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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)

DISCLOSEABLE TRANSACTION INVOLVING SUBSCRIPTION OF CONVERTIBLE BOND OF, AND PROVISION OF FINANCIAL ASSISTANCE TO, HANG FA LAU HOLDINGS LIMITED

On 16 February 2008, GCG, an indirect wholly-owned subsidiary of the Company, entered into the Subscription Agreement with Hang Fa Lau in relation to the subscription by GCG of the Convertible Bond with a principal amount of HK\$18 million.

The initial conversion price is HK\$1,800 per Conversion Share. Upon full conversion of the Convertible Bond at the initial Conversion Price of HK\$1,800 per Conversion Share, the Group will be interested in a total of 10,000 Conversion Shares, representing 50% of the issued share capital of Hang Fa Lau as enlarged by the full conversion of the Convertible Bond.

On the same date, DSF, another wholly-owned subsidiary of the Company, also entered into the Loan Agreement with Hang Fa Lau, pursuant to which, DSF had agreed to make available to Hang Fa Lau a revolving loan facility of up to HK\$25 million subject to and upon the terms and conditions therein contained.

The Subscription and the Provision of Financial Assistance together constitutes a discloseable transaction for the Company under the Listing Rules. A circular containing, among other things, further particulars of the aforesaid transactions will be despatched to the Shareholders as soon as possible in accordance with the Listing Rules.

(1) SUBSCRIPTION AGREEMENT DATED 16 FEBRUARY 2008

A. Parties

- (a) GCG as the subscriber for the Convertible Bond; and
- (b) Hang Fa Lau as the issuer of the Convertible Bond.

To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, Hang Fa Lau and its ultimate beneficial owners are third parties independent of the Company and connected persons of the Company.

B. Conditions of the Subscription Agreement

Completion of the Subscription Agreement is conditional upon:

- (a) the representations and warranties made by Hang Fa Lau in the Subscription Agreement remaining accurate and correct in all respects at, and as if made at, Completion; and
- (b) Hang Fa Lau having performed, in all material respects, all of its undertakings or obligations to be performed under the Subscription Agreement on or before Completion.

If any of the above conditions precedent is not satisfied or waived by GCG on or before the date falling three business days from the date of the Subscription Agreement (or such other date as GCG and Hang Fa Lau may agree), then the Subscription Agreement shall lapse immediately thereafter and be of no further effect and neither party to the Subscription Agreement shall have any claim or liability or obligation to the other party under the Subscription Agreement except for the liability of Hang Fa Lau to pay all costs and expenses incurred in connection with the preparation of the Subscription Agreement and any antecedent breach.

C. Completion

Subject to the fulfillment or, as the case may be, waiver of the conditions stated above, Completion shall take place on or before the date falling three business days from the date of the Subscription Agreement (or such other date as the parties to the Subscription Agreement may agree).

D. Termination

GCG may, upon prior consultation with Hang Fa Lau, terminate the Subscription Agreement in any of the following circumstances by notice to Hang Fa Lau given at any time prior to payment of the net subscription monies for the Convertible Bond:

- (i) if there shall have come to the notice of GCG any material breach of, or any event rendering untrue or incorrect in any material respect, any of the warranties and representations contained in the Subscription Agreement or any material failure by Hang Fa Lau to perform any of its undertakings or agreements in the Subscription Agreement;
- (ii) if there shall have occurred any change, or any development involving a prospective change, in the condition, financial or otherwise, or in the earnings, business or operations, or in or affecting the properties of Hang Fa Lau which would, in GCG's reasonable view, materially and adversely affect Hang Fa Lau;
- (iii) if there shall be an imposition of a new legal or regulatory restriction, or any change in the interpretation of existing legal or regulatory restrictions, that would, in GCG's reasonable view, materially and adversely affect Hang Fa Lau, or the offering, sale or delivery of the Convertible Bond or the Conversion Shares that can be issued on conversion thereof; or
- (iv) if there shall have occurred an event of default in respect of any bonds, debentures, notes or other similar securities of Hang Fa Lau issued and outstanding.

In the event that GCG terminates the Subscription Agreement, all obligations of each of the parties under the Subscription Agreement shall cease and terminate and no party shall have any claim against any other party in respect of any matter arising out of or in connection with the Subscription Agreement except for the liability of Hang Fa Lau to pay all costs and expenses incurred in connection with the preparation of the Subscription Agreement and any antecedent breach.

E. Principal Terms of the Convertible Bond

Principal amount : HK\$18 million.

Subscription price : 100% of the principal amount of the Convertible Bond.

Conversion Price : The initial Conversion Price is HK\$1,800 per Conversion Share. The Convertible Bond would not contain any provisions for anti-dilution adjustments but would provide that Hang Fa Lau may not create or issue any class of share capital, without the written approval of holder(s) of 51% of the aggregate principal amount of the Convertible Bond then outstanding.

The Conversion Price is determined after arm's length negotiation between GCG and Hang Fa Lau with reference to the audited consolidated results of Hang Fa Lau for the two financial years ended 31 March 2007 and the estimated business growth of Hang Fa Lau in the years to come.

- Interest rate : 2% per annum.
- Maturity : The day falling three years from the date of issue of the Convertible Bond.
- Redemption : Unless previously converted, redeemed or cancelled in accordance with the terms of the Convertible Bond, Hang Fa Lau will redeem the Convertible Bond on the Maturity Date at 124% of the principal amount of the Convertible Bond then outstanding.
- Early redemption : Hang Fa Lau may at any time on or before the Maturity Date redeem the whole or any part of the outstanding principal amount of the Convertible Bond at the following rates:
- (i) if redemption is made on or before the first anniversary date from the issue date of the Convertible Bond, at 108% of the principal amount of the Convertible Bond to be redeemed;
 - (ii) if redemption is made on or before the second anniversary date from the issue date of the Convertible Bond but after the first anniversary date from the issue date of the Convertible Bond, at 116% of the principal amount of the Convertible Bond to be redeemed; and
 - (iii) if redemption is made on or before the third anniversary date from the issue date of the Convertible Bond but after the second anniversary date from the issue date of the Convertible Bond, at 124% of the principal amount of the Convertible Bond to be redeemed.

- Transferability : The Convertible Bond shall not be assigned or transferred other than: (i) to GCG's subsidiary or holding company or subsidiary of such a holding company; or (ii) with the prior written consent of Hang Fa Lau (such consent not to be unreasonably withheld or delayed).
- Conversion period : Holder(s) of the Convertible Bond shall have the right to convert, the whole or any part of the outstanding principal amount of the Convertible Bond into Conversion Shares at the then prevailing Conversion Price at any time on or after the issue of the Convertible Bond up to the close of business on the Maturity Date.
- Conversion Shares : On the basis of 10,000 shares in issue as at the date of this announcement, upon full conversion of the entire principal amount of the Convertible Bond by GCG at the initial Conversion Price of HK\$1,800 per Conversion Share, a total of 10,000 Conversion Shares will be issued and GCG will be interested in 50% of the enlarged issued share capital of Hang Fa Lau.
- Voting : GCG will not be entitled to receive notice of, attend or vote at any general meeting of Hang Fa Lau by reason only of it being the holder of the Convertible Bond.
- Ranking : The obligations of Hang Fa Lau arising under the Convertible Bond shall at all times rank pari passu with all other present and future unsecured and unsubordinated obligations of Hang Fa Lau.

F. Other Material Terms of the Subscription Agreement

Pursuant to the terms of the Subscription Agreement, so long as any Convertible Bond remains outstanding and registered in the name of GCG, GCG shall have the right to appoint up to two directors to the board of Hang Fa Lau and to remove or substitute any of them by giving written notice to Hang Fa Lau. Further, on full conversion of the Convertible Bond, provided that the Group shall continue to hold not less than 50% of the issued share capital of Hang Fa Lau, it shall have the right to appoint up to 50% of the number of members to the board of Hang Fa Lau and to remove or substitute any of them by giving written notice to Hang Fa Lau. The Directors (including the independent non-executive Directors) consider the terms of the Subscription Agreement to be fair and reasonable.

(2) LOAN AGREEMENT DATED 16 FEBRUARY 2008

A. Parties

- (a) DSF as the lender; and
- (b) Hang Fa Lau as the borrower.

To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, Hang Fa Lau and its ultimate beneficial owners are third parties independent of the Company and connected persons of the Company.

B. Facility

A revolving loan facility of up to HK\$25 million.

C. Interest Rate

5% over the prime or best lending rate for Hong Kong dollar loans as quoted by The Hongkong and Shanghai Banking Corporation Limited from time to time (currently at 5.75% per annum), which rate was arrived at after arm's length negotiation between DSF and Hang Fa Lau, and reflects the normal commercial rate. The Directors (including the independent non-executive Directors) consider the terms of the Loan Agreement to be fair and reasonable.

D. Availability of Facility

Subject to the approval by DSF of the usage proposal submitted by Hang Fa Lau on each drawing, Hang Fa Lau may request the making of more than one advance at any time during the period commencing from the date of the Loan Agreement and ending three years thereafter provided that the aggregate principal amount of all advances outstanding at any one time shall not exceed the aggregate principal amount available under the Facility.

(3) INFORMATION ON HANG FA LAU

Hang Fa Lau was established in the late 1990's. It operates a fast casual restaurant chain specialising in Canton-style dishes and desserts under the brand of “杏花樓”. Currently, it has 12 restaurants in Hong Kong, 11 of which are wholly owned by the HFL Group with 1 owned as to 45% by the HFL Group and 55% by third parties who, to the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, are independent of the Company and connected persons of the Company. It also operates one Chiu Chow restaurant and one dessert shop in Shanghai, both of which are wholly-owned by the HFL Group. Starting from late 2007, it also participated in the operation of canteens at the Hong Kong Baptist University on its own. In order to retain customers and attract new ones, Hang Fa Lau would change its menu constantly to suit its

customers' tastes. From time to time, it would also introduce festive products such as glutinous rice pudding, turnip pudding and water chestnut pudding into the market to broaden the HFL Group's revenue stream.

Hang Fa Lau currently intends to apply the proceeds raised from the issue of the Convertible Bond and the Facility for its business developments which would include (i) the establishment of new restaurants which may be operated by itself or by franchise arrangement with local partners in Hong Kong and the PRC; (ii) any potential merger with and acquisition of similar food and beverage business; and (iii) any other investments. Leveraging on its strong brand name and the extensive experience of its management in the food and beverage industry, it is believed that Hang Fa Lau would be able to continue to grow and expand its business in Hong Kong and the PRC rapidly.

Based on the audited consolidated financial statements provided by Hang Fa Lau for the year ended 31 March 2007, the net asset value of Hang Fa Lau was approximately HK\$0.9 million and HK\$10.5 million for the two years ended 31 March 2006 and 2007 respectively, and a profit after tax of approximately HK\$2.9 million (or HK\$3.4 million before tax) and HK\$9.6 million (or HK\$9.9 million before tax) was respectively recorded for each of the two years ended 31 March 2006 and 2007.

(4) REASONS FOR, AND BENEFITS OF, THE TRANSACTIONS

The Company is an investment holding company and its subsidiaries are principally engaged in property related investments and investment in securities and money-lending businesses.

The Group also managed a number of lottery selling outlets in the PRC. Its flagship store in Shanghai is attached to a restaurant to form a leisure/gaming venue for the customers and this concept has proved to be well received by consumers in Shanghai. It is the intention of the Group to bring this new concept to other lottery selling outlets managed by it. It is currently in active negotiation with one of the largest gaming technology service providers in the world to cooperate in expanding the lottery selling network in China, specifically in Hubei, Jilin, Liaoning, Hebei, Guizhou, Jiangsu, Inner Mongolia, Guangxi, Sichuan and Fujian in the near term. It is expected that the total number of lottery selling outlets that would be managed by it would increase from around 10 at present to 100 by the end of this year. The Directors believe that Hang Fa Lau's experience and expertise in operating and managing restaurants could help the Group to develop and implement the concept of combining restaurants with lottery selling outlets to form large composite leisure/gaming venues in other parts of the PRC.

Besides, DSF is a licensed money lender and the provision of loans and guarantees to its customers is in the ordinary and normal course of its business. Since the terms of the Subscription Agreement and Loan Agreement reflect the normal

commercial terms of transactions of this nature and could provide the Group with revenue and cashflow stream, the Directors consider it to be in the interest of the Company and the Shareholders as a whole.

(5) GENERAL

The Subscription and the Provision of Financial Assistance together constitutes a discloseable transaction for the Company under the Listing Rules. A circular containing, among other things, further particulars of the aforesaid transactions will be despatched to the Shareholders as soon as possible in accordance with the Listing Rules.

(6) DEFINITIONS

In this announcement, the following terms shall have the meanings set opposite them unless the context requires otherwise:

“Board”	the board of Directors
“Company”	Heritage International Holdings Limited, an exempted company incorporated in Bermuda with limited liability, the shares of which are listed on the main board of the Stock Exchange
“Completion”	completion of the Subscription Agreement
“connected person(s)”	has the meaning ascribed thereto in the Listing Rules
“Conversion Price”	the initial conversion price of HK\$1,800 per Conversion Share
“Conversion Share(s)”	new fully paid ordinary share(s) of HK\$1.00 each in the share capital of Hang Fa Lau which will fall to be allotted and issued by Hang Fa Lau upon the exercise of the conversion rights attached to the Convertible Bond at the then effective conversion price
“Convertible Bond”	the 2% convertible bond due 2011 in the aggregate principal amount of HK\$18 million proposed to be issued by Hang Fa Lau, which will entitle the holder(s) thereof to convert the principal amount outstanding into the Conversion Shares at the then effective conversion price
“Director(s)”	the director(s) of the Company

“DSF”	Double Smart Finance Limited, a company incorporated in Hong Kong and a wholly-owned subsidiary of the Company, which is licensed to carry on business as a money lender under the Money Lenders Ordinance (Licence No.156/2007)
“Facility”	the revolving loan facility of up to HK\$25 million made available by DSF to Hang Fa Lau subject to and upon the terms and conditions of the Loan Agreement
“GCG”	Greater Chance Group Limited, a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of the Company
“Group”	the Company and its subsidiaries
“Hang Fa Lau”	Hang Fa Lau Holdings Limited, a private company incorporated in Hong Kong with limited liability
“HFL Group”	Hang Fa Lau and its subsidiaries
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Loan Agreement”	the loan agreement dated 16 February 2008 between DSF and Hang Fa Lau in relation to the provision of the Facility to Hang Fa Lau
“Maturity Date”	the day falling three years from the date of issue of the Convertible Bond or, if that is not a business day, the first business day thereafter
“PRC”	the People’s Republic of China
“Provision of Financial Assistance”	the provision of financial assistance to Hang Fa Lau pursuant to the Loan Agreement
“Shareholder(s)”	shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription”	the subscription of the Convertible Bond by GCG pursuant to the terms of the Subscription Agreement

“Subscription Agreement”	the conditional subscription agreement dated 16 February 2008 entered into between GCG and Hang Fa Lau in relation to the Subscription, subject to the terms and conditions contained therein
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent

By order of the Board
Kwong Kai Sing, Benny
Chairman

Hong Kong, 18 February 2008

As at the date of this announcement, the Company has five executive Directors, being Mr. Kwong Kai Sing, Benny, Ms. Lo Ki Yan, Karen, Mr. Ong Peter, Ms. Poon Chi Wan and Mr. Chow Chi Wah, Vincent and five independent non-executive Directors, being Mr. Chan Sze Hung, Mr. To Shing Chuen, Mr. Ha Kee Choy, Eugene, Mr. Chung Yuk Lun and Mr. Lo Wong Fung.

** For identification purposes only*