directors, including the independent non-executive directors, and other employees of the Group. The Scheme became effective on 10 October 1996 and was amended on 30 September 1997 and, unless otherwise cancelled or amended, will remain in force for ten years from 10 October 1996.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. No option may be granted to any one person which, if exercised in full, would result in the total number of shares already issued and issuable to him under the Scheme exceeding 25% of the aggregate number of shares of the time being issued and issuable under the Scheme.

The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than ten years from the date upon which the offer of the share options is accepted or the expiry date of the Scheme, whichever is earlier.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) 80% of the average of the closing prices of the Company’s shares on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) for the five trading days immediately preceding the date of the offer; and (ii) the nominal value of the Company’s shares.

The Stock Exchange has introduced a number of changes to the Listing Rules on share option schemes. These new rules came into effect on 1 September 2001. An option granted shall be subject to the new changes which include, inter alia, the following:

- (a) the maximum number of shares issuable under the share option to each eligible participant within any 12-month period is limited to 1% of the shares in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders’ approval in a general meeting;

- (b) share options granted to a director, chief executive or substantial shareholder, or to any of their associates, are subject to approval in advance by the independent non-executive directors; and
- (c) the exercise price of the share options is determined by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the shares on the date of grant of the shares options; and (ii) the average Stock Exchange closing price of the shares for the five trading days immediately preceding the date of the grant.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

Since 1 September 2001, certain options were granted to employees of the Group pursuant to the new requirements.

The following share options were outstanding under the Scheme during the year:

Category of participant	Number of share options			Date of grant of share options*	Exercise period of share options	Exercise price of share options**	Price of Company's shares at grant date of options***
	At 1 April 2003	Granted during the year '000	At 31 March 2004 '000				
Employee	—	22,430	22,430	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.

*** 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 the balance sheet date, the Company had 22,430,000 share options outstanding under the Scheme, which represented approximately 1% of the Company's ordinary shares in issue at that date. 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).

25. RESERVES

(a) GROUP

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

(b) COMPANY

	<i>Notes</i>	Share premium account <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2002		13,360	1,038	202,436	(226,356)	(9,522)
Capital reorganisation:						
— Reduction of capital	23(a)(i)	—	—	47,725	—	47,725
— Rights issue	23(a)(iii)	90,556	—	—	—	90,556
Issue of new shares	23(b) & (c)	16,913	—	—	—	16,913
Share issue expenses		(3,419)	—	—	—	(3,419)
Net loss for the year		—	—	—	(15,090)	(15,090)
At 31 March 2003 and 1 April 2003		117,410	1,038	250,161	(241,446)	127,163
Placement of new shares	23(d)	61,647	—	—	—	61,647
Exercise of warrants	23(e)	190	—	—	—	190
Share issue expenses		(1,412)	—	—	—	(1,412)
Cancellation of share premium	23(f)(i)	(177,833)	—	177,833	—	—
Offsetting against accumulated losses	23(f)(ii)	—	—	(241,446)	241,446	—
Net loss for the year		—	—	—	(46,143)	(46,143)
At 31 March 2004		<u>2</u>	<u>1,038</u>	<u>186,548</u>	<u>(46,143)</u>	<u>141,445</u>

Under the Bermuda Companies Act 1981, the Company's share premium account and capital redemption reserve may be distributed in the form of fully paid bonus shares.

Under the Bermuda Companies Act 1981, the Company may make distribution to its members out of the contributed surplus in certain circumstances.

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) ACQUISITION OF SUBSIDIARIES

	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net assets acquired:		
Fixed assets	—	554
Investment properties	7,779	25,074
Prepayments, deposits and other receivables	372	131
Cash and bank balances	15	2
Other payables and accrued liabilities	(166)	(1,018)
Tax payable	—	(189)
	<u>8,000</u>	<u>24,554</u>
Satisfied by:		
Cash	8,000	5,554
Set-off against loans receivable	—	19,000
	<u>8,000</u>	<u>24,554</u>

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash consideration	(8,000)	(5,554)
Cash and bank balances acquired	<u>15</u>	<u>2</u>
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	<u>(7,985)</u>	<u>(5,552)</u>

During the year, on 1 July 2003, the Group acquired 100% equity interest in Newick Group Limited (“Newick”) from a third party. Newick is principally engaged in property investment. The purchase consideration of HK\$8,000,000 was satisfied by cash on the date of acquisition.

The subsidiary acquired during the year contributed HK\$460,000 to the Group’s turnover and a profit of HK\$203,000 to the consolidated loss after tax for the year.

The subsidiaries acquired in the prior year contributed HK\$428,000 to the Group’s turnover and a loss of HK\$4,910,000 to the consolidated loss after tax for that year.

(b) DISPOSAL OF SUBSIDIARIES

	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interests in associates	354,862	—
Investment properties	15,500	—
Prepayments, deposits and other receivables	135	—
Cash and bank balances	15	—
Other payables and accrued liabilities	(1,047)	—
Interest-bearing other borrowings	(381,401)	—
Amounts due to group companies	<u>(35,587)</u>	<u>—</u>
Net liabilities disposed of	(47,523)	—
Amounts due from subsidiaries disposed of	35,587	—
Exchange fluctuation reserve released upon disposal of associates	6,069	—
Gain on disposal of subsidiaries/associates	<u>23,867</u>	<u>—</u>
Consideration	<u>18,000</u>	<u>—</u>
Satisfied by:		
Cash	<u>18,000</u>	<u>—</u>

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash consideration	18,000	—
Cash and bank balances disposed of	<u>(15)</u>	<u>—</u>
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	<u>17,985</u>	<u>—</u>

The subsidiaries disposed of during the year contributed HK\$60,000 (2003: HK\$284,000) to the Group's turnover and a loss of HK\$5,421,000 (2003: HK\$16,701,000) to the Group's consolidated loss after tax for the year.

(c) MAJOR NON-CASH TRANSACTIONS

- (i) During the year, the Group accrued a total of HK\$7,355,000 (2003: HK\$23,271,000) interest expense for the year for certain other borrowings and HK\$2,529,000 (2003: HK\$10,481,000) interest income for the year for the loans to an associate. These amounts were included in the respective loan accounts and were disposed of as a part of the subsidiaries disposed of during the year.

- (ii) During the year, as detailed in note 17 to the financial statements, the Group acquired the Convertible Bond amounting to HK\$29,700,000, which was not yet settled at the balance sheet date and was included in “Other payables and accrued liabilities” on the face of the consolidated balance sheet.
- (iii) During the year ended 31 March 2003, the Group obtained further other borrowings of HK\$2,496,000 to finance an equivalent amount of the loans to an associate. The loans were directly advanced from the lender to the associate.
- (iv) During the year ended 31 March 2003, the Group settled the consideration for the acquisition of a subsidiary amounting to HK\$19,000,000 by the offsetting of the Group’s loan receivable with the same amount.

27. PLEDGES OF ASSETS

Details of the Group’s and the Company’s interest-bearing bank and other borrowings, which are secured by the assets of the Group and the Company, are included in notes 14, 17 and 22 to the financial statements.

28. OPERATING LEASE ARRANGEMENTS

(a) AS LESSOR

The Group leases its investment properties (note 14) 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 31 March 2004, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2004	2003
	<i>HK\$’000</i>	<i>HK\$’000</i>
Within one year	580	217
In the second to fifth years, inclusive	<u>147</u>	<u>28</u>
	<u>727</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 31 March 2004, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Within one year	420	504
In the second to fifth years, inclusive	<u>—</u>	<u>420</u>
	<u>420</u>	<u>924</u>

At the balance sheet date, the Company did not have any operating lease arrangements.

29. CONTINGENT LIABILITIES

- (a) In the prior year, the Company received a writ of summons from a contractor (the “Plaintiff”), for a sum of HK\$124 million claimed for alleged substandard mechanical and electrical installation work completed by the Plaintiff and the supply of project management services under two head contracts in connection with a property development project in Guangzhou, the PRC. The subject head contracts were entered into between the Plaintiff and Guangzhou Dong-Jun Real Estate Interest Company Limited (“GZ Dong Jun”, a then indirect wholly-owned subsidiary of the Company) but the Plaintiff claimed directly against the Company in reliance on two alleged guarantee letters given by the Company in favour of the Plaintiff.

The Hong Kong High Court ordered that all proceedings be stayed and the case was passed to Fushan, the PRC, for arbitration as this case was under its jurisdiction. The case was finalised on 30 November 1999 and the Fushan Arbitration Committee decided that GZ Dong Jun should pay the Plaintiff HK\$12 million together with interest from 30 December 1999 until the date of actual payment at the interest rate of 0.04% per day to settle the outstanding construction costs (the “Decision”).

In May 2000, GZ Dong Jun appealed to the Guangdong Fushan City Intermediate People’s Court (the “Fushan Intermediate Court”) in respect of the Decision, which such appeal was rejected by the Fushan Intermediate Court.

On 31 July 2000, GZ Dong Jun was disposed of by the Group. Pursuant to a deed of indemnity dated 31 July 2000, Mr. Peng Xiongfa (“Mr. Peng”, a then director of the Company) indemnified the Company for all damages, losses and liabilities arising from these proceedings.

On 10 January 2001, GZ Dong Jun appealed against the decision of the Fushan Intermediate Court to the Guangdong Province Higher People’s Court (the “GD Higher Court”).

On 3 April 2001, GZ Dong Jun also filed a separate application to the Guangzhou City Intermediate People's Court (the "GZ Intermediate Court") requesting for the termination of the execution of the Decision.

In July 2001, the GZ Intermediate Court decided that the enforcement of the Decision should be disallowed due to the improper procedure of the Fushan Arbitration Committee.

On 22 March 2001, the Plaintiff issued a summons to uplift the stay of proceedings imposed by the Hong Kong High Court.

On 28 September 2001, the above-mentioned stay of proceedings was removed according to an order of the Hong Kong High Court (the "Order").

On 9 January 2002, the Plaintiff obtained a default judgement of HK\$12,004,800 plus interest (the "Default Judgement") issued by the Hong Kong High Court. By another order of the Hong Kong High Court dated 15 April 2002, the Default Judgement was set aside.

In August 2002, the GZ Intermediate Court set aside its previous decision in July 2001 of disallowing the enforcement of the Decision due to the improper procedure of the GZ Intermediate Court.

In December 2002, GZ Dong Jun Real Estate applied to the GZ Intermediate Court to confirm its previous decision in July 2001 of disallowing the enforcement of the Decision. However, no decision has been obtained up to the date of this report.

Subsequent to the balance sheet date, on 3 June 2004, the Company entered into a settlement agreement (the "Settlement Agreement") with the Plaintiff to settle the above legal proceedings. In consideration of the Plaintiff agreeing to withdraw the legal proceedings against the Company, the Company shall pay to the Plaintiff 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 proposed to settle the remaining HK\$4,650,000 by the issue of 250,000,000 ordinary shares of the Company, subject to the approval of the shareholders of the Company in a special general meeting to be held on 30 July 2004. Further details of the Settlement Agreement are also set out in a circular of the Company dated 14 July 2004.

Accordingly, a provision for the settlement of the legal proceedings of HK\$4,800,000 was made during the year and was included in the consolidated balance sheet of the Group and the balance sheet of the Company as at 31 March 2004 (2003: Nil).

Based on the advice of the Group's legal adviser, the directors are of the opinion that no further provision for the legal proceedings is required.

- (b) Pursuant to the shareholders' agreements of certain other investments entered into in the prior years, the Group has agreed to provide corporate guarantees to secure certain investees' borrowing facilities as and when required. As at 31 March 2004 and the date of the approval of these financial statements, no borrowings have been drawn by the respective investees (2003: Nil).

30. RELATED PARTY TRANSACTION

During the year, interest income was earned from a then associate of the Group of HK\$2,529,000 (2003: HK\$10,481,000), arising from certain loans to the associate during the year. The loans to the associate were unsecured, bore interest at 1.4201% per annum above HIBOR (2003: ranged from 1.402% to 1.659% per annum above HIBOR) and were disposed of as part of the disposal of a subsidiary during the year (note 16).

31. POST BALANCE SHEET EVENTS

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

- (a) On 3 June 2004, the Fortuna Investments Group Limited and Sovicotra Capital Limited (the “Vendors”), substantial shareholders of the Company, entered into a placing agreement (the “Placing Agreement”) and a subscription agreement (the “Top Up Subscription Agreement”) with a placing agent (the “Placing Agent”) and the Company, respectively. Pursuant to the Placing Agreement, the Vendors agreed to place, through the Placing Agent, an aggregate of 448,000,000 existing ordinary shares of the Company, to not fewer than six independent placees at a price of HK\$0.037 per share. Pursuant to the Top Up Subscription Agreement, the Vendors 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. The Placing Agreement and Top Up Subscription Agreement were completed on 14 June 2004 and 17 June 2004, respectively. The proceeds from the issue of 448,000,000 new ordinary shares of the Company of HK\$16,576,000 (before issue expenses) will be used to provide additional working capital for the Group/to finance the Group’s possible future investments.
- (b) On 3 June 2004, the Company also entered into another subscription agreement (the “New Subscription Agreement”) with a third party to place 600,000,000 new ordinary shares of the Company at a price of HK\$0.037 per share. The New Subscription Agreement is conditional upon, inter alia, the approval by the shareholders of the Company in a special general meeting to be held on 30 July 2004. The proceeds from the issue of 600,000,000 new ordinary shares of the Company of approximately HK\$22,200,000 (before issue expenses) will be used to provide additional working capital for the Group/to finance the Group’s possible future investments.

Further details of the Placing Agreement, Top Up Subscription Agreement and New Subscription Agreement are also set out in an announcement and a circular of the Company dated 9 June 2004 and 14 July 2004, respectively.

32. COMPARATIVE AMOUNTS

As further explained in note 5 to the financial statements, certain comparative amounts have been reclassified to conform with the current year’s presentation.

33. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 July 2004.

3. INTERIM RESULTS

Set out below are the unaudited interim results of the Group for the six months ended 30 September 2004 extracted from the 2004 interim report of the Company.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30 September 2004

	<i>Notes</i>	Unaudited	
		For the six months ended 30 September	
		2004	2003
		<i>HK\$'000</i>	<i>HK\$'000</i>
			(Restated)
TURNOVER	3	25,622	14,011
Cost of sales		<u>(12,234)</u>	<u>(9,980)</u>
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		<u>1,304</u>	<u>—</u>
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	4	(25,772)	17,467
Finance costs	5	<u>(2,175)</u>	<u>(7,653)</u>
PROFIT/(LOSS) BEFORE TAX		(27,947)	9,814
Tax	6	<u>—</u>	<u>(12)</u>
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<u>(27,947)</u>	<u>9,802</u>
EARNING/(LOSS) PER SHARE	8		
Basic		<u>HK\$(0.007)</u>	<u>HK\$0.004</u>
Diluted		<u>N/A</u>	<u>HK\$0.004</u>

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	<u>300</u>	<u>1,725</u>
		96,641	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		<u>132</u>	<u>743</u>
		<u>164,902</u>	<u>190,230</u>
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		<u>—</u>	<u>225</u>
		<u>18,150</u>	<u>113,308</u>
NET CURRENT ASSETS		<u>146,752</u>	<u>76,922</u>

	<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	<u>36,000</u>	<u>—</u>
		<u>207,393</u>	<u>169,094</u>
CAPITAL AND RESERVES			
Issued capital	13	42,000	22,440
Reserves		<u>165,393</u>	<u>146,654</u>
		<u>207,393</u>	<u>169,094</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY*For the six months ended 30 September 2004 (unaudited)*

	<i>Notes</i>	Reserves						Total
		Share Issued capital	Share premium account	Capital redemption reserve	Contributed surplus	Exchange fluctuation reserve	Accumulated losses	
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	
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		<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(27,947)</u>	<u>(27,947)</u>
Balance at 30 September 2004		<u>42,000</u>	<u>46,688*</u>	<u>1,038*</u>	<u>186,548*</u>	<u>—*</u>	<u>(68,881)*</u>	<u>207,393</u>

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	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	<u>22,440</u>	<u>—</u>	<u>1,038</u>	<u>186,548</u>	<u>—</u>	<u>(10,877)</u>	<u>199,149</u>

* 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	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
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	<u>21,067</u>	<u>70,401</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(611)	(396)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>743</u>	<u>560</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u><u>132</u></u>	<u><u>164</u></u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	<u><u>132</u></u>	<u><u>164</u></u>

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		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		For the six months ended 30 September	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	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)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	(Restated)												(Restated)	
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	<u>448</u>	<u>281</u>	<u>12,056</u>	<u>9,180</u>	<u>5,243</u>	<u>4,236</u>	<u>6,986</u>	<u>314</u>	<u>889</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>25,622</u>	<u>14,011</u>
Segment results	<u>375</u>	<u>(451)</u>	<u>(34,688)</u>	<u>(6,934)</u>	<u>2,824</u>	<u>1,641</u>	<u>6,976</u>	<u>314</u>	<u>(391)</u>	<u>—</u>	<u>—</u>	<u>1,041</u>	<u>(24,904)</u>	<u>(4,389)</u>
Unallocated interest income and other revenue/gains													—	26,460
Unallocated expenses													(868)	(4,604)
Profit/(loss) from operating activities													(25,772)	17,467
Finance costs													(2,175)	(7,653)
Profit/(loss) before tax													(27,947)	9,814
Tax													—	(12)
Net profit/(loss) from ordinary activities attributable to shareholders													<u>(27,947)</u>	<u>9,802</u>

(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	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	(Restated)						(Restated)	
Segment revenue:								
Revenue from external customers	<u>19,066</u>	<u>13,883</u>	<u>—</u>	<u>128</u>	<u>6,556</u>	<u>—</u>	<u>25,622</u>	<u>14,011</u>

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	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
		(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	<u>11,817</u>	<u>9,180</u>
	<u>25,622</u>	<u>14,011</u>

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	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
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	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
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	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Company and subsidiaries — current:		
Hong Kong	—	—
Overseas	—	12
	<u>—</u>	<u>12</u>
Share of tax attributable to associates	—	—
	<u>—</u>	<u>—</u>
Tax charges for the period	—	12
	<u>—</u>	<u>12</u>

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 <i>HK\$’000</i>	Maximum amount outstanding during the period <i>HK\$’000</i>	1 April 2004 <i>HK\$’000</i>
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 <i>HK\$’000</i>	Audited 31 March 2004 <i>HK\$’000</i>
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

	Unaudited 30 September 2004 HK\$'000	Audited 31 March 2004 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>		
4,199,991,157 (31 March 2004: 2,243,991,157) ordinary shares of HK\$0.01 each	<u>42,000</u>	<u>22,440</u>

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 <i>HK\$'000</i>	Share premium account <i>HK\$'000</i>
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		<u>—</u>	<u>—</u>	<u>(434)</u>
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 <i>HK\$'000</i>	Audited 31 March 2004 <i>HK\$'000</i>
Within one year	328	580
In the second to fifth years, inclusive	<u>—</u>	<u>147</u>
	<u>328</u>	<u>727</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 2004, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Unaudited 30 September 2004 <i>HK\$'000</i>	Audited 31 March 2004 <i>HK\$'000</i>
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.

4. WORKING CAPITAL

The Directors are of the opinion that, taking into account the cashflow generated from the operating activities, the financial resources available for the Group, including internally generated funds, the available credit facilities and the estimated net proceeds of the rights issue announced on 27 October 2004, the Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the date of this circular.

5. INDEBTEDNESS

Borrowings

At the close of business on 31 December 2004, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had aggregate outstanding borrowings of approximately HK\$37,096,071, comprising the following:

- (i) secured margin financing provided by certain financial institutions of approximately HK\$1,096,071; and
- (ii) Convertible Notes issued by the Company of HK\$36,000,000.

The Group's margin financing is secured by the Group's investment securities.

The Convertible Notes are unsecured, interest bearing at 6.8% per annum and are repayable on 15 April 2007.

Contingent liabilities

At the close of business on 31 December 2004, being the latest practicable date for the purpose of this indebtedness statement, the Group had no material contingent liabilities.

Disclaimers

Save as aforesaid or otherwise disclosed herein, and apart from intra-group liabilities and normal trade payables, the Group did not have any outstanding mortgages, charges, debentures or other loan capital, bank overdrafts, loans, debt securities or other similar indebtedness, liabilities under acceptances or acceptances credits, finance leases or hire purchase commitments, guarantees or other material contingent liabilities at the close of business on 31 December 2004.

No material changes

The Directors have confirmed that there has not been any material change in the indebtedness and contingent liabilities of the Group since 31 December 2004.

6. FINANCIAL AND TRADING PROSPECTS

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. The loss per share was HK\$0.007 for the current period as compared with a earning per share of HK\$0.004 for the corresponding period ended 30 September 2003. Turnover increased from HK\$14,011,000 for six months ended 30 September 2003 to HK\$25,622,000 for the six months ended 30 September 2004. Due to the continual reduction in the Group's average borrowing level, finance costs decreased from HK\$7,653,000 for the six months ended 30 September 2003 to HK\$2,175,000 for the six months ended 30 September 2004.

The Group was one of the first few listed companies that have direct investment in casino service and gaming business in Macau. The Group acquired a 20% interest in King Kong International Investments Limited ("King Kong") in December 2003 and provided a shareholder loan of HK\$40,000,000 to King Kong for financing its operation. King Kong is principally engaged in casino services and gaming business in Macau.

Through its investment in Found Macau, the Group can team up with other potential financial investors of Found Macau leveraged by the prominent social network and management expertise of the Founders to research and invest in various potential projects in Macau so as to capture the opportunities for the economical growth in Macau.

The Group investment in King Kong and Found Macau are separate transactions at present.

With the opening up of more casinos from overseas consortium, gaming business is getting very competitive in Macau. However, with the continual improvement in the economy of Hong Kong and Macau within the Pearl River Delta Region, the management is still very optimistic about the investment in Macau.

7. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 March 2004, the date to which the latest audited financial statements of the Company were made up.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts not contained herein the omission of which would make any statement contained in this circular misleading.

2. DISCLOSURE OF INTERESTS

(a) Interests of Directors

As at the Latest Practicable Date, none of the Directors or chief executives of the Company had any interests and short positions in the Shares, underlying Shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), the Model Code for Securities Transactions by Directors of Listed Companies and which were required to be entered into the register required to be kept under section 352 of the SFO.

(b) Interests of Shareholders

As at the Latest Practicable Date, so far as is known to the Directors and the chief executives of the Company, the following persons (other than a Director or chief executive of the Company) had an interest or short position in the Shares and underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who are, directly or indirectly interested in 10 per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at a general meeting of any member of the Group.

Name of Shareholder	Number of shares of HK\$0.01	Percentage of the Company's issued share
Collier Assets Limited ^{Note 1}	737,000,000	9.97%
Lo Ki Yan, Karen ^{Note 1}	737,000,000	9.97%
Chu Yuet Wah ^{Note 2}	2,000,005,550	27.06%
Ma Siu Fong ^{Note 2}	2,000,005,550	27.06%
Kingston Securities Limited ^{Note 2}	2,000,005,550	27.06%
Get Nice Holdings Limited ^{Note 3}	540,000,000	7.31%
Get Nice Incorporated ^{Note 3}	540,000,000	7.31%
Honeylink Agents Limited ^{Note 3}	540,000,000	7.31%

Notes:

- (1) These shares are held by Collier Assets Limited, a company wholly-owned by Ms. Lo Ki Yan, Karen.
- (2) Kingston Securities Limited is deemed to be interested in these shares by virtue of the Placing Agreement. The entire issued share capital of Kingston Securities Limited is beneficially owned as to 51% by Chu Yuet Wah and as to 49% by Ma Siu Fong.
- (3) Get Nice Investment Limited is a sub-underwriter of the New Convertible Notes and is deemed to be interested in 540,000,000 shares by virtue of the sub-underwriting agreement entered into with Kingston Securities Limited dated 24 January 2005.

Save as disclosed above, the Directors and the chief executives of the Company are not aware that there is any person (other than a Director or chief executive of the Company) who, as at the Latest Practicable Date, had an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 10 per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at a general meeting of any other member of the Group.

As at the Latest Practicable Date:

- (i) none of the Directors, K.S. Liu & Company, C.P.A. Limited nor Kim Eng had any direct or indirect interests in any assets which have since 31 March 2004 (being the date to which the latest published audited accounts of the Group were made up) been acquired or disposed of by or leased to any members of the Group, or are proposed to be acquired or disposed of by or leased to any members of the Group;
- (ii) save for Mr. Ong's interest in the Transactions disclosed in this circular, none of the Directors was materially interested in any contracts or arrangements entered into by any members of the Group subsisting at the Latest Practicable Date which is significant in relation to the business of the Group.

K.S. Liu & Company, C.P.A. Limited and Kim Eng do not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

3. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors has entered into any service agreement with any member of the Group.

4. 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 pursuant to which the Plaintiffs discontinued the action against the Defendants.

Save as disclosed above, as at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against the Company or any member of its group.

5. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors and his/her respective associates was considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group other than those businesses to which the Directors and his/her associates were appointed to represent the interests of the Company and/or the Group.

6. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) has been entered into by members of the Group within the two years preceding the date of this circular and is or may be material:

- (a) On 10 February 2003, five wholly-owned subsidiaries of the Company, namely Alford Investments Limited, Angel Hand Investments Limited, Newest Profits Limited, Success Conquer Limited and Winowise Limited (the “Purchasers”) entered into five sale and purchase agreements respectively with Great Gains International Limited and Pacific Kingdom Investments Limited (the “Vendors”) for the acquisition of certain commercial properties in Hong Kong at an aggregate consideration of HK\$125 million. Further details of the transaction are set out in the circular of the Company dated 24 February 2003.

On 25 April 2003, supplemental agreements were entered into between the Vendors and the Purchasers to extend the completion date from on or before 28 April 2003 to on or before 28 July 2003. Further details of the supplemental agreements are set out in the announcement of the Company dated 25 April 2003.

- (b) On 24 June 2003, the Company entered into two placing agreements (the “First Placing Agreement” and the “Second Placing Agreement”) with CU Corporate Finance Limited as financial adviser and Chung Nam Securities Limited as placing agent. Pursuant to the First Placing Agreement, 311,330,000 new ordinary shares of the Company were allotted and

issued for cash to independent third parties at a price of HK\$0.10 per share in July 2003. Pursuant to the Second Placing Agreement, 373,640,000 new ordinary shares of the Company were allotted and issued for cash to independent third parties at a price of HK\$0.10 per share in September 2003. Further details of the placing agreements are set out in the announcement of the Company dated 24 June 2003 and the circular of the Company dated 2 August 2003.

- (c) On 25 June 2003, Senstar Limited, a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with Skytop Technology Limited for the disposal of the entire issued share capital of its subsidiary, Kingarm Company Limited, for a cash consideration of HK\$17 million.
- (d) On 25 July 2003, Coupeville Limited, a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement for the disposal of the entire issued share capital of its subsidiary, Polywise Investments Limited, to Comasia Limited for a cash consideration of HK\$17 million.
- (e) The Company entered into a placing agreement and a supplemental agreement on 11 August 2003 and 10 November 2003 respectively with CU Corporate Finance Limited as financial adviser and Chung Nam Securities Limited as placing agent for the placing of convertible notes up to HK\$75,000,000 (the “Convertible Notes”) to be issued by the Company. 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. Further details are set out in the circulars of the Company dated 18 August 2003 and 1 December 2003 and announcements of the Company dated 11 August 2003, 10 November 2003 and 20 February 2004.
- (f) On 17 December 2003, Overseas Global Limited, a wholly owned subsidiary of the Company, entered into an agreement with Mr. Ong Peter, a director of the Company, to acquire 20% of the issued share capital of a Macau-incorporated company, King Kong International Investments Limited (in Portuguese, King Kong Internacional Investimentos, Limitada) (“King Kong”), from Mr. Ong Peter at a cash consideration of HK\$24,500. King Kong is principally engaged in the casino services and gaming businesses at the Neptune VIP Club located at the Lisboa Casino in Macau. Subsequent to the acquisition of the interest in King Kong, Overseas Global Limited provided a shareholder loan of HK\$40 million to King Kong in accordance with the verbal agreement between the shareholders of King Kong. The loan to King Kong is interest-free, unsecured and has no fixed repayment terms. Further details are set out in the announcement of the Company dated 22 December 2003.
- (g) 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 set out in the announcement of the Company dated 9 June 2004.

- (h) On 3 June 2004, the Company entered into a subscription agreement with Solar Sky International Limited, to issue to it 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 set out in an announcement and the circular of the Company dated 9 June 2004 and 14 July 2004, respectively.
- (i) 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 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. Further details of the settlement agreement are also set out in the circular of the Company dated 14 July 2004.
- (j) On 8 June 2004, Power Global Limited, a wholly owned subsidiary of the Company, entered into bought and sold notes with Hennabun Management Inc. and CU Nominee Limited respectively to acquire the entire issued share capital of CU Investment Management Limited at an aggregate cash consideration of HK\$2 million.
- (k) On 14 July 2004, Eastrade Alliance Limited, a wholly owned subsidiary of the Company entered into a sale and purchase agreement with Take Way Limited for the disposal of the entire issued share capital of and loan to its subsidiary, Sun Year Enterprises Limited, for a cash consideration of HK\$3.6 million. The principal assets of Sun Year Enterprises Limited are certain properties located in Wyfold Industrial City in Buji, Shenzhen, the People’s Republic of China.
- (l) On 29 July 2004, Power Global Limited entered into bought and sold notes with Hennabun Management Inc. to acquire the entire issued share capital of Masters of Masters Limited at a cash consideration of HK\$2 million.
- (m) On 16 August 2004, Newick Group Limited, a wholly owned subsidiary of the Company, entered into two provisional sale and purchase agreements with Sunfield Technology Limited for the disposal of 22/F and 25/F of Workingview Commercial Building, No. 21 Yiu Wa Street, Hong Kong (the “Properties”) for a cash consideration of HK\$4,430,000 and HK\$4,450,000 respectively. Pursuant to the provisional sale and purchase agreements, Newick Group Limited executed twelve assignments on 30 September 2004 to transfer the titles of the Properties to twelve individual companies (which are independent third parties to the Company) designated by Sunfield Technology Limited.
- (n) On 27 August 2004, the Company entered into a sale and purchase agreement with an independent third party, Sunderland Properties Limited, to acquire 608 million shares of China Sci-Tech Holdings Limited at a consideration of HK\$7,254,000 which was to be satisfied by the issue of 558 million new shares of the Company. Further details are set out in the announcement and circular of the Company dated 6 September 2004 and 23 September 2004, respectively.

- (o) On 27 October 2004, the Company entered into an underwriting agreement with Kingston Securities Limited whereby Kingston Securities Limited agreed to underwrite not less than 1,909,845,578 and not more than 2,257,950,546 rights shares at the subscription price of HK\$0.012 per share. Further details of the rights issue are set out in a prospectus of the Company dated 24 November 2004.
- (p) On 29 November 2004, Silver Target Limited and Wealth Champion Limited, two wholly-owned subsidiaries of the Company, entered into a sale and purchase agreement with Pacific Kingdom Investment Limited 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 the circular of the Company dated 20 December 2004.
- (q) On 18 December 2004, the Company entered into a subscription agreement with Collier Assets Limited for the subscription 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. Further details of the subscription agreement are set out in the announcement of the Company dated 20 December 2004.
- (r) the Placing Agreement.
- (s) the Verbal Agreement.

7. QUALIFICATIONS OF EXPERT AND CONSENT

The following are the qualifications of the expert which has given opinions or advice which are contained in this circular.

Name	Qualifications
Kim Eng Corporate Finance (Hong Kong) Limited	a licensed corporation for Type 6 regulated activities under the SFO
K.S. Liu & Company, C.P.A. Limited	Certified Public Accountants Hong Kong

Kim Eng and K.S. Liu & Company, C.P.A. Limited have given and have not withdrawn its written consent to the issue of this circular with the inclusion of and references to its name and the reports or letters in the form and context in which it appears.

8. GENERAL

- (i) The secretary of the Company for the purpose of the Listing Rules is Mr. Chow Chi Wah, Vincent (“Mr. Chow”). Mr. Chow is the Financial Controller as well as Company Secretary of the Company. Mr. Chow is a fellow member of the Association of Chartered Certified Accountants and associate member of Hong Kong Institute of Certified Public Accountants.
- (ii) The qualified accountant of the Company for the purpose of the Listing Rules is Mr. Chow Chi Wah, Vincent, Certified Public Accountant pursuant to rule 3.24 of the Listing Rules.
- (iii) The share registrar and transfer office of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Hong Kong.
- (iv) The English version of this circular shall prevail over the Chinese text.

9. DOCUMENTS AVAILABLE FOR INSPECTION

The following documents are available for inspection at the office of the Company at 32/F., China United Centre, No. 28 Marble Road, North Point, Hong Kong for a period of up to 14 days after the date of this circular:

- (i) the memorandum and bye-laws of the Company;
- (ii) the material contracts as disclosed in paragraph 6 of this Appendix IV;
- (iii) the Accountants Report on Found Macau and the Pro forma Financial Information on the Enlarged Group set out in Appendix II and III of the circular;
- (iv) the Annual Reports of the Company for the years ended 31 March 2002, 31 March 2003 and 31 March 2004;
- (v) the Interim Report of the Company for the six months ended 30 September 2004;
- (vi) the letter from Kim Eng to the Independent Board Committee and the Independent Shareholders as set out in this circular;
- (vii) the consolidated audited accounts of the Group for the year ended 31 March 2003 and 31 March 2004; and

(viii) copies of the circulars issued pursuant to the requirements set out in Chapters 14 and/or 14A since 31 March 2004 as follows:-

- (a) a circular dated 14th July, 2004 relating to a subscription of new shares, settlement of legal proceedings against the Company and general mandate to issue shares;
- (b) a circular dated 2nd August, 2004 relating to proposed amendments to the Bye-Laws, general mandate to repurchase and issue shares and re-election of Directors;
- (c) a circular dated 10th September, 2004 relating to the adoption of the new share option scheme and termination of the existing share option scheme;
- (d) a circular dated 23rd September, 2004 relating to a discloseable share transaction;
- (e) a prospectus dated 24th November, 2004 relating to a right issue of 2,099,995,578 rights shares of HK\$0.01 each at HK\$0.012 per rights share, payable in full upon acceptance on the basis of one rights share for every 2 shares on the record date;
- (f) a circular dated 20th December, 2004 relating to discloseable transaction relating to the acquisition of property interests; and
- (g) a circular dated 21st January, 2005 relating to proposed refreshment of general mandate to issue and repurchase shares and proposed refreshment of share option mandate limit.

NOTICE OF SPECIAL GENERAL MEETING



HERITAGE INTERNATIONAL HOLDINGS LIMITED

漢基控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 412)

NOTICE IS HEREBY GIVEN that an special general meeting of Heritage International Holdings Limited (the “Company”) will be held at The Room, 2/F., Harbour Plaza North Point Hong Kong, 665 King’s Road, North Point, Hong Kong at 9:00 a.m. on Monday, 14 March 2005 for the purpose of considering and, if thought fit, passing the following resolutions which will be proposed as ordinary resolutions:

ORDINARY RESOLUTIONS

1. “**THAT** the entering of a verbal agreement (the “Verbal Agreement”) dated 22 January 2005 between the Company through its wholly-owned subsidiary, Rightmind Developments Limited (“Rightmind”), Lao Hin Chun, Filipe Lau and Lourenco Cheong (together the “Founders”), Vision Gate Enterprises Limited and Alpha Aim International Limited pursuant to which, inter alia, conditionally (i) Rightmind agreed to acquire (“FM Acquisition”) 20 shares in Found Macau Investments International Limited (“Found Macau”) at an aggregate consideration of US\$20; (ii) Rightmind agreed to make a loan of HK\$100,000,000 to Found Macau (“Found Macau Loan”) which is unsecured, interest free and repayable on demand eight years from the date of drawdown to be evidenced by a promissory note executed by Found Macau in favour of Rightmind (“Promissory Note”) and (iii) Rightmind agreed to become party to the shareholders agreement dated 22 February 2005 (“Shareholders Agreement”) in relation to Found Macau entered into between Found Macau, the Founders, Alpha Aim International Limited and Vision Gate Enterprises Limited by way of a deed of adherence (in the form annexed to the Shareholders Agreement) to be entered into between Found Macau, the Founders, Alpha Aim International Limited, Vision Gate Enterprises Limited and Rightmind, (a copy of the draft Promissory Note and Shareholders Agreement has been produced to this meeting marked “A” and “B” and initialled by the chairman of the meeting for identification purpose) be and is hereby approved, ratified and confirmed and that the directors of the Company (the “Directors”) be and are hereby authorised to implement all the transactions referred to in the Verbal Agreement including but not limited to completing the FM Acquisition, advancing the Found Macau Loan, becoming a party to the Shareholders Agreement and to do all such acts and things and sign all such documents as they shall in their absolute discretion consider necessary or desirable to give effect to the Verbal Agreement and the arrangements contemplated thereunder.”
2. “**THAT:**
 - (A) the entering into of a placing agreement (the “Placing Agreement”) dated 24 January 2005 between the Company, Kingston Securities Limited (“Kingston”) pursuant to which Kingston acting as placing agent agreed to procure placees for non interest bearing convertible notes, on a fully underwritten basis at an aggregate principal amount of

NOTICE OF SPECIAL GENERAL MEETING

HK\$100,000,000 and on a best efforts basis at an additional aggregate principal amount of up to HK\$50,000,000 (the “New Convertible Notes”) (a copy of which has been produced to this meeting marked “C” and initialled by the chairman of the meeting for identification purpose) be and is hereby approved, ratified and confirmed;

- (B) the terms and conditions of the New Convertible Notes (a copy of which has been produced to this meeting marked “D” and initialled by the chairman of the meeting for identification purpose) be and are hereby approved;
- (C) the terms and conditions of the convertible note (“FM Convertible Note”) to be issued to Found Macau in partial satisfaction of the Rightmind’s obligation to fund the shareholders loan to be made to Found Macau of HK\$100,000,000 as referred to in the resolution numbered (1) in the notice convening the meeting of the Company dated 25 February 2005 (a copy of which has been produced to the meeting marked “E” and initialled by the chairman of the meeting for identification purpose) be and is hereby approved;
- (D) the issue of the New Convertible Notes to placees under the Placing Agreement be and is hereby approved;
- (E) the issue of the FM Convertible Note to Found Macau be and is hereby approved;
- (F) the issue and allotment of new shares of the Company (“Conversion Shares”) to holders of the New Convertible Notes upon exercise of conversion rights of the New Convertible Notes and to the holder(s) of the FM Convertible Note upon exercise of conversion rights under the FM Convertible Notes in accordance with the respective terms and conditions of the New Convertible Notes and the FM Convertible Note be and is hereby approved; and
- (G) the Directors be and are hereby authorised to decide whether or not the FM Convertible Note will be issued and the principal amount thereof and to do all such acts and things and sign all such documents as they shall in their absolute direction consider necessary and desirable to give effect to the Placing Agreement, the issue of the New Convertible Notes and the FM Convertible Note and the issue and allotment of the Conversion Shares and transactions contemplated thereunder.”

By Order of the Board
Heritage International Holdings Limited
Kwong Kai Sing, Benny
Chairman

Dated 25 February 2005

NOTICE OF SPECIAL GENERAL MEETING

Registered office:

32/F, China United Centre

No. 28 Marble Road

North Point

Hong Kong

Notes:

1. A form of proxy to be used for the meeting is enclosed.
2. Any member of the Company entitled to attend and vote at the meeting is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member. A proxy shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member.
3. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under seal or under the hand of an officer or attorney duly authorised.
4. The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority shall be deposited at the registered office of the Company at 32/F, China United Centre, No. 28 Marble Road, North Point, Hong Kong not less than 48 hours before the time for holding the meeting or adjourned meeting or poll (as the case may be) at which the person named in such instrument proposes to vote, and in default the instrument of proxy shall not be treated as valid. Delivery of an instrument appointing a proxy shall not preclude a member from attending and voting in person at the meeting or poll concerned.
5. In the case of joint holders the vote of the senior who tenders a vote, whether in person or by proxy or by representative, shall be accepted to the exclusion of the votes of the other joint holders; and for this purpose seniority shall be determined by the order in which the names stand in the register.
6. As at date of this notice, the Company has three executive Directors, being Mr. Kwong Kai Sing, Benny, Mr. Ong Peter and Ms. Poon Chi Wan, one non-executive Director, being Mr. Chung Yuk Lun, and three independent non-executive Directors, being Mr. Chan Sze Hung and Mr. To Shing Chuen and Mr. Frank H. Miu.

* *For identification purposes only*



HERITAGE INTERNATIONAL HOLDINGS LIMITED

漢基控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 412)

Form of proxy for use at the special general meeting

I/We¹ _____

of _____

being the registered holder(s) of² _____

shares of HK\$0.01 each in the capital of Heritage International Holdings Limited (the "Company"),
HEREBY APPOINT³ the chairman of the special general meeting, or _____

of _____

as my/our proxy to attend for me/us at the special general meeting (and at any adjournment thereof) to be held at The Room, 2/F., Harbour Plaza North Point Hong Kong, 665 King's Road, North Point, Hong Kong, at 9:00 a.m. on Monday, 14 March 2005 for the purpose of considering and, if thought fit, passing the ordinary resolutions as set out in the notice convening the said meeting and at such meeting (or at any adjournment thereof) to vote for me/us and in my/our name(s) in respect of the resolutions as hereunder indicated.

	FOR ⁴	AGAINST ⁴
ORDINARY RESOLUTION 1		
ORDINARY RESOLUTION 2		

Signature(s)⁶ _____

Date _____

NOTES:

- Full name(s) and address(es) must be inserted in BLOCK CAPITALS.
- Please insert the number of shares registered in your name(s) to which the proxy relates. If no number is inserted, this form of proxy will be deemed to relate to all the shares of the Company registered in your name(s).
- If any proxy other than the chairman is preferred, please strike out "the chairman of the special general meeting, or" and insert the name and address of the proxy desired in the space provided. A member may appoint one or more proxies to attend and vote in his stead. ANY ALTERATION MADE TO THIS FORM OF PROXY MUST BE INITIALLED BY THE PERSON(S) WHO SIGN(S) IT.
- IMPORTANT: IF YOU WISH TO VOTE FOR THE RESOLUTION, TICK THE BOX MARKED "FOR". IF YOU WISH TO VOTE AGAINST THE RESOLUTION, TICK THE BOX MARKED "AGAINST". Failure to tick a box will entitle your proxy to cast your vote or abstain at his discretion. Your proxy will also be entitled to vote at his discretion on any resolution properly put to the said meeting other than that referred to in the notice convening the meeting.
- Any member of the Company entitled to attend and vote at the meeting is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member. A proxy shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member.
- The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under seal or under the hand of an officer or attorney duly authorised.
- The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority shall be deposited at the registered office of the Company at 32/F, China United Centre, No. 28 Marble Road, North Point, Hong Kong not less than 48 hours before the time for holding the meeting or adjourned meeting or poll (as the case may be) at which the person named in such instrument proposes to vote, and in default the instrument of proxy shall not be treated as valid. Delivery of an instrument appointing a proxy shall not preclude a member from attending and voting in person at the meeting or poll concerned.
- In the case of joint holders the vote of the senior who tenders a vote, whether in person or by proxy or by representative, shall be accepted to the exclusion of the votes of the other joint holders; and for this purpose seniority shall be determined by the order in which the names stand in the register.

* For identification purposes only