

Notes to the financial statements

for the period ended 31 December 2003

1. General Information

The principal activities of the Company are investment holding and securities trading and investment. The principal activities of its subsidiaries are provision of corporate finance advisory services.

The directors consider the ultimate holding company to be Kim Eng Holdings Limited ("Kim Eng Singapore"), (formerly known as Kim Eng Ong Asia Holdings Ltd), a company incorporated in Singapore and listed on the Stock Exchange of Singapore.

2. Principal Accounting Policies

(a) Basis of preparation

The financial statements on pages 12 to 51 are prepared in accordance with and comply with all applicable Statements of Standard Accounting Practice ("SSAPs") and Interpretations issued by the Hong Kong Society of Accountants. The financial statements are prepared under the historical cost convention except for the remeasurement of investments in securities as further explained in (f) below.

Adoption of revised SSAP

In the current period, the Group has adopted, for the first time, the following revised SSAP:

SSAP 12 (Revised): Income taxes

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 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 SSAP12 (Revised), the new accounting policy has been applied retrospectively. The adoption of SSAP12 (Revised) has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior year adjustment is required.

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries and include the Group's share of results and net assets of its associates made up to 31 December from the current period onwards. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Notes to the financial statements

for the period ended 31 December 2003

2. Principal Accounting Policies (Continued)

(c) Goodwill or negative goodwill on consolidation

Goodwill or negative goodwill on consolidation represents the shortfall or excess respectively of the Group's share of the fair value of the separable assets and liabilities of subsidiaries and associates at their respective acquisition dates below/over the cost of investment.

Goodwill or negative goodwill arising on acquisitions that occurred prior to 1 January 2001 was offset against reserves or included as a component of reserves under capital reserve respectively. The Group has adopted the transitional provisions in SSAP 30 and such goodwill has not been retrospectively capitalised and amortised. Accordingly, goodwill or negative goodwill arising on acquisitions prior to 1 January 2001 will be charged or credited to income respectively at the time of disposal of the relevant subsidiary or associate or at such time as the goodwill is determined to be impaired.

Any goodwill arising on acquisitions after 1 January 2001 will be capitalised and amortised over its estimated useful life. Goodwill on the acquisition of an associate is included with the carrying amount of the associate. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

Negative goodwill arising on acquisitions of subsidiaries after 1 January 2001 will be presented as a deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted. Negative goodwill arising on acquisitions of associates after 1 January 2001 is deducted from the carrying value of that associate.

(d) Subsidiaries

Subsidiaries are those enterprises in which the Company controls more than half of the voting power, or holds more than half of the issued share capital, or controls the composition of the board of directors.

Investments in subsidiaries are carried at cost less impairment losses where necessary.

(e) Associates

An associate is an enterprise in which the Group has significant influence and which is neither a subsidiary nor a joint venture of the Group.

The results of associates are accounted for by the Group using the equity method of accounting. The Group's investments in associates are stated in the consolidated balance sheet at its share of net assets. The Company's investments in associates are stated in the balance sheet at cost less impairment losses where necessary.

When the Group transacts with its associates, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associates except where unrealised losses provide evidence of an impairment of the asset transferred.

Notes to the financial statements

for the period ended 31 December 2003

2. Principal Accounting Policies (Continued)

(f) Investments in securities

(i) *Held-to-maturity securities*

Investments in debt securities that the Group has the expressed intention and ability to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated in the balance sheet at amortised cost less any provisions for diminution in value. Provisions for diminution in value are made and charged to the income statement when the carrying value of the held-to-maturity securities is not expected to be fully recovered.

Any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

(ii) *Trading securities*

Trading securities are stated in the balance sheet at fair value. Changes in fair value are recognised in the income statement as they arise.

(iii) *Investment securities*

Investment securities comprise listed and unlisted securities which are held for non-trading purposes and are stated in the balance sheet at fair value. Changes in fair value are recognised in the investment revaluation reserve until the security is sold, collected or otherwise disposed of, or until there is objective evidence that the security has been impaired, at which time the relevant cumulative gain or loss is transferred from the investment revaluation reserve to the income statement.

Transfers from the investment revaluation reserve to the income statement as a result of impairments are reversed when the circumstances and events that led to the impairment cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(iv) *Gains and losses on disposal of investments in securities*

Gains and losses on disposal of investments in securities are accounted for in the income statement as they arise. In the case of investment securities, the gain or loss includes any amount previously held in the investment revaluation reserve in respect of that security.

Notes to the financial statements

for the period ended 31 December 2003

2. Principal Accounting Policies (Continued)

(g) Property, plant and equipment

(i) Depreciation and amortisation

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives, using the straight-line method, at the following rates per annum:

Furniture and fixtures	33- $\frac{1}{3}$ %
Office equipment	33- $\frac{1}{3}$ %
Computer and related equipment	33- $\frac{1}{3}$ %

(ii) Measurement bases

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to the working condition and location for its intended use. Subsequent expenditure relating to property, plant and equipment is added to the carrying amount of the assets if it can be demonstrated that such expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the assets.

When assets are sold, any gain or loss resulting from their disposal, being the difference between the net disposal proceeds and the carrying amount of the assets, is included in the income statement.

(h) Reverse repo bond transaction

Reverse repo bond transactions are the purchase of a bond coupled with an agreement to resell the same or substantially identical bond at a stated price at a future date. The bonds purchased under resale agreements are reported as trading investments in the balance sheet. The difference between the selling and purchase prices during the holding period for reverse repo bond transactions are treated as interest income.

(i) Income tax

Income tax for the period comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the period using tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Notes to the financial statements

for the period ended 31 December 2003

2. Principal Accounting Policies (Continued)

(i) Income tax (Continued)

Deferred tax is the tax expected to be payable or recoverable on 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, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

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 profits will be available to allow all or part of the asset to be recovered. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Deferred tax assets and liabilities are not discounted. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

(j) Foreign currencies

Transactions in foreign currencies are translated into Hong Kong dollars at the rates of exchange ruling at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Hong Kong dollars at the rates of exchange ruling at that date. Gains and losses arising on exchange are dealt with in the income statement.

(k) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Annual rentals applicable to such operating leases are charged to the income statement on a straight line basis over the lease terms.

Notes to the financial statements

for the period ended 31 December 2003

2. Principal Accounting Policies (Continued)

(l) Impairment

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement unless the relevant asset is carried at a revalued amount under another SSAP, in which case the impairment loss is treated as a revaluation decrease under that SSAP.

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(m) Employee benefits

(i) Employee entitlements

Employee entitlements to annual leave and long service payments are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service payments as a result of services rendered by employees up to the balance sheet date.

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

(ii) Staff bonus

Provision for staff bonus is recognised when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Notes to the financial statements

for the period ended 31 December 2003

2. Principal Accounting Policies (Continued)

(m) Employee benefits (Continued)

(iii) Pension obligations

The Group contributes to a defined contribution retirement benefits scheme which is available to all employees. Contributions to the scheme by the Group and its employees are calculated as a percentage of employees' basic salaries. The retirement benefits scheme cost charged to the income statement represents contributions payable by the Group to the scheme.

The assets of the scheme are held separately from those of the Group in an independently administered fund.

(iv) Share options 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 income statement 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.

(n) Cash and cash equivalents

Cash comprises cash on hand and demand deposits repayable on demand with any bank or other financial institution. Cash includes deposits denominated in foreign currencies.

Cash equivalents represent 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. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

Notes to the financial statements

for the period ended 31 December 2003

2. Principal Accounting Policies (Continued)

(o) Recognition of revenue

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) Commission and brokerage from dealing in securities and futures are recognised as revenue when the relevant contract notes are executed.
- (ii) Placement/Underwriting/Sub-underwriting fees are recognised as revenue in accordance with the terms of the underlying agreement and mandate.
- (iii) Custodian and handling service fees are recognised as revenue when the agreed services have been provided.
- (iv) Financial advisory fees are recognised as revenue when the agreed services have been provided.
- (v) Interest income is recognised as revenue on a time proportion basis.
- (vi) Realised gain/(loss) on trading of securities is recognised as revenue on a trade date basis.
- (vii) Unrealised gain/(loss) on trading of securities is recognised when trading securities are restated to fair value at the reporting date.

Notes to the financial statements

for the period ended 31 December 2003

3. 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 services they provide. Each of the Group's business segments represents a strategic business unit that offers services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

Continuing operations:

- (a) the trading and investment segment is engaged in securities trading and investment and other investment holding;
- (b) the corporate advisory segment is engaged in the provision of corporate finance and corporate advisory services; and
- (c) the corporate and others segment comprises operations other than those specified in (a) and (b) above. The revenue of this segment comprises interest income from banks. The asset of this segment mainly includes cash at banks and in hand and short term deposits placed with banks.

Discontinued operations (note 4):

- (d) the broking segment is engaged in securities and futures broking and custodian services;
- (e) the placement and underwriting segment is engaged in the provision of placement and underwriting/sub-underwriting services;
- (f) the margin financing and others segment is engaged in the provision of margin financing services and operations other than those specified in (d) and (e) above;

Notes to the financial statements

for the period ended 31 December 2003

3. Segment Information (Continued)

(a) Business segments

The following tables represent revenue, profit and certain asset, liability and expenditure information for the Group's business segments.

31 December 2003

	Trading and investment HK\$'000	Corporate advisory HK\$'000	Corporate and others HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
Segment revenue:					
Sales to external customers	2,467	3,951	856	–	7,274
Other revenue	12,068	–	–	–	12,068
	14,535	3,951	856	–	19,342
Segment results					
	13,973	(7,786)	(20)	–	6,167
Share of profits of associates					1,452
Loss on disposal of interest in associates					(149)
Profit before taxation					
Taxation					(386)
Profit attributable to shareholders					
					7,084
Segment assets	132,032	1,128	77,669	(16,250)	194,579
Interest in associates					2,247
Unallocated assets					90
Total assets					
					196,916
Segment liabilities	–	404	625	–	1,029
Unallocated liabilities					513
Total liabilities					
					1,542
Other segment information					
Depreciation	–	87	–	–	87
Capital expenditure	–	111	–	–	111

Notes to the financial statements

for the period ended 31 December 2003

3. Segment Information (Continued)

(a) Business segments (Continued)

31 March 2003

	Continuing			Discontinued			Elimination	Consolidated
	Trading and investment	Corporate advisory	Corporate and others	Broking	Placement and underwriting	Margin and financing and others		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:								
Sales to external customers	534	11,950	3,418	9,955	543	1,042	-	27,442
Other revenue	6,232	-	425	108	-	221	-	6,986
Intersegment sales	73	-	-	(73)	-	-	-	-
	6,839	11,950	3,843	9,990	543	1,263	-	34,428
Segment results	6,501	743	3,361	2,552	310	610	-	14,077
Share of profits of associates								40
Gain on disposal of brokerage business (note 4)								187,377
Profit before taxation								201,494
Taxation								(1,656)
Profit attributable to shareholders								199,838

Notes to the financial statements

for the period ended 31 December 2003

3. Segment Information (Continued)

(a) Business segments (Continued)

31 March 2003

	Continuing			Discontinued			Elimination	Consolidated
	Trading and investment	Corporate advisory	Corporate and others	Broking	Placement and underwriting	Margin financing and others		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	41,058	563	167,195	-	-	-	(17,500)	191,316
Interest in associates								2,373
Unallocated assets								90
Total assets								193,779
Segment liabilities	-	1,375	547	-	-	-	-	1,922
Unallocated liabilities								306
Total liabilities								2,228
Other segment information								
Depreciation	-	104	-	218	-	-	-	322
Capital expenditure	-	183	-	-	-	-	-	183

(b) Geographical segments

As over 90% of the Group's revenue, results, assets and liabilities for the period ended 31 December 2003 are derived from operations in Hong Kong, information by geographical segment has not been presented.

Notes to the financial statements

for the period ended 31 December 2003

4. Discontinued Operations

On 28 February 2002, the Company entered into a disposal agreement with a fellow subsidiary pursuant to which the Company disposed of all its direct and indirect equity interests in Kim Eng Securities (Hong Kong) Limited, Kim Eng Futures (Hong Kong) Limited and Kim Eng Nominees (Hong Kong) Limited ("the brokerage business"), all being wholly owned subsidiaries of the Company, to the fellow subsidiary at an aggregate cash consideration of approximately HK\$159,473,000. The disposal was approved by independent shareholders at an extraordinary general meeting held on 15 April 2002 and was completed on 22 May 2002. The gain on disposal of the brokerage business was approximately HK\$187,377,000 (note 23(b)).

Upon completion of the disposal, the Group no longer participates in the brokerage business, including securities and futures broking, provision of margin financing, placing and underwriting and nominee and custodian services (collectively defined as the "Discontinued Operations"). Thereafter, the Group is principally engaged in corporate finance, corporate advisory and investment and trading in securities. Further details of the disposal are set out in the Company's announcements dated 6 March 2002 and 24 May 2002.

The turnover and results of the brokerage business up to date of disposal are as follows:

	Period from 1 April 2003 to 31 December 2003 HK\$'000	Year ended 31 March 2003 HK\$'000
Turnover	–	11,467
Other revenue	–	329
Operating expenses	–	(8,148)
Profit from operations	–	3,648
Finance costs	–	(176)
Profit before taxation	–	3,472
Taxation	–	(595)
Net profit after taxation	–	2,877

Notes to the financial statements

for the period ended 31 December 2003

5. Turnover

Analysis of turnover by principal activities is as follows:

	Period from 1 April 2003 to 31 December 2003 HK\$'000	Year ended 31 March 2003 HK\$'000
Commission and brokerage from securities and futures dealing	–	9,805
Custodian and handling service fees	–	77
Interest income from		
– Clients	–	3,572
– Banks	856	765
– Trading investments (note 17)	875	–
– Others	–	1
Net income from investment securities and trading securities		
– realised gain*	387	369
– unrealised gain on trading securities	1,205	234
Placement/underwriting/sub-underwriting and financial advisory fees	3,951	12,619
	7,274	27,442

* For the period ended 31 December 2003, realised gain includes gain on disposal of trading securities of HK\$387,000 (31 March 2003: HK\$187,000) and gain on disposal of other investments of nil (31 March 2003: HK\$182,000 which included revaluation surplus of HK\$56,000 previously recognised in investment revaluation reserve).

Notes to the financial statements

for the period ended 31 December 2003

6. Other Revenue

	Period from 1 April 2003 to 31 December 2003 HK\$'000	Year ended 31 March 2003 HK\$'000
Administration and research fees	–	108
Exchange gain	–	216
Gain on disposal of investment securities (including revaluation surplus of HK\$1,821,000 (31 March 2003: HK\$1,205,000) previously recognised in investment revaluation reserve)	11,883	4,675
Write-back of accruals	–	425
Dividend income from investments in securities	185	1,557
Sundry	–	5
	12,068	6,986

7. Finance Costs

	Period from 1 April 2003 to 31 December 2003 HK\$'000	Year ended 31 March 2003 HK\$'000
Interest charges on advances from ultimate holding company	–	176

Notes to the financial statements

for the period ended 31 December 2003

8. Profit Before Taxation

	Period from 1 April 2003 to 31 December 2003 HK\$'000	Year ended 31 March 2003 HK\$'000
Profit before taxation is arrived at after charging:		
Auditors' remuneration	176	244
Depreciation and amortisation expenses	87	322
Operating lease charges in respect of land and buildings	686	1,181
Contribution to retirement fund schemes (note 26)	287	542
Loss on disposal of property, plant and equipment	–	15
Loss on disposal of interest in associates	149	–
Provision for doubtful debts	150	–
Exchange loss	385	–

9. Taxation

	Period from 1 April 2003 to 31 December 2003 HK\$'000	Year ended 31 March 2003 HK\$'000
Current tax – Hong Kong		
– For the current period/year	207	1,459
– Underprovision in prior years	–	197
Share of associate's taxation	179	–
	386	1,656

Hong Kong profits tax is provided at the rate of 17.5% (31 March 2003: 16%) on the estimated assessable profit of the period/year.

Notes to the financial statements

for the period ended 31 December 2003

9. Taxation (Continued)

The income tax expenses for the period/year can be reconciled to the profit before taxation per the income statement as follows:

	Period from 1 April 2003 to 31 December 2003 HK\$'000	Year ended 31 March 2003 HK\$'000
Profit before taxation	7,470	201,494
Tax at applicable tax rate	1,307	32,239
Tax effect of non-deductible expenses	112	17
Tax effect of non-taxable revenue	(2,362)	(30,831)
Tax effect on temporary differences not recognised	(6)	34
Tax effect on utilisation of previously unrecognised tax losses	(46)	–
Under provision in prior years	–	197
Deferred tax assets on tax losses not recognised	1,381	–
	386	1,656

10. Dividends

	Period from 1 April 2003 to 31 December 2003 HK\$'000	Year ended 31 March 2003 HK\$'000
Special interim dividend of Nil (31 March 2003: HK\$2.5) per share	–	180,000
Interim dividend of Nil (31 March 2003: HK 2 cents) per share	–	1,440
Proposed final dividend of Nil (31 March 2003: HK 2 cents) per share	–	1,440
	–	182,880

Notes to the financial statements

for the period ended 31 December 2003

11. Property, Plant and Equipment

Group

	Furniture and fixtures HK\$'000	Office equipment HK\$'000	Computer and related equipment HK\$'000	Total HK\$'000
Cost				
At 1 April 2003	205	91	154	450
Additions	3	–	108	111
At 31 December 2003	208	91	262	561
Accumulated depreciation/ amortisation				
At 1 April 2003	91	82	88	261
Charge for the period	37	6	44	87
At 31 December 2003	128	88	132	348
Net book value				
At 31 December 2003	80	3	130	213
At 31 March 2003	114	9	66	189

12. Interest in Subsidiaries

	Company	
	31 December 2003 HK\$'000	31 March 2003 HK\$'000
Unlisted shares, at cost	15,000	15,000

Notes to the financial statements

for the period ended 31 December 2003

12. Interest in Subsidiaries (Continued)

Particulars of the Company's subsidiaries as at 31 December 2003 are as follows:

Name	Place of incorporation	Particulars of issued capital	Attributable equity interest held directly by the Company	Principal activities
Kim Eng Capital (Hong Kong) Limited	Hong Kong	10,000,000 shares of HK\$1 each	100%	Corporate finance advisory
Kim Eng Corporate Finance (Hong Kong) Limited ("Kim Eng Corporate Finance")	Hong Kong	5,000,000 shares of HK\$1 each	100%	Corporate finance advisory
Hart Industries (Far East) Limited ("Hart Industries")	Hong Kong	2 shares of HK\$1 each	100%	Dormant

On 7 December 2003, the Company entered into a conditional agreement to dispose of all its interests in Kim Eng Corporate Finance and Hart Industries to a fellow subsidiary. Details of the transaction are set out in note 27(b).

13. Interest in Associates

	Group		Company	
	31 December 2003 HK\$'000	31 March 2003 HK\$'000	31 December 2003 HK\$'000	31 March 2003 HK\$'000
Unlisted shares, at cost	–	–	1,250	2,500
Share of net assets	2,247	2,373	–	–
	2,247	2,373	1,250	2,500

Notes to the financial statements

for the period ended 31 December 2003

13. Interest in Associates (Continued)

Particulars of the Company's associate as at 31 December 2003 are as follows:

Name	Place of incorporation	Particulars of issued capital	Attributable equity interest held directly by the Company		Principal activities
			31 December 2003	31 March 2003	
Eva Asset Management Limited ("Eva Asset")	Hong Kong	5,000,000 shares of HK\$1 each	25%	50%	Investment management services

On 7 December 2003, the Company entered into a conditional agreement to dispose of all of its 25% equity interests in Eva Asset to a fellow subsidiary. Details of the transaction are set out in note 27(b).

14. Other Investments

	Group		Company	
	31 December 2003 HK\$'000	31 March 2003 HK\$'000	31 December 2003 HK\$'000	31 March 2003 HK\$'000
Investment securities				
Participating interest in mutual fund, at fair value (note 23(a))	–	21,826	–	21,826
Club debentures	256	256	256	256
	256	22,082	256	22,082

15. Trading Securities

	Group and Company	
	31 December 2003 HK\$'000	31 March 2003 HK\$'000
Listed equity securities in Hong Kong, at fair value	5,985	5,863
Market value of listed equity securities	5,985	5,863

Notes to the financial statements

for the period ended 31 December 2003

16. Trade and Other Receivables

	Group	
	31 December 2003 HK\$'000	31 March 2003 HK\$'000
Trade receivables due:		
– within one month	295	128
– within six months	620	246
Other and sundry receivables	32,864	58
	33,779	432

For trade receivables, the billing is in accordance with the mandate with the client, and is due on presentation. Other and sundry receivables at 31 December 2003 include HK\$31,888,000 due from the redemption of the Group's interest in an open-ended mutual fund (notes 14 and 23(a)).

17. Trading Investments

On 25 July 2003, the Group entered into reverse repo bond transactions with a third party for a consideration of approximately HK\$77,653,000 (equivalent to US\$10,000,000) for the purchase of marketable bonds with total face value of US\$10,000,000 coupled with agreements to resell the same bonds at a stated price at a future date. According to the agreements, the return rate is 2.5% per annum with original maturity (resale date) on 23 January 2004, which was subsequently extended to 30 January 2004 and further to 1 March 2004 at a return rate of 2.1% per annum. During the period, the Group earned interest income on these transactions of HK\$875,000.

Notes to the financial statements

for the period ended 31 December 2003

18. Other Payables

Other payables include provision for staff bonus and provision for unused annual leave, the details of which are set out below. The provision for staff bonus comprises the discretionary bonus payable to directors and employees of a subsidiary as at the balance sheet date and the contractual bonuses payable to staff accrued to the balance sheet date. The discretionary bonuses are to reward staff for their contributions and are best estimates by the directors with reference to the overall results of the subsidiary and individual performances during the period. However, the exact amount payable to each individual is subject to directors' final determination after these financial statements are approved.

Movements in the provision for staff bonus and unused annual leave are as follows:

	Staff bonus HK\$'000	Unused annual leave HK\$'000	Total HK\$'000
Balance at 1 April 2003	1,215	136	1,351
Provision made during the period	240	187	427
Provision utilised during the period	(1,455)	(43)	(1,498)
Balance at 31 December 2003	–	280	280

19. Share Capital

	31 December 2003 HK\$'000	31 March 2003 HK\$'000
Authorised: 200,000,000 ordinary shares of HK\$0.20 each	40,000	40,000
Issued and fully paid: 72,000,000 ordinary shares of HK\$0.20 each	14,400	14,400

Notes to the financial statements

for the period ended 31 December 2003

19. Share Capital (Continued)

Share option scheme

On 29 December 1997, a share option scheme (the "Scheme") was approved and adopted by the Company, under which the directors may, at their discretion, offer to any employees (including any executive director) of the Group options to subscribe for such number of shares as the Board may determine up to a maximum aggregate number of shares equal to 10% of the total issued shares of the Company. The purpose of the Scheme is to allow the eligible employees to participate in the equity of the Company in order to motivate such employees to optimise their performance standards and efficiency, and to attract and retain key employees whose contributions are important to the long term growth and profitability of the Group. No single employee shall be granted an option which, if exercised in full, would result in the total number of shares already issued and issuable to him under all the options granted to him exceeding 25% of the aggregate number of shares for the time being issued and issuable under the Scheme. An option may be exercised in accordance with its terms at any time during a period to be notified by the Board to each grantee. Such period may commence on the expiry of 12 months after the date upon which the offer of the option is accepted and expire three years after the commencement date or 28 December 2007 whichever is the earlier. The consideration payable for the option is HK\$1.00. The exercise price shall be a price determined by the Board which is the higher of (a) a price not less than 80% of the average of the closing prices of the shares on The Stock Exchange of Hong Kong Limited for the five days immediately preceding the offer date; and (b) the nominal value of a share. The Scheme will expire on 29 December 2007.

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

20. Profit Attributable to Shareholders

The profit attributable to shareholders dealt with in the Company's financial statements is HK\$13,918,000 (31 March 2003: \$131,130,000).

21. Earnings Per Share

The calculation of earnings per share is based on the profit attributable to shareholders of HK\$7,084,000 (31 March 2003: HK\$199,838,000) and the 72,000,000 (31 March 2003: 72,000,000) ordinary shares in issue during the period/year.

Diluted earnings per share has not been presented as the Company had no dilutive potential ordinary shares in issue during the period ended 31 December 2003. No diluted earnings per share for the year ended 31 March 2003 had been presented as the options in issue had no dilutive effect on the basic earnings for that year.

Notes to the financial statements

for the period ended 31 December 2003

22. Reserves

Group

	31 December 2003 HK\$'000	31 March 2003 HK\$'000
Share premium	116,612	116,612
Investment revaluation reserve	–	1,821
Capital reserve	39	39
Retained profits	64,323	57,239
Dividend reserve	–	1,440
At 31 December 2003	180,974	177,151
Reserves retained by:		
Companies and subsidiaries		
– share premium	116,612	116,612
– investment revaluation reserve	–	1,821
– capital reserve	39	39
– retained profits	63,326	57,366
– dividend reserve	–	1,440
	179,977	177,278
Associates		
– retained profits	997	(127)
	180,974	177,151

Details of the movements in the above reserves during the period are set out in the consolidated statement of changes in equity on page 17.

Notes to the financial statements

for the period ended 31 December 2003

22. Reserves (Continued)

Company

	Share premium HK\$'000	Investment revaluation reserve HK\$'000	Retained profits HK\$'000	Dividend reserve HK\$'000	Total HK\$'000
At 1 April 2002	116,612	4,802	105,321	12,240	238,975
Revaluation deficit arising on other investments	–	(1,721)	–	–	(1,721)
Reserve realised upon disposal of other investments	–	(1,261)	–	–	(1,261)
Profit attributable to shareholders for the year	–	–	131,130	–	131,130
Dividends paid for 2002	–	–	–	(12,240)	(12,240)
Dividends proposed for 2003 (note 10)	–	–	(182,880)	182,880	–
Dividends paid for 2003	–	–	–	(181,440)	(181,440)
At 31 March 2003 and 1 April 2003	116,612	1,820	53,571	1,440	173,443
Profit attributable to shareholders for the period	–	–	13,918	–	13,918
Reserve realised upon disposal of other investments	–	(1,820)	–	–	(1,820)
Dividends paid for 2003	–	–	–	(1,440)	(1,440)
At 31 December 2003	116,612	–	67,489	–	184,101

The Company's reserves available for distribution to shareholders as at 31 December 2003 amounted to approximately HK\$67,489,000 (31 March 2003: HK\$55,011,000).

23. Notes to the Cash Flow Statement

(a) Major non-cash transaction

During the period, the Company redeemed all its participating interest in an open-ended mutual fund (note 14) for a consideration of HK\$31,888,000. The proceeds have not been received and the amount due was included under other receivables as at 31 December 2003.

Notes to the financial statements

for the period ended 31 December 2003

23. Notes to the Cash Flow Statement (Continued)

(b) Disposal of subsidiaries

As referred to in note 4, on 22 May 2002 the Group sold its brokerage business to a fellow subsidiary by disposing of three of its wholly owned subsidiaries, Kim Eng Securities (Hong Kong) Limited, Kim Eng Futures (Hong Kong) Limited and Kim Eng Nominees (Hong Kong) Limited.

The net assets of these subsidiaries at the date of disposal and the amount of cash flows attributable to the disposal of subsidiaries are as follows:

	Period from 1 April 2003 to 31 December 2003 HK\$'000	Year ended 31 March 2003 HK\$'000
Net assets disposed of:		
Property, plant and equipment	–	2,725
Other investments	–	1,407
Other assets	–	2,350
Trade and other receivables	–	304,716
Tax recoverable	–	7
Cash at banks and in hand	–	339,325
Trade and other payables	–	(467,937)
Amounts due to ultimate holding company	–	(16,582)
Provision for tax	–	(13,871)
	–	152,140
Release of reserves upon disposal:		
Capital reserve	–	(179,683)
Investment revaluation reserve	–	(511)
	–	(28,054)
Share of stamp duty on the disposal agreement	–	150
Gain on disposal of brokerage business (note 4)	–	187,377
Consideration	–	159,473
Satisfied by:		
Cash	–	159,473

Notes to the financial statements

for the period ended 31 December 2003

23. Notes to the Cash Flow Statement (Continued)

(b) Disposal of subsidiaries (Continued)

	Period from 1 April 2003 to 31 December 2003 HK\$'000	Year ended 31 March 2003 HK\$'000
Analysis of net cash outflow in respect of disposal of subsidiaries:		
Cash consideration received	–	159,473
Share of stamp duty on the disposal agreement paid	–	(150)
Cash at banks and in hand disposed of	–	(339,325)
	–	(180,002)

During the year ended 31 March 2003, the subsidiaries disposed of contributed HK\$2,444,000 to the Group's net operating cash outflows.

24. Directors' and Senior Executives' Emoluments

(a) Details of the directors' emoluments are as follows:

	Period from 1 April 2003 to 31 December 2003 HK\$'000	Year ended 31 March 2003 HK\$'000
Fees		
– Executive	–	–
– Non-executive	160	160
Other emoluments		
– Salaries, allowances and benefits in kind	2,700	2,508
– Bonuses paid and payable	–	911
– Retirement fund scheme contributions	144	158
	3,004	3,737

Notes to the financial statements

for the period ended 31 December 2003

24. Directors' and Senior Executives' Emoluments (Continued)

(a) Details of the directors' emoluments are as follows: (Continued)

The number of directors whose emoluments fell within the following bands are as follows:

	Period from 1 April 2003 to 31 December 2003 HK\$'000	Year ended 31 March 2003 HK\$'000
Emoluments band		
HK\$0 – HK\$1,000,000	4	11
HK\$1,000,001 – HK\$1,500,000	2	–
HK\$2,000,001 – HK\$2,500,000	–	1

No directors waived any emoluments during the period/year.

(b) The five individuals whose emoluments were the highest in the Group are as follows:

	Period from 1 April 2003 to 31 December 2003 HK\$'000	Year ended 31 March 2003 HK\$'000
Directors	2	1
Employees	3	4
	5	5

Notes to the financial statements

for the period ended 31 December 2003

24. Directors' and Senior Executives' Emoluments (Continued)

(b) The five individuals whose emoluments were the highest in the Group are as follows: (Continued)

Information relating to directors' emoluments has been disclosed in note 24(a) above. The details of the emoluments and designated bands of the remaining highest paid, non-director individuals are as follows:

	Period from 1 April 2003 to 31 December 2003 HK\$'000	Year ended 31 March 2003 HK\$'000
Salaries, allowances and benefits in kind	2,580	3,396
Bonuses paid and payable	101	1,294
Retirement fund scheme contributions	23	94
	2,704	4,784

	Period from 1 April 2003 to 31 December 2003 HK\$'000	Year ended 31 March 2003 HK\$'000
Emoluments band		
HK\$500,001 – HK\$1,000,000	2	3
HK\$1,000,001 – HK\$1,500,000	1	–
HK\$1,500,001 – HK\$2,000,000	–	–
HK\$2,000,001 – HK\$2,500,000	–	1

Notes to the financial statements

for the period ended 31 December 2003

25. Operating Lease Commitments

At 31 December 2003, the total future minimum lease payments in respect of a property under a non-cancellable operating lease are payable as follows:

	Group	
	Period from	Year ended
	1 April 2003	31 March
	to	2003
	31 December	2003
	2003	2003
	HK\$'000	HK\$'000
Within one year	75	–
In the second to fifth years	28	–
	103	–

The Group leases a property under an operating lease. The lease runs for a period of 2 years without any option to renew. The lease does not include any contingent rentals.

26. Retirement Fund Schemes

The Group has operated a defined contribution retirement fund scheme jointly with a fellow subsidiary, Kim Eng Securities (Hong Kong) Limited, for all qualified employees since 12 November 1990. The scheme is registered under the Occupational Retirement Schemes Ordinance and exempted pursuant to the Mandatory Provident Fund Schemes Ordinance (the "ORSO scheme"). The assets of the ORSO scheme are managed and administered by independent third parties and are held separately from those of the Group. The ORSO scheme is funded by employers' contributions only based on a percentage of the eligible employee's monthly basic salary.

The ORSO scheme has been closed to new employees with the commencement of Mandatory Provident Fund ("MPF") scheme on 1 December 2000.

Since the MPF scheme commencement date, any new staff joining the Group are required to join the MPF scheme. Both the Group and the employees are to contribute 5% of their relevant income to the MPF scheme.

Notes to the financial statements

for the period ended 31 December 2003

26. Retirement Fund Schemes (Continued)

The details of retirement fund scheme contributions including MPF contributions for the directors and employees, net of forfeited contributions of the ORSO scheme, which have been dealt with in the income statement of the Group are as follows:

	Period from 1 April 2003 to 31 December 2003 HK\$'000	Year ended 31 March 2003 HK\$'000
Gross retirement fund scheme contributions	287	547
Less: Forfeited contributions utilised to offset contributions to the ORSO scheme for the period/year	–	5
Net retirement fund scheme contributions	287	542

As at 31 December 2003, there were no forfeited contributions (31 March 2003: Nil) available to offset future employers' contributions to the ORSO scheme.

27. Related Party Transactions

Kim Eng Singapore and its subsidiaries (the "KE Singapore Group") maintain a close and mutually beneficial relationship with the Group.

- (a) A summary of the transactions which took place between the Group and the KE Singapore Group during the period ended 31 December 2003 is set out below:

	Period from 1 April 2003 to 31 December 2003 HK\$'000	Year ended 31 March 2003 HK\$'000
(i) Commission and brokerage income	–	817
(ii) Commission and brokerage charges	–	567
(iii) Interest charges on short term advances	–	176
(iv) Referral fees paid and payable	–	1,298
(v) Sharing of office premises	526	674
(vi) Sharing of facilities and administrative services	270	322

Notes to the financial statements

for the period ended 31 December 2003

27. Related Party Transactions (Continued)

In respect of the above mentioned transactions, the Company's independent non-executive directors confirmed that the said transactions were carried out or entered into by the Group in the ordinary and usual course of business of the Group; carried out/conducted either (i) on normal commercial terms or (ii) if there are no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no more or less favourable than terms available to/from (as appropriate) independent third parties.

The independent non-executive directors also confirmed that for the period ended 31 December 2003, the total payments for sharing of office premises and sharing of facilities and administrative services by the Group to the KE Singapore Group (see (v) and (vi) above) was less than the higher of HK\$10,000,000 or 3% of the audited consolidated net tangible assets of the Group for the previous financial year.

- (b) (i) On 7 December 2003, Kim Eng Singapore and a fellow subsidiary, Kim Eng Investment Limited ("KEI") (the "Vendors") entered into an agreement with a third party (the "Share Sale Agreement") pursuant to which the Vendors have conditionally agreed to sell 50,407,200 shares, representing 70.01% of the issued share capital of the Company to the third party for a total consideration of HK\$187,626,800 (subject to adjustment). Completion of the Share Sale Agreement is subject to fulfilment of a number of conditions precedent and shall take place simultaneously with the completion of the Disposal Agreement in (iii) below.
- (ii) Prior to the completion of the Share Sale Agreement, the Company will enter into another agreement with Kim Eng Singapore (the "Put Option Agreement") whereby Kim Eng Singapore will grant a put option to the Company under which the Company will have the right, but not the obligation, to require Kim Eng Singapore to purchase the Company's 100% equity interests in Kim Eng Capital (Hong Kong) Limited at a fixed consideration of HK\$9 million at any time during the period from the completion of the Share Sale Agreement to twelve months thereafter.
- (iii) On 7 December 2003, the Company entered into an agreement with KEI (the "Disposal Agreement") pursuant to which the Company has conditionally agreed to dispose of all its 100% equity interests in Kim Eng Corporate Finance and Hart Industries and 25% equity interests in Eva Asset to KEI for a total cash consideration of HK\$6,706,000. Completion of the Disposal Agreement is subject to a number of conditions.

Details of the above transactions are set out in the Company's announcement dated 16 December 2003. As at 31 December 2003 and up to the date of approval of these financial statements, the conditions precedent to the completion of the above transactions have not been met and therefore, the transactions have not been completed.

Notes to the financial statements

for the period ended 31 December 2003

28. Deferred Tax

As at 31 December 2003, the amount of unrecognised deferred tax asset/(liability) is as follows:

	Group	
	31 December 2003 HK\$'000	31 March 2003 HK\$'000
Accelerated depreciation allowances	(14)	(7)
General bad debt allowance	26	–
Unused tax losses	1,381	–
	1,393	(7)

No deferred tax asset has been recognised due to the uncertainty of future profit streams against which the asset can be utilised.

The Company did not have any material temporary differences as at 31 December 2003 and 31 March 2003.

29. Contingent Liabilities

(a) Group

During the period, one of the Company's subsidiaries, Kim Eng Capital (Hong Kong) Limited ("Kim Eng Capital") was sued by a third party (the "plaintiff") under a High Court action for the payment of HK\$712,822 in respect of printing, translation and advertising services rendered by the third party in connection with a financial transaction for a customer of Kim Eng Capital, of which Kim Eng Capital acted as the financial adviser.

The directors are of the opinion that the amount in dispute should be borne by the customer and the Group has no obligation in respect of the services rendered by the plaintiff. Up to the date of approval of these financial statements, the litigation is still in progress and the outcome is uncertain. The directors consider that no provision for the said amount is required in the financial statements of the Group for the period ended 31 December 2003.

Notes to the financial statements

for the period ended 31 December 2003

29. Contingent Liabilities (Continued)

(b) Company

The Company provided an unconditional and irrevocable guarantee and undertaking to The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in favour of Kim Eng Capital. In this regard, the Company guarantees up to an aggregate amount of not less than HK\$10 million in respect of Kim Eng Capital's liabilities in order for Kim Eng Capital to satisfy the requirement under Rule 6.21 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (the "Rule") for acting as sponsors. The guarantee has been issued as the net tangible asset value of Kim Eng Capital has fallen below HK\$10 million as otherwise required by the Rule.

30. Comparative Figures

The Company changed its financial year end from 31 March to 31 December in order to align itself with the financial year end of its ultimate holding company. The financial statements in the current period therefore cover a period of 9 months from 1 April 2003 to 31 December 2003 and the figures therein may not be comparable with the figures presented in the consolidated income statement, the consolidated cash flow statement, the consolidated statement of changes in equity and the notes thereon for the prior year.

31. Approval of the Financial Statements

The financial statements on pages 12 to 51 were approved by the board of directors on 12 February 2004.