

**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**

FOR THE SIX MONTHS ENDED 30 JUNE 2004

**1 BASIS OF PREPARATION**

These unaudited consolidated condensed accounts are prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with the Statement of Standard Accounting Practice ("SSAP")25, "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants except as described below.

The Company changed its financial year end from 31 March to 31 December commencing in the year of 2003. The interim report showed the unaudited interim results for the Group for the six months ended 30 June 2004 and with comparative figures for the six months ended 30 September 2003. Accordingly, the comparative figures are not directly and fully comparable.

The accounting policies and methods of computation used in the preparation of these condensed accounts are consistent with those used in the annual accounts for the year ended 31 December 2003.

These condensed accounts should be read in conjunction with the 2003 annual accounts.

## 2 SEGMENT INFORMATION

An analysis of the Group's turnover and contribution to operating loss for the period ended 30 June 2004 is as follows:

	Group turnover		Contribution to operating (loss)/profit	
	Six months ended		Six months ended	
	30 June	30 September	30 June	30 September
	2004	2003	2004	2003
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>By Principal Activities</b>				
Interest income	348	1,123	(919)	182
Net income from securities investment and trading	393	865	(1,037)	591
Placement/underwriting/sub-underwriting and financial advisory fees	2,040	3,424	(2,833)	(4,035)
	<u>2,781</u>	<u>5,412</u>	<u>(4,789)</u>	<u>(3,262)</u>
Other revenues			-	111
Loss on disposal of interest in associated company			-	(149)
Profit on disposal of subsidiary			1,470	-
Operating loss			(3,319)	(3,300)
Share of profits of associated company			598	474
Loss before taxation			(2,721)	(2,826)
Taxation credit/(charge)			1,162	(6)
Loss attributable to shareholders			<u>(1,559)</u>	<u>(2,832)</u>

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

During the six months ended 30 June 2004, the Company disposed of its interests in the subsidiary which was mainly engaged in provision of corporate advisory services.

**3 LOSS BEFORE TAXATION**

	Six months ended	
	30 June 2004 (Unaudited) HK\$'000	30 September 2003 (Unaudited) HK\$'000
Loss before taxation is arrived at after charging:		
Depreciation and amortisation of fixed assets	78	57
Loss on disposal of interest in associated company	–	149
Profit on disposal of subsidiary	(1,470)	–
Exchange (gain)/loss	(518)	969
	<u>(1,910)</u>	<u>969</u>
	<u><u>(1,910)</u></u>	<u><u>1,175</u></u>

**4 TAXATION**

The amount of taxation charged to the consolidated income statement represents:

	Six months ended	
	30 June 2004 (Unaudited) HK\$'000	30 September 2003 (Unaudited) HK\$'000
Current taxation:		
Hong Kong profits tax		
Company and its subsidiaries		
Over provisions in prior years	1,267	–
Share of associated company's taxation	(105)	(6)
	<u>1,162</u>	<u>(6)</u>
Taxation credit/(charge)	<u><u>1,162</u></u>	<u><u>(6)</u></u>

**5 LOSS PER SHARE**

The calculations of basic loss per share is based on the Group's loss attributable to shareholders of HK\$1,559,000 (30 September 2003: loss of HK\$2,832,000) and the weighted average number of 72,000,000 (30 September 2003: 72,000,000) ordinary shares in issue during the period.

**6 OTHER INVESTMENTS**

	At 30 June 2004 (Unaudited) HK\$'000	At 31 December 2003 (Audited) HK\$'000
	Club debenture	<u><u>256</u></u>

**7 TRADE AND OTHER RECEIVABLES**

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

	At 30 June 2004 (Unaudited) HK\$'000	At 31 December 2003 (Audited) HK\$'000
Trade receivables due:		
within one month	25	295
within six months	100	620
Other and sundry receivables	<u>524</u>	<u>32,864</u>
	<u><u>649</u></u>	<u><u>33,779</u></u>

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

Other and sundry receivables included a balance due from the holding company of HK\$390,000 (31 December 2003: Nil) which is unsecured, interest free and repayable on demand. The amount has been subsequently repaid after the balance sheet date.

**8 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 26 March 2004 at a return rate of 2.1% per annum. During the period, the Group earned interest income on these transactions of HK\$393,000.

**9 TRADE AND OTHER PAYABLES**

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

	At 30 June 2004 (Unaudited) HK\$'000	At 31 December 2003 (Audited) HK\$'000
Provison for unused annual leave	132	280
Other and sundry payables	<u>688</u>	<u>704</u>
	<u><u>820</u></u>	<u><u>984</u></u>

**10 DISPOSAL OF SUBSIDIARY**

On 7 December, 2003, the Company entered into a disposal agreement with Kim Eng Investment Limited ("KEIL") pursuant to which the Company disposed of all its direct and indirect equity interests in Kim Eng Corporate Finance (Hong Kong) Limited, being a wholly owned subsidiary of the Company to KEIL at an aggregate cash consideration of HK\$5,000,000. The disposal was approved by independent shareholders at an extraordinary general meeting held on 29 March 2004. The gain on disposal of the corporate finance business was approximately HK\$1,470,000.

KEIL is a wholly-owned subsidiary of Kim Eng Holdings Limited ("KEHL"), the former ultimate holding company of the Company.

The results of Kim Eng Corporate Finance (Hong Kong) Limited for the interim reporting period were as follows:

	<b>Six months ended</b>	
	<b>30 June 2004 (Unaudited) HK\$ '000</b>	<b>30 September 2003 (Unaudited) HK\$ '000</b>
Turnover	2,030	3
Operating expenses	<u>(3,465)</u>	<u>(10)</u>
Loss before taxation	<u><u>(1,435)</u></u>	<u><u>(7)</u></u>

The effect of the disposal is summarized as follows:

	<i>HK\$ '000</i>
Net assets disposed of	3,530
Profit on disposal	<u>1,470</u>
Total consideration	<u><u>5,000</u></u>
Satisfied by:	
Cash consideration	<u><u>5,000</u></u>
Net cash inflow arising on disposal	
Cash received	5,000
Cash and Bank balances disposed of	<u>(4,980)</u>
	<u><u>20</u></u>

## 11 DEFERRED TAXATION

	At 30 June 2004 (Unaudited) HK\$'000	At 31 December 2003 (Audited) HK\$'000
Unrecognised tax assets on temporary differences:		
General bad debt allowance	–	26
Unused tax losses	1,762	1,381
Accelerated depreciation allowance	(65)	(14)
	<u>1,697</u>	<u>1,393</u>

At 30 June 2004, the Group has unrecognised tax losses of approximately HK\$10,068,000 (2003: HK\$7,891,000) to carry forward against future taxable income. No deferred taxation asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams. Such tax loss has no expiry date under the current tax legislation.

No deferred tax liability has been provided in respect of the accelerated tax depreciation of the property, plant & equipment as the amount involved is immaterial.

The Company has no other significant temporary differences arising during the year or at 30 June 2004.

## 12 OPERATING LEASE COMMITMENT

At the balance sheet date, the Group had an outstanding commitment under non-cancellable operating leases in respect of rented premises, which fall due as follows:

	At 30 June 2004 (Unaudited) HK\$'000	At 31 December 2003 (Audited) HK\$'000
Within one year	861	–
In the second to fifth year inclusive	783	–
	<u>1,644</u>	<u>–</u>

Lease is negotiated for an average term of two years with fixed rental over the terms of the lease.

**13 RELATED PARTY TRANSACTIONS**

	Six months ended	
	30 June 2004 (Unaudited) HK\$'000	30 September 2003 (Unaudited) HK\$'000
Sharing of office expenses	–	440
Sharing of facilities and administrative expenses	–	180
	<u>          </u>	<u>          </u>

**14 PUT OPTION AGREEMENT**

In connection with the Sale and Purchase of Shares Agreement (“the Agreement”), the Company has entered into the Put Option Agreement with KEHL on 7 December 2003 which was approved by the independent shareholders at the extraordinary meeting on 29 March 2004, whereby the Company is granted a Put Option under which the Company has the right, but not the obligation, to require KEHL to purchase the Company’s 100% equity interests in KE Capital (Hong Kong) Limited at a fixed consideration of HK\$9 million at any time during the period from the completion of the Agreement to twelve months thereafter.

**15 DISPOSAL AGREEMENT**

Pursuant to the Disposal Agreement dated 7 December 2003 and the supplemental agreement dated 3 March 2004, the Company disposed 100% of all its equity interests in Kim Eng Corporate Finance (Hong Kong) Limited. The Company retained its subsidiary, Hart industries (Far East) Limited, and its 25% equity interests in Eva Asset Management Limited.