

KIM ENG  
HOLDINGS  
(HONG KONG) LIMITED

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INTERIM REPORT

03/04

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## CHAIRPERSON'S STATEMENT

I am pleased to announce the unaudited interim financial results of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2003. These results have been reviewed by the Company's auditors Grant Thornton in accordance with Statements of Auditing Standards applicable to review engagements and by the Audit Committee of the Board of Directors. The review report of the auditors is included in this interim report.

For the first six months ended 30 September 2003, our Group saw a 74% plunge in turnover to HK\$5.4 million (2002: HK\$20.5 million). The drop in the turnover was mainly a result of the Group's disposal of its entire brokerage businesses in mid 2002. Aggravated by a reduction in turnover of our corporate finance and financial advisory operations, the Group posted a net loss of HK\$2.8 million for the period as opposed to a HK\$194.1 million profit for the last corresponding period. Profit for the corresponding period last year included a non-recurring HK\$187.4 million profit from the disposal of the brokerage businesses.

The Directors do not recommend the payment of an interim dividend for the six months ended 30 September 2003.

## OPERATION REVIEW

### Revenue

After the disposal of the brokerage businesses to a fellow subsidiary in mid 2002, the Group has only carried on its businesses in corporate finance and financial advisory services and investment and trading in securities. Affected by the sluggish local stock market and the outbreak of Severe Acute Respiratory Syndrome ("SARS") in the first half of 2003, turnover of the corporate finance and financial advisory businesses dropped by 51% as compared to the results of the corresponding period. However, management of the Group is optimistic about the future prospect of the markets locally and also in the PRC. To grasp such growth opportunities, the Group has expanded its corporate finance team by the recruitment of 10 additional members since May 2003 and devoted much increased effort in identifying companies with good businesses and solid background in the mainland with an aim to bring them to be listed in Hong Kong.

On the combination of the disposal of brokerage businesses and persisting low interest rates over year, Group interest income fell significantly.

On the back of gradual recovery of global economies, the Group earned a HK\$0.9 million turnover and HK\$0.6 million net contribution to operating profit, respectively, from securities investment and trading.

## **Costs**

In line with the decline in Group turnover for the period, costs shrank, with staff costs and other operating expenses falling 31% and 48%, respectively over the period, largely owing to the disposal of the brokerage businesses last May.

## **Liquidity and Financial Conditions**

The Group had cash reserves of HK\$79.3 million as at 30 September 2003. Most of cash reserves were placed in HK\$ and US\$ short-term deposits with major banks in Hong Kong.

Gearing ratio is measured on the basis of the Group's total interest bearing debts net of own cash reserves over the Company's shareholders' funds as of the reporting date. Net of debt balances, the Group had net surplus cash of HK\$162.8 million and HK\$79.3 million at the close of 31 March 2003 and 30 September 2003, respectively. As such, a gearing ratio, as required under paragraph 32 of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), at these two days did not exist.

## **PROSPECTS**

As mentioned in our previous reports, the business outlook of the Group will heavily rely on the prospect of our corporate finance and corporate advisory operations after the disposal of its brokerage businesses.

The mainland economy remains robust. With the Closer Economic Partnership Arrangement with PRC, we see vast potentials for our corporate finance in coming years. With SARS passing away, we have intensified our market activities in the mainland. Owing to the change of the Group's year-end date from 31 March to 31 December with effect from this year, we will not see immediate revival in corporate finance businesses in the second half. However, on the back of our enlarged corporate finance teams and the ambitious plan of developing our corporate finance in the mainland with the support of the extensive distribution network of our affiliated brokerage companies, we are confident that our businesses will improve in the years to come.

In midst of these events, I take this opportunity to express thanks on behalf of the Board to all our customers for their support and to our fellow directors and staff for their dedication and contribution during the period.

By Order of the Board  
**Lee Woo Sau Yin, Gloria**  
*Chairperson*

Hong Kong, 26 November 2003

## OTHER INFORMATION

### DIRECTORS' INTERESTS IN SHARES

As at 30 September 2003, the interests of the directors of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the Securities and Futures Ordinance), as recorded in the register required to be kept by the Company pursuant to section 352 of the Securities and Futures Ordinance, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

#### Interests in shares of the ultimate holding company, Kim Eng Holdings Limited ("KEH") (formerly known as Kim Eng Ong Asia Holdings Ltd)

Name of Director	Number of ordinary shares held	Capacity	Nature of interest	Percentage of the issued share capital
Lee Woo Sau Yin, Gloria	5,901,770	Beneficial owner	Personal	0.97%
Ooi Thean Yat, Ronald Anthony	85,544,928	Beneficial owner	Personal	14.13%

Save as disclosed above, as at 30 September 2003, none of the Company's directors or any of their associates had or was deemed to have interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations.

### SHARE OPTION SCHEME

On 29 December 1997, a share option scheme (the "Scheme") was approved and adopted, under which the Directors may, at their discretion, offer to any employees (including any executive directors) of the Group options to subscribe for shares in the Company subject to the terms and conditions stipulated in the Scheme.

During the period under review, no share option was issued, exercised, cancelled, lapsed or outstanding, throughout the period.

Save as disclosed above, at no time during the period was the Company, its subsidiaries, holding company or fellow subsidiaries a party to any arrangements to enable the directors of the Company, or their spouse and children under the age of 18, to acquire benefits by means of the acquisition of shares or debentures of the Company or any other body corporate.

## SUBSTANTIAL SHAREHOLDERS

As at 30 September 2003, the following persons or corporations had interests in the shares or underlying shares of the Company which were recorded in the register required to be kept by the Company pursuant to section 336 of the Securities and Futures Ordinance:

Long positions	Number of shares held			Percentage of the issued share capital of the Company
	Direct interest	Deemed interest	Total	
Kim Eng Investment Limited ("KEI") (Note)	10,907,200	–	10,907,200	15.15%
KEH (Note)	39,500,000	10,907,200	50,407,200	70.01%

Note: KEI is a wholly-owned subsidiary of KEH. Accordingly, KEH is deemed to be interested in 10,907,200 shares held by KEI.

Save as disclosed above, the Company has not been notified of any other relevant interests or short position in the issued share capital of the Company as at 30 September 2003.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 September 2003.

## CODE OF BEST PRACTICE

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 30 September 2003 in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules, except that the independent non-executive directors of the Company are not appointed for a specific term but are subject to retirement by rotation and re-election at the Company's annual general meetings in accordance with the Company's Articles of Association.

## AUDIT COMMITTEE

This interim report has been reviewed by the audit committee of the Board, whose members comprise the two independent non-executive directors.

**CONDENSED CONSOLIDATED INCOME STATEMENT***for the six months ended 30 September 2003*

	<i>Notes</i>	<b>Six months ended</b>	
		<b>2003</b>	2002
		<b>(Unaudited)</b>	(Unaudited)
		<b>HK\$'000</b>	HK\$'000
<b>Turnover</b>	2	<b>5,412</b>	20,467
Other revenue		<b>111</b>	1,159
Gain on disposal of brokerage business		–	187,377
Staff costs		<b>(6,066)</b>	(8,803)
Other operating expenses		<b>(2,757)</b>	(5,306)
<b>(Loss)/Profit from operations</b>		<b>(3,300)</b>	194,894
Finance costs		–	(176)
Share of profits of associates		<b>474</b>	388
<b>(Loss)/Profit before taxation</b>	3	<b>(2,826)</b>	195,106
Taxation	4	<b>(6)</b>	(989)
<b>(Loss)/Profit attributable to shareholders</b>		<b>(2,832)</b>	194,117
<b>Dividends</b>	5	<b>–</b>	181,440
<b>(Loss)/Earnings per share – Basic</b>	6	<b>HK\$(0.04)</b>	HK\$2.70

## CONDENSED CONSOLIDATED BALANCE SHEET

as at 30 September 2003

		At 30 September 2003 (Unaudited) HK\$'000	At 31 March 2003 (Audited) HK\$'000
	Notes		
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment		219	189
Interest in associates	7	1,442	2,373
Other investments	8	31,196	22,082
		<u>32,857</u>	<u>24,644</u>
<b>Current assets</b>			
Trading securities		6,727	5,863
Trade and other receivables	9	1,127	432
Investment in repurchase agreements	11	77,373	–
Tax recoverable		90	90
Short term deposits placed with banks		71,964	151,431
Cash at banks and in hand		7,316	11,319
		<u>164,597</u>	<u>169,135</u>
<b>Current liabilities</b>			
Trade and other payables	10	596	1,922
Provision for tax		306	306
		<u>902</u>	<u>2,228</u>
<b>Net current assets</b>		<u>163,695</u>	<u>166,907</u>
<b>Net assets</b>		<u>196,552</u>	<u>191,551</u>
<b>CAPITAL AND RESERVES</b>			
Share capital		14,400	14,400
Reserves		182,152	175,711
Proposed dividend		–	1,440
		<u>182,152</u>	<u>177,151</u>
<b>Shareholders' funds</b>		<u>196,552</u>	<u>191,551</u>



**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY***for the six months ended 30 September 2003*

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Investment revaluation reserve <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Dividend reserve <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2002	14,400	116,612	5,381	179,722	40,281	12,240	368,636
Revaluation deficit arising on other investments (net loss not recognised in the income statement)	-	-	(2,769)	-	-	-	(2,769)
Reserve realised upon disposal of subsidiaries	-	-	(511)	(179,683)	-	-	(180,194)
Net profit for the period attributable to shareholders	-	-	-	-	194,117	-	194,117
Final dividends paid for 2001	-	-	-	-	-	(12,240)	(12,240)
Interim dividends declared ( <i>note 5</i> )	-	-	-	-	(181,440)	1,440	(180,000)
At 30 September 2002	14,400	116,612	2,101	39	52,958	1,440	187,550
Revaluation surplus arising on other investments (net gain not recognised in the income statement)	-	-	981	-	-	-	981
Reserve realised upon disposal of other investments	-	-	(1,261)	-	-	-	(1,261)
Net profit for the period attributable to shareholders	-	-	-	-	5,721	-	5,721
Interim dividends paid	-	-	-	-	-	(1,440)	(1,440)
Final dividends proposed for 2002	-	-	-	-	(1,440)	1,440	-
At 31 March 2003	14,400	116,612	1,821	39	57,239	1,440	191,551
Revaluation surplus arising on other investments (net gain not recognised in the income statement)	-	-	9,273	-	-	-	9,273
Net loss for the period attributable to shareholders	-	-	-	-	(2,832)	-	(2,832)
Final dividends paid for 2003	-	-	-	-	-	(1,440)	(1,440)
At 30 September 2003	14,400	116,612	11,094	39	54,407	-	196,552

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 September 2003

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2003</b>	2002
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
<b>Net cash used in operating activities</b>	<b>(5,203)</b>	(4,852)
<b>Net cash used in investing activities</b>	<b>(76,827)</b>	(176,869)
<b>Net cash used in financing activities</b>	<b>(1,440)</b>	(11,889)
<b>Net decrease in cash and cash equivalents</b>	<b>(83,470)</b>	(193,610)
<b>Cash and cash equivalents at 1 April 2003</b>	<b>162,750</b>	510,265
<b>Cash and cash equivalents at 30 September 2003</b>	<b>79,280</b>	316,655
<b>Analysis of the balances of cash and cash equivalents</b>		
Short term deposits placed with banks	<b>71,964</b>	315,867
Cash at banks and in hand	<b>7,316</b>	788
	<b>79,280</b>	316,655

## NOTES TO THE INTERIM FINANCIAL REPORT

*for the six months ended 30 September 2003*

### 1. BASIS OF PREPARATION

The unaudited interim financial statements of the Group have been prepared in accordance with Statement of Standard Accounting Practice ("SSAP") No. 25 "Interim financial reporting" issued by the HKSA and the applicable disclosure requirements set out in Appendix 16 to the Listing Rules. The accounting policies adopted in the preparation of the interim financial statements are consistent with those adopted in the annual financial statements for the year ended 31 March 2003 except as described below:

In the current period, the Group has adopted SSAP 12 (revised) "Income taxes" issued by the HKSA, which is effective for the accounting period commencing on or after 1 January 2003. The SSAP 12 (revised) principally prescribes the accounting treatment and disclosures for deferred tax. In prior years, deferred tax was provided using the income statement liability method on all significant differences to the extent it was probable that the liability would crystallise in the foreseeable future. A deferred tax asset was not recognised until its realisation was assured beyond reasonable doubt. SSAP 12 (revised) requires the adoption of the balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (revised), the new accounting policy has been applied retrospectively. The adoption of SSAP 12 (revised) has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment is required.

## 2. SEGMENT INFORMATION

An analysis of the Group's turnover and contribution to operating (loss)/profit (after finance costs) for the period ended 30 September 2003 is as follows:

	Group turnover		Contribution to operating (loss)/profit	
	Six months ended		Six months ended	
	30 September		30 September	
	2003	2002	2003	2002
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Commission and brokerage from securities and futures dealing				
– discontinued <sup>‡</sup>	–	9,805	–	2,440
Custodian and handling service fees				
– discontinued <sup>‡</sup>	–	77	–	28
Interest income				
– continuing	1,123	2,229	182	1,824
– discontinued <sup>‡</sup>	–	1,045	–	855
Net income/(loss) from securities investment and trading	865	(274)	591	(416)
Placement/underwriting/sub-underwriting and financial advisory fees				
– continuing	3,424	7,042	(4,035)	1,157
– discontinued <sup>‡</sup>	–	543	–	294
	<b>5,412</b>	<b>20,467</b>	<b>(3,262)</b>	<b>6,182</b>
Other revenue			111	1,159
Gain on disposal of brokerage business			–	187,377
Loss on disposal of interest in associates			(149)	–
			<b>(3,300)</b>	<b>194,718</b>

The Group's turnover and contribution to (loss)/profit from operating activities were entirely derived from operations in Hong Kong and accordingly a geographical analysis of such activities has not been presented.

<sup>‡</sup> During the six months ended 30 September 2002, the Company disposed of its interests in the subsidiaries which were mainly engaged in securities and futures brokerage, provision of margin financing, placing and underwriting and nominee and custodian services.

**3. (LOSS)/PROFIT BEFORE TAXATION**

	<b>Six months ended 30 September</b>	
	<b>2003</b>	2002
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
(Loss)/Profit before taxation is arrived at after charging:		
Depreciation and amortisation expenses	57	262
Loss on disposal of interest in associates	<b>149</b>	–
Exchange loss	<b>969</b>	–
	<b>_____</b>	<b>_____</b>

**4. TAXATION**

	<b>Six months ended 30 September</b>	
	<b>2003</b>	2002
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Hong Kong profits tax		
Company and its subsidiaries	–	989
Share of associates' taxation	<b>6</b>	–
	<b>_____</b>	<b>_____</b>
	<b>6</b>	989
	<b>_____</b>	<b>_____</b>

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profit for the six months ended 30 September 2003.

**5. DIVIDENDS**

	<b>Six months ended 30 September</b>	
	<b>2003</b>	2002
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Interim dividend of HK\$ nil (2002: HK 2 cents) per share	–	1,440
Special interim dividend of HK\$ nil (2002: HK\$2.50) per share	–	180,000
	<b>_____</b>	<b>_____</b>
	–	181,440
	<b>_____</b>	<b>_____</b>

## 6. (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share is based on the loss attributable to shareholders of HK\$2,832,000 (2002: profit of HK\$194,117,000) and the weighted average of 72,000,000 (2002: 72,000,000) ordinary shares in issue during the period.

Diluted loss per share for the period has not been presented as the Company has no dilutive potential ordinary shares in issue during the six months ended 30 September 2003. No diluted earnings per share for the six months ended 30 September 2002 had been presented as the options in issue had no dilutive effect on the basic earnings for that period.

## 7. INTEREST IN ASSOCIATES

During the period, the Group disposed of a 25% interest in an associate, Eva Asset Management Limited, to a third party for a consideration of HK\$1,250,000, giving rise to a loss on disposal of HK\$149,000. Subsequent to the disposal, the Group retains a 25% interest in the associate.

## 8. OTHER INVESTMENTS

	At <b>30 September</b> <b>2003</b> <b>(Unaudited)</b> <b>HK\$'000</b>	At 31 March 2003 (Audited) HK\$'000
Participating interest in mutual fund, at fair value	<b>30,940</b>	21,826
Club debentures	<b>256</b>	256
	<b>31,196</b>	22,082

**9. TRADE AND OTHER RECEIVABLES**

Included in trade and other receivables are debtors with the following ageing analysis:

	<b>At</b>	At
	<b>30 September</b>	31 March
	<b>2003</b>	2003
	<b>(Unaudited)</b>	(Audited)
	<b>HK\$'000</b>	HK\$'000
Debtors due		
– within one month	<b>345</b>	128
– within six months	<b>310</b>	246
– over six months	<b>50</b>	–
Other and sundry receivables	<b>422</b>	58
	<u><b>1,127</b></u>	<u>432</u>

For trade receivables, the billing is in accordance with the mandate with the client, and is due on presentation.

**10. TRADE AND OTHER PAYABLES**

Included in trade and other payables are creditors with the following analysis:

	<b>At</b>	At
	<b>30 September</b>	31 March
	<b>2003</b>	2003
	<b>(Unaudited)</b>	(Audited)
	<b>HK\$'000</b>	HK\$'000
Provision for staff bonus	<b>153</b>	1,215
Provision for unused annual leave	<b>136</b>	136
Other and sundry payables	<b>307</b>	571
	<u><b>596</b></u>	<u>1,922</u>

Other and sundry payables include a current account balance due to a fellow subsidiary of HK\$45,000 (31 March 2003: Nil) which is unsecured, interest free and has no fixed terms of repayment.

**11. INVESTMENT IN REPURCHASE AGREEMENTS**

On 25 July 2003, the Group has entered into repurchase agreements to purchase marketable bonds with total face value of US\$10,000,000 from a third party for a consideration of the same nominal amount of the bonds. According to the repurchase agreements, the interest rate is 2.5% per annum with maturity (repurchase date) on 23 January 2004. The Group will notify the third party for any extension of the repurchase. During the period, the Group earned interest income on these repurchase agreements of HK\$379,000.

**12. DEFERRED TAX**

As at 30 September 2003, the Group has unused tax losses of HK\$4,131,000 available for offset against future profits. Deferred tax asset of HK\$723,000 arising from such tax losses has not been recognised due to the uncertainty of future taxable profits from the Group against which the asset can be utilised.

Other temporary differences are insignificant and no deferred tax liability has been recognised.

**13. RELATED PARTY TRANSACTIONS**

- (i) KEH, the ultimate holding company incorporated and listed in the Republic of Singapore together with its subsidiaries had the following transactions with the Group for the six months ended 30 September 2003:

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2003</b>	2002
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Sale proceeds received from disposal of brokerage business	–	159,473
Commission and brokerage income	–	817
Commission and brokerage charges	–	428
Interest charges on short term advances	–	176
Referral fees paid and payable	–	1,298
Sharing of office expenses	<b>440</b>	236
Sharing of facilities and administrative expenses	<b>180</b>	161



## INDEPENDENT REVIEW REPORT

Certified Public Accountants  
Hong Kong Member Firm of  
Grant Thornton International

**Grant Thornton**   
均富會計師行

To the board of directors of Kim Eng Holdings (Hong Kong) Limited

### INTRODUCTION

We have been instructed by the Company to review the interim financial report set out on pages 6 to 15.

### DIRECTORS' RESPONSIBILITIES

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Statement of Standard Accounting Practice 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants ("HKSA"). The interim financial report is the responsibility of, and has been approved by, the directors.

### REVIEW WORK PERFORMED

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the HKSA. A review consists principally of making enquiries of Group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

### REVIEW CONCLUSION

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 September 2003.

**Grant Thornton**  
*Certified Public Accountants*  
Hong Kong

26 November 2003