



HENG FUNG HOLDINGS COMPANY LIMITED

(Incorporated in Hong Kong with limited liability)



CORPORATE INFORMATION

Board of Directors

Executive Directors

Chan Heng Fai (*Chairman and Managing Director*)
Chan Yoke Keow
Mary-ann S.J. Chan

Non-Executive Directors

Fong Kwok Jen
Ha Kee Choy
Robert Herman Trapp
Kam Kwong Chan

Independent Non-Executive Directors

Derek Y.K. Lai
Daniel K.L. Lee

Company Secretary

Chan Suk King, Zoe

Auditors

Deloitte Touche Tohmatsu
Certified Public Accountant

Solicitors

Herbert Smith

Principal Bankers

Hang Seng Bank Limited
Kincheng Banking Corporation, Hong Kong Branch
Bank of China, Hong Kong Branch

Share Registrars

Friendly Registrars Limited
7th Floor, Winner Commercial Building
401-403 Lockhart Road
Wanchai, Hong Kong

Registered Office

10th Floor, Lippo Protective Tower
231-235 Gloucester Road
Wanchai, Hong Kong
Telephone: (852) 2523 6573
Facsimile: (852) 2845 2635

Principal Offices

Heng Fung Holdings Company Limited
10th Floor, Lippo Protective Tower
231-235 Gloucester Road
Wanchai, Hong Kong

Heng Fung Capital, Inc.
30 Wall Street, 11th Floor
New York, NY10005
U.S.A.

Fronteer Financial Holdings Limited
One Norwest Center
1700 Lincoln Street, 32nd Floor
Denver, CO80203
U.S.A.

ADR Depositary

The Citibank N.A.
111 Wall Street
21st Floor Zone 13
New York, NY10005
U.S.A.

Stock Exchange Code

Hong Kong Stock Exchange: 185
US ADR: HNFNY

MAJOR CORPORATE EVENTS

- **30 January 1997 – 1st Private Placement of Shares for US\$4,974,000**
Placing of 77,600,000 new shares at a price of HK\$0.50 per share, raising gross proceeds of HK\$38,800,000.
- **7 March 1997 – 2nd Private Placement of Shares for US\$11,154,000**
Placing of 150,000,000 new shares at a price of HK\$0.58 per share, raising gross proceeds of HK\$87,000,000.
- **2 April 1997 – Increase in Authorized Share Capital**
Increase in the authorized share capital of the Company from HK\$200,000,000 to HK\$500,000,000 by the creation of an additional 1,200,000,000 shares.
- **3 May 1997 – 3rd Private Placement of Shares for US\$11,577,000**
Placing of 129,000,000 new shares at a price of HK\$0.70 per share, raising gross proceeds of HK\$90,300,000.
- **25 June 1997 – Acquisition of Iwai's International Holdings Limited**
Acquired 44,000,000 shares (representing approximately 35.1% issued share capital) of Iwai's International Holdings Limited, a company listed on the stock exchange of Hong Kong, for a cash consideration of HK\$53,680,000 (about US\$6,882,000), equivalent to HK\$1.22 per share.

Unconditional cash offer for all the issued shares of Iwai's International Holdings Limited each (other than those already acquired) at HK\$1.69. The Company has to pay out approximately HK\$74,000,000 (or US\$9,500,000 equivalent) if all the existing shareholders tendered their shares.

- **14 July 1997 – 4th Private Placement of Shares for US\$19,235,000**
Placing of 166,700,000 new shares at a price of HK\$0.90 per share, raising gross proceeds of HK\$150,030,000.
Commencement of business of Heng Fung Finance Company Limited, a licensed money lender which has already built up a portfolio of investments, convertible loan stocks and loans in excess of HK\$170,000,000 or US\$21,795,000 equivalents.

- **1 September 1997 – Close of cash offer for shares of Iwai's International Holdings Limited**
Close of unconditional cash offer for all the issued shares of Iwai International Holdings Limited. Valid acceptances in respect of 7,557,700 shares, representing 6.02% of the issued share capital of Iwai's International Holdings Limited, were received at an aggregate value of HK\$12,773,000 or US\$1,638,000.
- **15 September 1997 – 5th Private Placement of Shares for US\$22,436,000**
Placing of 250,000,000 new shares at a price of HK\$0.70 per share, raising gross proceeds of HK\$175,000,000.
- **18 December 1997 – Acquisition of a U.S.A. Investment Banking – Broker Dealer Company**

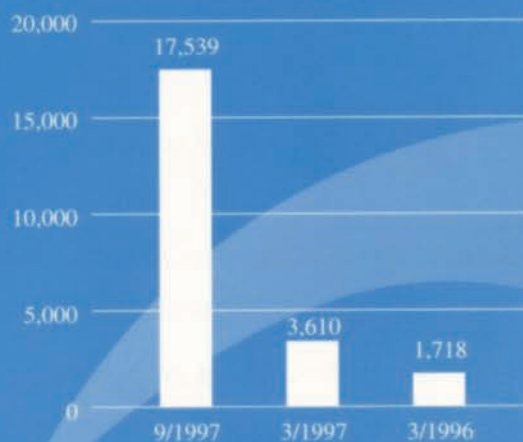
Entered into an agreement to acquire shares of and convertible bonds in Fronteer Financial Holdings Limited at a total consideration of US\$19,000,000. Fronteer Financial Holdings Limited is a Denver-based holding company that owns 100% of RAF Financial Corporation, a securities broker-dealer with branch offices in Albany, Chicago, Washington D.C., West Palm Beach, Atlanta, New Orleans, Dallas, Colorado Springs and Las Vegas; and approximately 60% of Secutron, a computer hardware seller and software developer.

The Company has made an initial purchase of Fronteer shares from its management by December 31, 1997 and will purchase additional shares upon receipt of regulatory approval. Assume full conversion of the convertible bonds and the exercise of additional purchase of shares, the Company holds approximately 71.3% of Fronteer Financial Holdings Limited.

Note: All references to United States Dollars stated in this report are based on an exchange rate of US\$1 = HK\$7.8

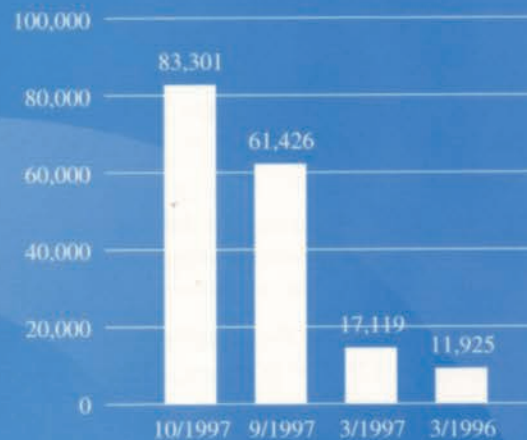
US\$'000

Turnover



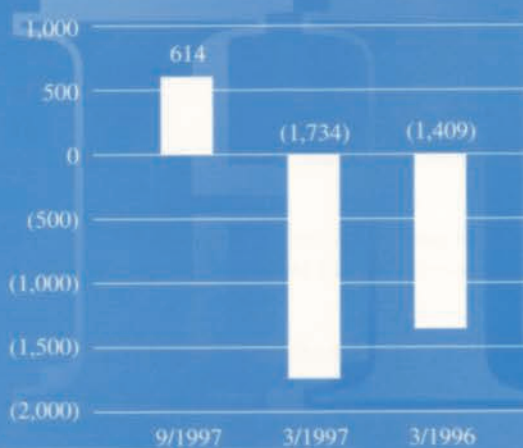
US\$'000

Shareholders' Fund



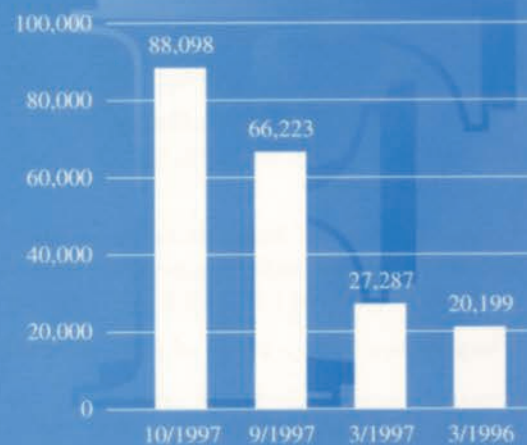
US\$'000

Profit / (Loss) for the Year



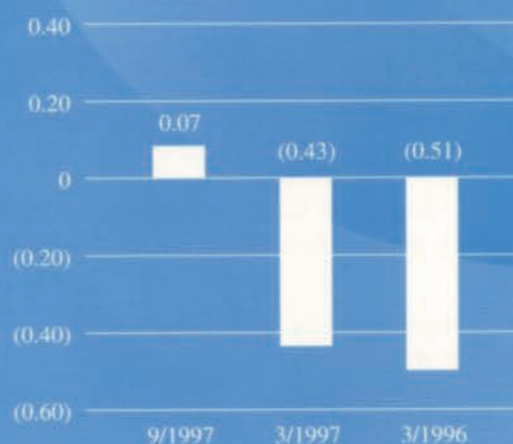
US\$'000

Total Assets



€

Profit / (Loss) Per Share



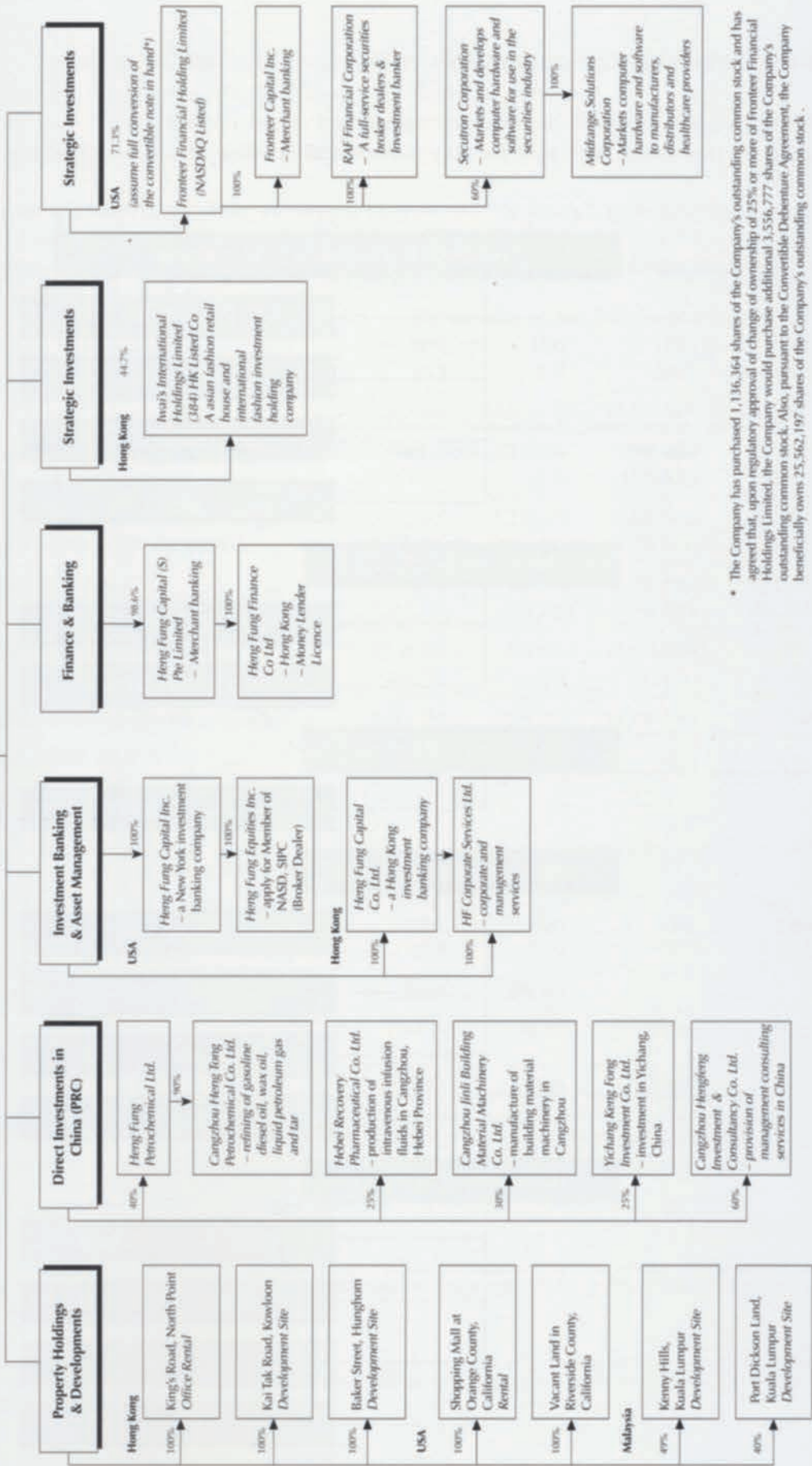
US\$'000

Total Liabilities



GROUP STRUCTURE AS OF JANUARY 1, 1998

HENG FUNG HOLDINGS COMPANY LIMITED

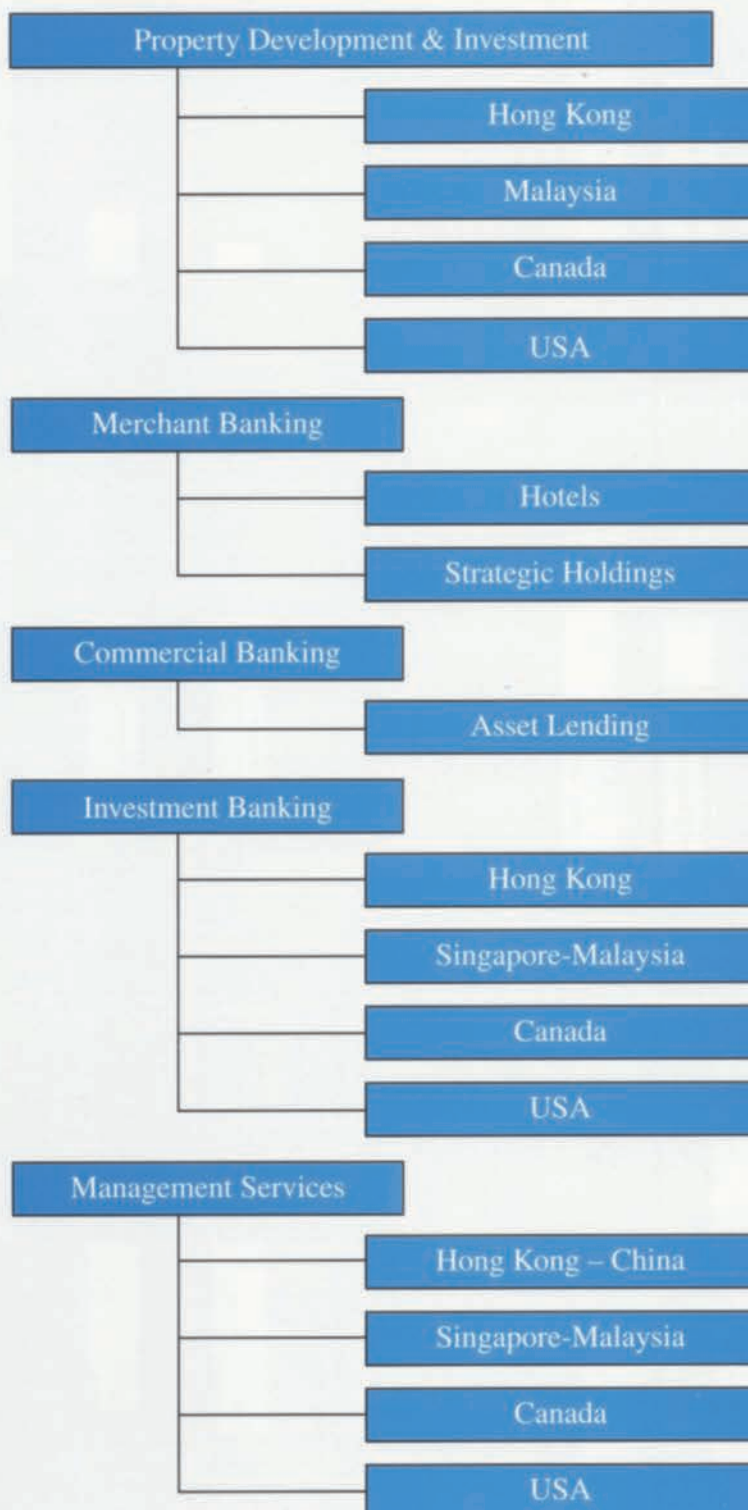


* The Company has purchased 1,136,364 shares of the Company's outstanding common stock and has agreed that, upon regulatory approval of change of ownership of 25% or more of Frontier Financial Holdings Limited, the Company would purchase additional 3,556,777 shares of the Company's outstanding common stock. Also, pursuant to the Convertible Debenture Agreement, the Company beneficially owns 25,562,197 shares of the Company's outstanding common stock.

FIVE CORE BUSINESS DIVISIONS

Heng Fung will expand its business development in five core divisions:

Property Investment, Merchant Banking, Commercial Banking, Investment Banking, and Management Services.



HENG FUNG HOLDINGS COMPANY LIMITED

(Incorporated in Hong Kong with limited liability)

INTERIM REPORT 1997/98

The Board of Directors of Heng Fung Holdings Company Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30th September 1997 together with the comparative figures for the corresponding period in 1996 as follows:—

| | Six months ended 30th September | | | |
|--|---------------------------------|------------|--------------|--------------|
| | 1997 | 1997 | 1996 | 1996 |
| | HK\$ | US\$ | HK\$ | US\$ |
| TURNOVER <i>(Note 1)</i> | 136,805,106 | 17,539,116 | 15,253,383 | 1,955,562 |
| OPERATING PROFIT/(LOSS) BEFORE EXCEPTIONAL ITEMS | 9,462,445 | 1,213,134 | (1,990,449) | (255,186) |
| EXCEPTIONAL ITEMS | — | — | (836,091) | (107,191) |
| | 9,462,445 | 1,213,134 | (2,826,540) | (362,377) |
| SHARE OF RESULTS OF ASSOCIATED COMPANIES | (2,890,257) | (370,546) | 1,086,892 | 139,345 |
| PROFIT/(LOSS) BEFORE TAXATION | 6,572,188 | 842,588 | (1,739,648) | (223,032) |
| TAXATION <i>(Note 2)</i> | (2,245,790) | (287,922) | (93,000) | (11,923) |
| PROFIT/(LOSS) BEFORE MINORITY INTERESTS | 4,326,398 | 554,666 | (1,832,648) | (234,955) |
| MINORITY INTERESTS | 465,358 | 59,661 | 343,274 | 44,009 |
| PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS | 4,791,756 | 614,327 | (1,489,374) | (190,946) |
| EARNINGS/(LOSS) PER SHARE <i>(Note 3)</i> | 0.57 cents | 0.07 cents | (0.38) cents | (0.05) cents |

Notes:—

1. Turnover

Turnover comprises (i) securities trading and investment income, (ii) gross rental and management income of properties, (iii) the net invoiced amount of goods sold and (iv) interest income.

2. Taxation

| | 1997 | 1997 | 1996 | 1996 |
|---|-----------|---------|--------|--------|
| | HK\$ | US\$ | HK\$ | US\$ |
| The tax charge comprises: | | | | |
| Hong Kong Profits Tax | 2,125,566 | 272,509 | — | — |
| Overseas Taxation | 1,287 | 165 | — | — |
| Deferred Taxation | 118,937 | 15,248 | 93,000 | 11,923 |
| Share of taxation of associated companies | — | — | — | — |
| | 2,245,790 | 287,922 | 93,000 | 11,923 |

Hong Kong Profits Tax has been provided at 16.5% (1996: 16.5%) on the estimated assessable profits arising in or derived from Hong Kong during the period. Overseas taxation is calculated at the rates prevailing in the respective jurisdictions.

Deferred taxation represents withholding tax provided on overseas interest income at the rates prevailing in the respective jurisdictions.

3. Earnings/(loss) per share

(a) Basic

The calculation of earnings/(loss) per share is based on the net profit attributable to shareholders for the period of HK\$4,791,756 (1996: loss of HK\$1,489,374) and on the weighted average of 839,890,317 (1996: 387,104,020) ordinary shares in issue throughout the period.

(b) Fully Diluted

The fully diluted earnings per share has not been presented as the exercise of subscription rights attaching to the outstanding warrant and the share options granted under the Company's share option scheme would not have any diluting effect on earnings.

INTERIM DIVIDEND

The Board of Directors does not recommend the payment of any interim dividend for the six months ended 30th September, 1997 (1996 : Nil).

REVIEW OF OPERATIONS

During the period under review, the Group made significant strides forward in its financial performance.

For the six months ended 30th September, 1997, the Group's turnover was HK\$137 million, an significant increase of approximately 797% compared to the same period last year. Unaudited consolidated operating profit of the Group for the period was approximately HK\$9.5 million while in the corresponding period last year, the Group announced an operating loss of approximately HK\$2.8 million.

In the course of expanding the Group's finance related business, the Group has been engaged in the provision of equity-related and other financial products and services to mid- and small capitalization listed companies. The Group has already built up a portfolio of investments, convertible loan stocks and loans in excess of HK\$170 million as at 30th September, 1997.

The Group during the period under review has acquired a 44.68% interests in Iwai's International Holdings Limited ("Iwai"), a company listed in The Stock Exchange of Hong Kong Limited. The principal activities of Iwai are the retailing and distribution of fashion apparel and accessories, investment holding and property investment. In August, 1997 Iwai's general banking facilities of HK\$27.5 million have been withdrawn by its principal bankers. Before a new method of raising sufficient equity capital is adopted and/or additional banking facilities are arranged by Iwai, the Group will continue to provide financial assistance to Iwai but intends to provide funding of up to a maximum of HK\$150 million.

BUSINESS PROSPECTS

The sluggish conditions that are left behind by the recent economic developments in the region, including significant declines in stock market values, increases in interest rates and fluctuations in exchange rates, have created immense impacts on most companies in the region. Like many others, the Group is also affected. The Board of Directors however believes that there will not be any significant adverse impact on the Group.

The Board of Directors has pursued a policy of corporate restructuring, re-focusing and cost-reduction. When conditions allow, the Company may consider disposing investments which are inferior in return while at the same time, increasing its stake in profit generating ones. The Board of Directors commits to strive for further expansion with a view to maximising the benefit of shareholders.

FINANCIAL ACTIVITIES

Upon the expiry of the 1997 Warrant on 30th April, 1997, approximately 93% of these warrants had been converted into new shares of the Company. Proceeds of over HK\$31 million have been obtained for funding the rapid expansion of the Group during the period under review.

The Company has issued a new listing warrant due in July 1998 to finance its future growth within the next year. The Directors are of the opinion that taking into account of the available banking facilities and internal resources of the Group, the Group has sufficient working capital for its current requirements.

LITIGATION

On 2nd September, 1995, two Directors, Mr. Johnny N. C. Lee ("Mr. Lee") and Ms. Sally Y.P. Kong ("Ms. Kong"), issued proceedings against the Group in the High Court of Hong Kong claiming repayment of loans made to the Group totalling HK\$0.6 million. Mr. Lee and Ms. Kong have also indicated that they intend to make claims to the Hong Kong Labour Tribunal for arrears of salary. The loans and the salaries have been properly accrued in the Group's financial statements, but the claims are being resisted on the basis of a Counterclaim by the Group for a sum of HK\$3 million improperly appropriated by Mr. Lee and Ms. Kong from the Group's funds for their personal use. The Group believes that the amount of its counterclaims exceeds the amount of the claims made by Mr. Lee and Ms. Kong.

On 6th September, 1995, the Group issued proceedings in the High Court of Hong Kong against Mr. Lee and Ms. Kong claiming further but unquantified damages and associated remedies as a result of the breach by Mr. Lee and Ms. Kong of their fiduciary and other duties owed to the Group in relation to the affairs of Appreview (M) Sdn. Bhd. and Styler Sdn. Bhd. and in relation to the purchase and sale of a parcel of land in Hawaii. The Directors are currently investigating ways in which the Group's potential losses can be minimised, but if such steps are unsuccessful the Directors believe that the claims against Mr. Lee and Ms. Kong may be quantified at a sum of up to HK\$45 million. The Directors are unable at present to estimate the amount of legal costs to be incurred or the likelihood of being able to enforce any judgment obtained against Mr. Lee and Ms. Kong. No provision has been made in the financial statements in respect of the litigation.

Two of the Group's former directors, Mr. Ng Mok Yuen and Mr. Leung Sik Keung have commenced legal action against the Group as follows:

1. in High Court Action No. A4300 of 1997 Mr. Ng and Mr. Leung are making claims against the Group for, among other things, arrears of salaries totalling HK\$2 million; and
2. in High Court Action No. A6894 of 1997 Mr. Ng is suing the Group for defamation in respect of certain statements made in the circular to shareholders dated 2nd May, 1997 pursuant to which the Board of Directors of the Group recommended to shareholders that Mr. Ng and Mr. Leung be removed as directors.

The Group is defending both claims. It has been advised by its solicitors that even if the defence to both actions was unsuccessful the claims being made are not material in respect of the Group's affairs.

DIRECTORS' INTERESTS IN SHARES

As at 30th September, 1997 the following directors of the Company had or were deemed to have interests under the provisions of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") in the Company or any associated corporations thereof (within the meaning of the SDI Ordinance) as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance:-

(i) Interests in the Company

| Name of directors | Personal interests | Number of shares of \$0.25 each | | |
|--------------------|--------------------|---------------------------------|---------------------------|---------------------------|
| | | Corporate interests | Family interests | Other interests |
| Chan Heng Fai | 10,302,309 | 60,761,800 ⁽¹⁾ | 34,874,294 ⁽²⁾ | - |
| Chan Yoke Keow | 10,247,294 | 10,193,400 ⁽³⁾ | 71,064,109 ⁽⁴⁾ | 14,433,600 ⁽⁵⁾ |
| Robert H. Trapp | - | 6,750,000 | - | - |
| Fong Kwok Jen | 1,078,000 | - | - | - |
| Mary-ann S.J. Chan | 25,680 | - | 100,000 | - |

| Name of directors | Personal interests | Number of warrants | | |
|--------------------|--------------------|---------------------|------------------|-----------------|
| | | Corporate interests | Family interests | Other interests |
| Chan Heng Fai | 672,846 | 3,075,175 | 5,444,858 | - |
| Chan Yoke Keow | 2,049,498 | 508,640 | 3,748,021 | 2,886,720 |
| Mary-Ann S.J. Chan | 5,136 | - | 20,000 | - |

Notes:-

(1) These shares are owned by a company which is controlled by Mr. Chan Heng Fai.

(2) These shares are owned and deemed to be owned by Ms. Chan Yoke Keow, Mr. Chan Heng Fai's wife.

(3) These shares are owned by two companies which are controlled by Ms. Chan Yoke Keow.

(4) These shares are owned and deemed to be owned by Mr. Chan Heng Fai, Ms. Chan Yoke Keow's husband.

(5) These shares are owned by a discretionary trust of which Ms. Chan Yoke Keow is one of the discretionary objects.

(ii) Interests in share options

As at 30th September, 1997, the Directors of the Company had the following interests in options to subscribe for shares in the relevant share capital of the Company granted under the share option schemes adopted by the Company on 28th September, 1995:

| Name of Director | Date granted | Period during which option is exercisable | Price per share to be paid on exercise of the options <i>HK\$</i> | Number of shares to be issued upon exercise of options | Number of shares to be issued upon exercise of options during the six months ended 30th September, 1997 | Number of shares to be issued upon exercise of the remaining options |
|------------------|--------------|---|--|--|---|--|
| Chan Heng Fai | 22/4/1996 | 22/4/1996-21/4/2006 | 0.4025 | 1,000,000 | - | 1,000,000 |
| | 15/5/1997 | 15/5/1997-14/5/2007 | 0.4512 | 6,660,000 | - | 6,660,000 |
| Chan Yoke Keow | 22/4/1996 | 22/4/1996-21/4/2006 | 0.4025 | 2,071,739 | - | 2,071,739 |
| | 15/5/1997 | 15/5/1997-14/5/2007 | 0.4512 | 6,660,000 | - | 6,660,000 |
| Robert H. Trapp | 15/5/1997 | 15/5/1997-14/5/2007 | 0.4512 | 13,230,000 | 12,250,000 | 980,000 |

Save as disclosed above, the Company has no notice of any interests to be recorded under Section 29 of the SDI Ordinance as at 30th September, 1997.

Apart from the above, at no time during the period was the Company or any of its subsidiaries a party to any arrangements to enable any of the Company's directors or members of its management to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 30th September, 1997, other than the interests disclosed above in respect of certain director of the Company, the register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance discloses no other persons having interest of 10% or more of the issued share capital of the Company.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the period under review, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any listed securities of the Company.

CODE OF BEST PRACTICE

None of the directors of the Company is aware of any information which would reasonably indicate that the Company is not, or was not, in compliance with the Code of Best Practice as set out in the Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited at any time during the six months ended 30th September, 1997.

By order of the Board
Chan Yoke Keow
Executive Director

Hong Kong, 19th December, 1997