

**If you are in any doubt** as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in Kim Eng Holdings (Hong Kong) Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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## **KIM ENG**

### **Kim Eng Holdings (Hong Kong) Limited**

*(Incorporated in Hong Kong with limited liability)*

**DISCLOSEABLE AND CONNECTED TRANSACTION  
INVOLVING  
PROPOSED DISPOSAL OF THE BROKERAGE GROUP  
NEW DEED OF NON-COMPETITION  
AND  
CONTINUING CONNECTED TRANSACTIONS**

**Independent financial adviser to the Independent Board Committee**

### **MANAGEMENT CAPITAL LIMITED**

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A letter from the Board is set out on pages 5 to 18 and a letter from the Independent Board Committee is set out on page 19 of this circular. A letter from Management Capital Limited containing their advice and recommendation to the Independent Board Committee is set out on pages 20 to 27 of this circular.

A notice convening an extraordinary general meeting of Kim Eng Holdings (Hong Kong) Limited to be held at 8th Floor, Alexandra House, 16-20 Chater Road, Central, Hong Kong at 4:30 p.m. on 15th April, 2002 is set out on pages 31 and 32 of this circular. A form of proxy for use at the meeting is enclosed. Whether or not you intend to attend the meeting, you are requested to complete the accompanying form of proxy and return it in accordance with the instructions printed thereon as soon as possible to Kim Eng Holdings (Hong Kong) Limited's share registrar, Central Registration Hong Kong Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong and in any event not less than 48 hours before the time appointed for the holding of the meeting or any adjourned meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjourned meeting should you so wish.

28th March, 2002

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## DEFINITIONS

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*In this circular, the following expressions have the meanings set out below unless the context requires otherwise:*

“Altus”	Altus Capital Limited, an investment adviser and a dealer registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong), the financial adviser to KE Investment in relation to the Offers
“Announcement”	the joint announcement dated 6th March, 2002 made by the Company and KE Investment in respect of, amongst other things, the Offers and the Disposal
“Associate”	have the same meaning as defined in the Listing Rules
“Board”	the board of Directors
“Brokerage Business Companies”	Kim Eng Securities (Hong Kong) Limited and Kim Eng Futures (Hong Kong) Limited, both of which are direct wholly-owned subsidiaries of the Company
“Brokerage Group”	the Brokerage Business Companies and Kim Eng Nominees (Hong Kong) Limited, a wholly-owned subsidiary of Kim Eng Securities (Hong Kong) Limited
“Business Day”	a day (other than a Saturday) on which banks are open for business in Hong Kong
“Company”	Kim Eng Holdings (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability, the securities of which are listed on the Stock Exchange
“Completion”	completion of the Disposal Agreement
“Continuing Connected Transactions”	the continuing connected transactions between the KE Singapore Group and the Group upon Completion, details of which are described in the section headed “Continuing Connected Transactions” in the letter from the Board in this circular
“Deed”	the deed of non-competition entered into between KES and the Company on 5th January, 1998
“Directors”	directors of the Company

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## DEFINITIONS

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“Disposal”	the disposal of the Brokerage Business Companies by the Company pursuant to the Disposal Agreement
“Disposal Agreement”	the conditional agreement dated 28th February, 2002 entered into between the Company and KE Investment, relating to the disposal of the entire issued share capital of each of the Brokerage Business Companies by the Company to KE Investment
“Disposed Businesses”	the brokerage of securities, futures and commodity contracts, share margin financing, financing on initial public offerings, underwriting and placement of securities, research, custody and nominee service businesses currently engaged by the Brokerage Business Companies in the People’s Republic of China (including Hong Kong), Korea, Taiwan and Japan
“EGM”	an extraordinary general meeting of the Company to be convened at 8th Floor, Alexandra House, 16-20 Chater Road, Central, Hong Kong on 15th April, 2002 at 4:30 p.m., notice of which is set out on pages 31 and 32 of this circular to consider the Disposal Agreement and the New Deed
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
“Futures Exchange”	Hong Kong Futures Exchange Limited
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	an independent board committee comprising the independent non-executive Directors formed to give advice in respect of the Disposal and the Offers
“Independent Shareholders”	Shareholders other than KES and its associates (as defined in the Listing Rules) and those who are involved in, or interested in, the Disposal Agreement
“Independent Third Parties”	parties not connected nor acting in concert with the directors, chief executives or substantial shareholders of the Company or any of its subsidiaries or an associate of any of them

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## DEFINITIONS

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“KE Investment”	Kim Eng Investment Limited, a company incorporated in Hong Kong with limited liability, a wholly-owned subsidiary of KES and the purchaser under the Disposal Agreement
“KE Singapore Group”	KES and its subsidiaries (excluding the Group)
“KES”	Kim Eng Ong Asia Holdings Ltd, a company incorporated in Singapore and listed on the main board of the SGX-ST and a substantial shareholder of the Company, holding approximately 54.86% of the issued Shares as at the Latest Practicable Date
“Latest Practicable Date”	22nd March, 2002, being the latest practicable date prior to the printing of this circular for ascertaining certain information referred to in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“MCL”	Management Capital Limited, an investment adviser registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong), the independent financial adviser to the Independent Board Committee
“Mr. Ooi”	Mr. Ooi Thean Yat, Ronald Anthony
“Mrs. Lee”	Ms. Lee Woo Sau Yin, Gloria
“New Deed”	the deed entered into between KES and the Company dated 28th February, 2002 setting out the non-competition arrangements between the Group and the KE Singapore Group upon Completion
“Offer Share(s)”	all the issued Share(s) (other than the Shares already owned by KE Investment or parties acting in concert with it)
“Offers”	the Share Offer and the Option Offer
“Option(s)”	the outstanding option(s) granted by the Company to certain executive Directors and employees of the Group to subscribe for Shares, pursuant to the share option scheme of the Company adopted on 29th December, 1997

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## DEFINITIONS

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“Option Offer”	the possible voluntary unconditional cash offer to be made by Altus, on behalf of KE Investment, to all the Optionholders to surrender their Options for cancellation at an amount equal to HK\$0.01 multiplied by the number of Shares which may be subscribed for under the Option
“Optionholder(s)”	holder(s) of the Option(s)
“Retained Businesses”	the corporate finance and corporate advisory businesses currently engaged by the Group
“SDI Ordinance”	Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong)
“SFC”	Securities and Futures Commission
“SGX-ST”	Singapore Exchange Securities Trading Limited
“Share(s)”	share(s) of HK\$0.20 each in the share capital of the Company
“Share Offer”	the possible voluntary unconditional cash offer to be made by Altus, on behalf of KE Investment, to acquire all the issued Shares not already owned by KE Investment or parties acting in concert with it at HK\$5.22 per Share
“Shareholder(s)”	holder(s) of Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“HK\$”	Hong Kong dollars
“%”	percentage

**KIM ENG**

**Kim Eng Holdings (Hong Kong) Limited**

*(Incorporated in Hong Kong with limited liability)*

*Directors:*

LEE Woo Sau Yin, Gloria (*Chairperson*)  
FOK Kwong Hang, Terry (*Managing Director*)  
CHAN Yick Hung (*Deputy Managing Director*)  
OOI Thean Yat, Ronald Anthony  
LAU Kin Yeung, Eddie  
Wong Chun Wai  
MAO Yau Fong, Henry\*  
CHIANG, Lily\*

*Registered office, head office  
and principal place of  
business in Hong Kong:*  
8th Floor  
Alexandra House  
16-20 Chater Road  
Central  
Hong Kong

*\* Independent non-executive Director*

28th March, 2002

*To the Shareholders*

Dear Sir or Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTION  
INVOLVING  
PROPOSED DISPOSAL OF THE BROKERAGE GROUP  
NEW DEED OF NON-COMPETITION  
AND  
CONTINUING CONNECTED TRANSACTIONS**

**INTRODUCTION**

On 6th March, 2002, the Company and KE Investment jointly announced that:

1. the Disposal Agreement was entered into between KE Investment and the Company, pursuant to which KE Investment agreed to acquire and the Company agreed to sell the entire issued share capital of each of the Brokerage Business Companies, at an aggregate cash consideration of HK\$159,473,220 subject to the satisfaction of certain conditions;
2. upon completion of the Disposal, the Group will no longer participate in the Disposed Businesses. The New Deed has been entered into to reflect the non-competition arrangements between the Group and the KE Singapore Group following completion of the Disposal. The New Deed is conditional upon the approval of the Independent Shareholders at the EGM of the Company and Completion;

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## LETTER FROM THE BOARD

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3. upon Completion, Altus will make the Offers, on behalf of KE Investment, to acquire all the Offer Shares at HK\$5.22 per Offer Share and all outstanding Options to subscribe for Shares in the Company at HK\$0.01 for each Share which may be subscribed for upon exercise of each Option; and
4. upon Completion, the KE Singapore Group will hold 100% interests in the Brokerage Business Companies and any transaction entered into between the Group and the Brokerage Business Companies will constitute connected transactions for the purpose of the Listing Rules. It is envisaged that the KE Singapore Group will enter into certain transactions with the Group which would constitute ongoing connected transactions for the Company under the Listing Rules. Details of these transactions are set out in the paragraph headed “Continuing Connected Transactions” on page 15 to this circular.

The New Deed is conditional upon the completion of the Disposal Agreement and approval of the Independent Shareholders at the EGM. Completion of the Disposal Agreement is also conditional upon, among other things, the approval of the Independent Shareholders at the EGM as the Disposal constitutes a discloseable and connected transaction for the Company under the Listing Rules.

The Independent Board Committee comprising of Mr. Mao Yau Fong, Henry and Dr. Chiang, Lily, being all the independent non-executive Directors, has been established for the purpose of advising the Independent Shareholders on the terms of the Disposal. Mrs. Lee is an executive Director and a director of KES, the holding company of the purchaser of the Brokerage Business Companies. Mr. Ooi is the son of Mrs. Lee. Mr. Fok Kwong Hang, Terry, Mr. Chan Yick Hung, Mr. Lau Kin Yeung, Eddie and Mr. Wong Chun Wai are salaried employees of the Group and executive Directors. In view of the respective interests of the said Directors in the proposed Disposal and/or the Company, none of them is considered to be independent for the purpose of giving recommendations to the Independent Shareholders regarding the Disposal. MCL has been appointed to advise the Independent Board Committee as to whether the terms of the Disposal are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Independent Shareholders as a whole.

The purpose of this circular is to give you further information on the Disposal Agreement, the New Deed and the Continuing Connected Transactions, to set out the recommendation made by the Independent Board Committee, to set out the letter of advice from MCL to the Independent Board Committee, and to give notice of the EGM to consider and, if thought fit, to approve the Disposal and the New Deed.

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## LETTER FROM THE BOARD

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In respect of the Offers, an offer document setting out, among other things, the terms of the Offers together with the acceptance and transfer form should be despatched to the Shareholders within 21 days from the date of the Announcement in accordance with Rule 8.2 of the Takeovers Code. An application has been made to the Executive and the Executive has consented under such rule, to the posting of the offer document to be extended to within seven days of the fulfillment of the conditions precedent to completion of the Disposal Agreement. The long stop date for satisfaction of such conditions is 31st May, 2002. Based on the long stop date of 31st May, 2002, the latest time for despatch of the offer document would be 7th June, 2002. In addition, under Rule 8.4 of Takeovers Code, an offeree document containing, among other things, the opinions of the Independent Board Committee and the advice from MCL in relation to the Offers must be sent to Shareholders within 14 days from the date of the offer document unless the Company obtains consent from KE Investment to extend the first closing date of the Offers and approval from the Executive in relation to the delay in despatch of the offeree document has been granted on the grounds that a composite offer document will be despatched to Shareholders. **You should exercise caution when buying or selling Shares prior to receipt of the offeree document and are strongly advised to wait for receipt of the offeree document and read the contents thereof before deciding whether or not to accept the Offers.**

### THE DISPOSAL AGREEMENT

#### Major Terms

Date	:	28th February, 2002
Vendor	:	The Company
Purchaser	:	KE Investment, a wholly-owned subsidiary of KES
Assets sold	:	The entire issued share capital of each of the Brokerage Business Companies, which will be acquired by KE Investment free from all rights of pre-emption, options, liens, claims, equities, charges, pledges, encumbrances or third-party rights of any nature together with all rights, benefits and entitlements attaching to them as at the date of the Disposal Agreement and thereafter, including the right to any dividends, rights or other distributions thereon.
Consideration	:	HK\$159,473,220
Payment	:	The Consideration will be paid in full in cash on Completion, which is expected to be on or before 5th June, 2002.
Conditions precedent	:	Completion is conditional upon the following:  (a) the approval by Independent Shareholders at a general meeting of the transactions contemplated under the Disposal Agreement in accordance with the Listing Rules and the Takeovers Code (if applicable); and

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## LETTER FROM THE BOARD

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- (b) the obtaining of all necessary approvals and consents required for the transactions contemplated under the Disposal Agreement including but not limited to:
  - (i) the approval of the SFC for the change in substantial shareholder of Kim Eng Securities (Hong Kong) Limited and Kim Eng Futures (Hong Kong) Limited under S26A of the Securities and Futures Commission Ordinance (Cap 24 of the Laws of Hong Kong);
  - (ii) the approval of the Stock Exchange for the change in substantial shareholder of Kim Eng Securities (Hong Kong) Limited under Rule 317 of the Rules of the Stock Exchange;
  - (iii) the approval of the Futures Exchange for the change in substantial shareholder of Kim Eng Futures (Hong Kong) Limited under Rule 507 of the Rules, Regulations and Procedures of the Futures Exchange;
  - (iv) the consent of certain financial institutions for the disposal of the entire issued share capital of each of the Brokerage Business Companies pursuant to comfort letters executed by the Company in favour of such financial institutions; and
  - (v) the approval of KES's shareholders for the acquisition by KE Investment of the entire issued share capital of each of the Brokerage Business Companies and the Offer Shares and Options or the grant of a waiver from SGX-ST in respect of the requirement for shareholders' approval pursuant to the provisions in the listing manual of SGX-ST (on terms and conditions acceptable to KES acting reasonably), such approval or waiver remaining in full force and effect and not being revoked and any conditions imposed by the SGX-ST in granting such waiver which are required to be fulfilled on or before Completion, having been fulfilled (or waived) to the satisfaction of the SGX-ST on or before such date;

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## LETTER FROM THE BOARD

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- (c) there not having been at any time after the date of the Disposal Agreement any material adverse change in the assets, performance, financial position or results of operations of each of the Brokerage Business Companies from that set forth in their respective unaudited accounts for the ten months ended 31st January, 2002; and
- (d) there not having been at any time prior to Completion (i) a suspension of the trading in the Shares on the Stock Exchange, save and except for any temporary suspension as a result of the SFC and/or the Stock Exchange approving this announcement; or (ii) any indication from the SFC or the Stock Exchange that the listing of the Shares on the Stock Exchange will or may be withdrawn or objected to or conditions will or may be attached thereto (including by reason of the Disposal as contemplated under the Disposal Agreement).

In the event of any of the conditions referred to above not having been fulfilled or waived on or before 5:00 p.m. on 31st May, 2002 (or such later date as the Company and KE Investment may agree in writing), then either of the parties to the Disposal Agreement may, by notice to the other party elect to terminate the Disposal Agreement. If either of the parties elects to rescind or terminate the Disposal Agreement, all rights and obligations of the parties shall cease to have effect immediately upon rescission or termination except that the termination shall not affect the then accrued rights and obligations of the parties.

Completion of the Disposal Agreement : Subject to the satisfaction or waiver (as the case may be) of the conditions referred to above, Completion shall take place on the third business day falling after the date on which all of the conditions mentioned above (save for the condition in subparagraph (d) above) shall have been satisfied or waived (or such later date as the parties to the Disposal Agreement may agree in writing).

### **Basis of consideration**

The consideration as set out in the Disposal Agreement was arrived at through arm's length negotiations between the Company and KE Investment with reference to the unaudited net tangible asset value of the Brokerage Group of approximately HK\$141,321,638 as shown in the unaudited management accounts of the Group as at 31st January, 2002.

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## LETTER FROM THE BOARD

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### INFORMATION ON THE BROKERAGE GROUP

The Brokerage Group is principally engaged in the Disposed Businesses.

As stated in the annual report of the Company for the year ended 31st March, 2001, the Group recorded a profit before taxation of approximately HK\$115.5 million and a profit attributable to Shareholders of approximately HK\$105.2 million respectively. During the same period, the Group recorded a one-off gain on disposal of investment securities of approximately HK\$39.5 million (which was due to the disposal of the Group's shares in Hong Kong Exchanges and Clearing Limited) and a write-back of specific doubtful debts provision of approximately HK\$4.4 million (collectively, the "Non-recurring Items").

Based on the audited accounts of the Group, the pro forma combined net profits before and after taxation and excluding extraordinary items attributable to the Brokerage Group were approximately HK\$74.4 million and HK\$67.7 million respectively for the year ended 31st March, 2000 and approximately HK\$52.1 million and HK\$43.4 million respectively for the year ended 31st March, 2001.

Based on the audited accounts of the Group, the pro forma profit before tax of the Group and profit attributable to Shareholders for the year ended 31st March, 2001 which were attributable to the Retained Businesses, after exclusion of the Non-recurring Items, would amount to approximately HK\$19.5 million and approximately HK\$17.9 million respectively.

The audited net tangible assets of the Group as at 31st March, 2001 was approximately HK\$338 million, whereas the unaudited net tangible assets of the Group as at 30th September, 2001 (as disclosed in the interim report) was approximately HK\$351 million, after deduction of the interim dividend of HK\$7.2 million. As the consideration for the Disposal Agreement will be entirely in cash, there will not be any material change to the net tangible assets of the Group upon Completion.

### REASON FOR THE DISPOSAL

The principal activities of the Company are investment holding and securities trading and investment. The principal activities of its subsidiaries are securities and futures broking, provision of margin financing, corporate advisory services, placing and underwriting, as well as nominee and custodian services in the People's Republic of China (including Hong Kong), Korea, Taiwan and Japan.

In September 2001, KES, via a wholly-owned subsidiary, made a voluntary conditional cash offer ("Ong Asia Offer") in Singapore for all the issued shares in Ong Asia Limited ("Ong Asia"), which was then listed on the main board of the SGX-ST. One of the wholly-owned subsidiaries of Ong Asia, namely Ong Asia Securities (HK) Limited ("OASHK"), is a dealer registered with the SFC and a corporate exchange participant of the Stock Exchange and carries on the business of securities brokerage and dealing in Hong Kong. OASHK became a subsidiary of KES on 3rd September, 2001 following the Ong Asia Offer becoming unconditional and KES was thus in breach of the Deed. Details of the Deed were disclosed in the Company's prospectus dated 6th January, 1998.

# LETTER FROM THE BOARD

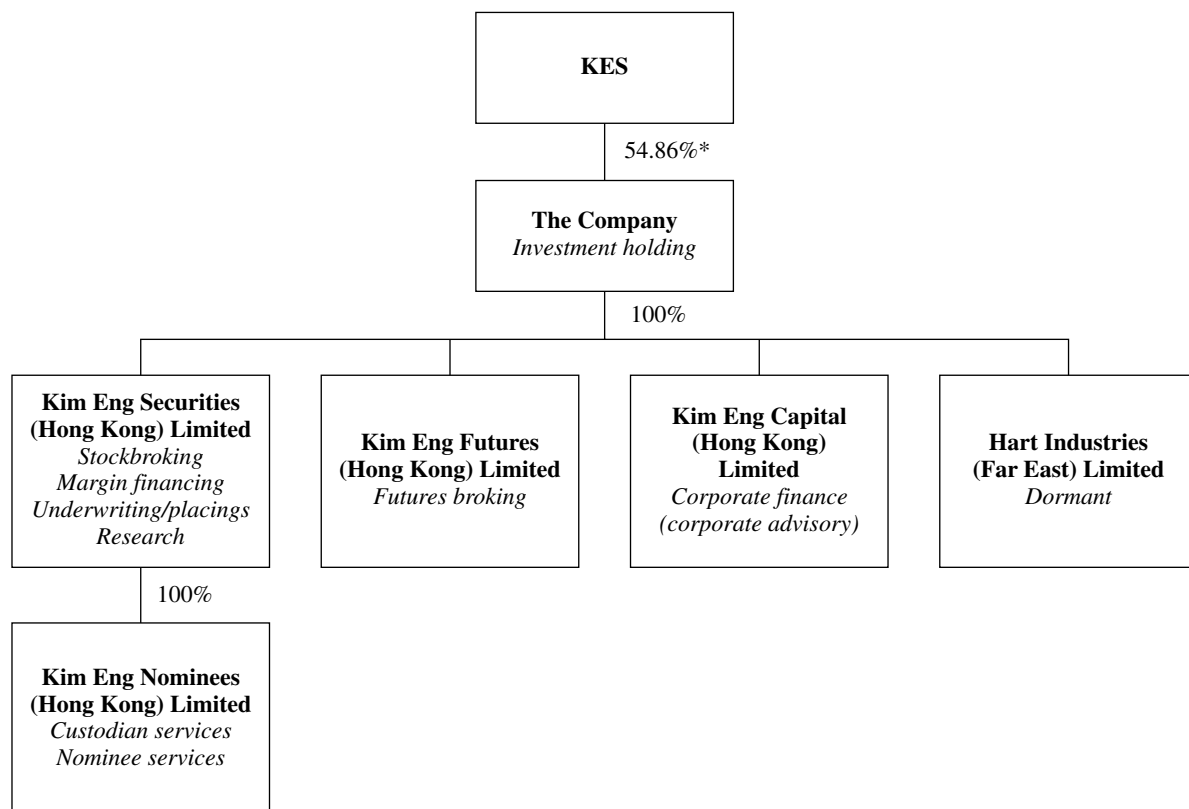
As stated in the Company's announcement dated 3rd September, 2001, the Company has agreed to provide to KES a grace period of six months after 3rd September, 2001 in respect of the breach of the Deed to allow the business of OASHK to continue to be carried on alongside the business of the Group in Hong Kong. After months of review and assessment by KES of the business of OASHK, KES and the Directors have come to the conclusion that the Disposal is the best solution to minimize the potential conflicts of interests between KES and the Group and to protect appropriately the interests of the Company and its minority Shareholders. Mrs. Lee and Mr. Ooi, who are Directors and also the directors of KES, did not participate in the deliberation and have abstained from voting at the board meeting(s) of the Company approving the Disposal Agreement.

## EFFECTS OF THE DISPOSAL

### 1. Shareholding and group structure immediately before and after the completion of the Disposal Agreement

The following charts summarise the shareholding and group structure of the Company immediately before and after Completion but before the making of the Offers:

*Before Completion*



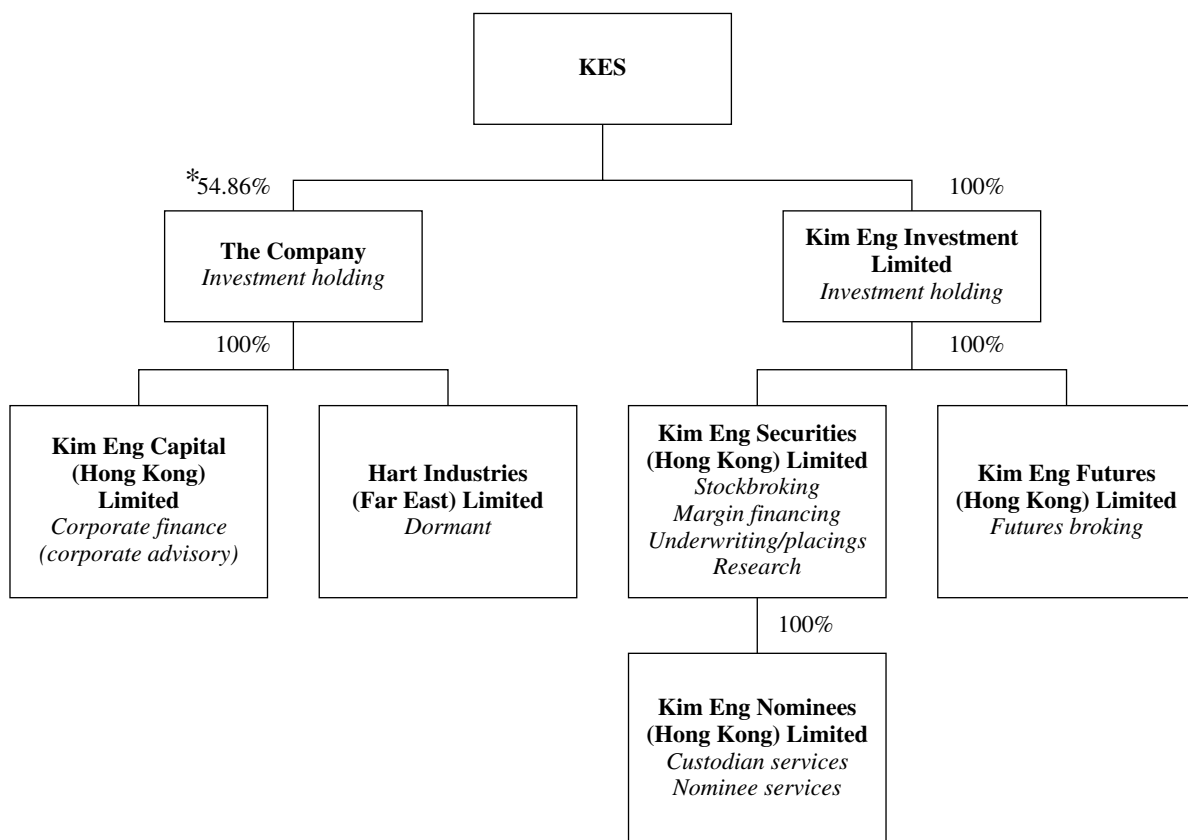
\* based on shareholding as at the Latest Practicable Date

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# LETTER FROM THE BOARD

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*After Completion*



\* based on shareholding as at the Latest Practicable Date

## 2. Business of the Group before and after the Disposal

As at the Latest Practicable Date, the principal activities of the Group are the brokerage of securities, futures and commodity contracts, share margin financing, financing on initial public offerings, underwriting and placement of securities, research, custody and nominee service businesses and corporate finance and corporate advisory businesses in the People's Republic of China (including Hong Kong), Korea, Taiwan and Japan. Upon Completion, the Group will continue to be engaged in corporate finance and corporate advisory businesses in the People's Republic of China (including Hong Kong), Korea, Taiwan and Japan.

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## LETTER FROM THE BOARD

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### 3. Pro forma unaudited adjusted consolidated net tangible asset value of the Group

The following statement of the pro forma unaudited adjusted consolidated net tangible asset value of the Group upon completion of the Disposal Agreement is prepared based on the audited consolidated net asset value of the Group as at 31st March, 2001:

	<i>HK\$'000</i>	<i>HK\$'000</i>
Audited consolidated net asset value of the Group as at 31st March, 2001		338,355
Net profit for the six months ended 30th September, 2001		22,523
Revaluation surplus on investment securities		1,079
Revaluation reserve realised upon disposal of investment securities		<u>(3,735)</u>
Unaudited consolidated net asset value of the Group as at 30th September, 2001		358,222
Consideration for the Disposal	159,473	
Pro forma unaudited combined net asset value of the Brokerage Business Companies as at 31st January, 2002	<u>(141,322)</u>	
Profit on the Disposal		18,151
Dividend paid to Shareholders		<u>(7,200)</u>
Pro forma unaudited adjusted consolidated net tangible asset value of the Group upon completion of the Disposal		<u>369,173</u>
Pro forma unaudited adjusted consolidated net tangible asset value per Share of the Group upon completion of the Disposal ( <i>Note 1</i> )		<u>HK\$5.13</u>

*Note:*

1. The calculation of pro forma unaudited adjusted consolidated net tangible asset value per Share is based on 72,000,000 Shares in issue as at the Latest Practicable Date.

### 4. Effect on the income statement of the Group

The Group will record a gain of approximately HK\$18.1 million in its financial statements provided that the combined net tangible asset value of the Brokerage Business Companies do not change substantially during the period from 1st February, 2002 to the date of Completion.

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## LETTER FROM THE BOARD

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### 5. Use of proceeds

The net proceeds from the Disposal, after deducting expenses, will amount to approximately HK\$155 million, and are intended to be used as general working capital. To the extent that the net proceeds of the transaction are not immediately used for the above purposes, they will be placed with banks and other financial institutions on term deposit. As at the Latest Practicable Date, the Group has not identified any particular projects to utilise the net proceeds.

### COMPLIANCE REQUIREMENTS

Pursuant to the Listing Rules, the Disposal constitutes a discloseable transaction of the Company. As KES is the controlling Shareholder of the Company and also holds the entire issued share capital of KE Investment, the Disposal also constitutes a connected transaction of the Company under the Listing Rules and is subject to, among other things, the approval of the Independent Shareholders at the EGM.

Under the Listing Rules, Independent Shareholders are required to be independently advised, and as such, a committee of the independent board of the Company has been formed for this purpose. MCL has been appointed to advise the Independent Board Committee in relation to the Disposal Agreement and the New Deed. KES and its associates and parties acting in concert with any of them will abstain from voting in respect of the Disposal at the EGM.

### THE NEW DEED OF NON-COMPETITION

The Group engages in business activities similar to the KE Singapore Group and in contemplation of the listing of the Shares on the Stock Exchange, the Company and KES entered into the Deed on 5th January, 1998 to reorganize their respective businesses and operations. It was provided under the Deed, among other things, that:

- (a) the KE Singapore Group will not directly or indirectly participate in any brokerage, share margin financing, financing on initial public offerings, corporate finance and related businesses (the “Business”) in the People’s Republic of China (including Hong Kong), Korea, Taiwan and Japan (the “Group Territories”) other than (i) the holding of securities in the Group; (ii) the conducting of Business in the Group Territories through the Group; and (iii) the advancing of funds from the KE Singapore Group to the Group on normal commercial terms; and
- (b) the Group will not directly or indirectly participate in the Business in Singapore, Malaysia, the Philippines, Indonesia, the United States of America and the United Kingdom (the “KES Territories”) other than the conducting of any Business in the KES Territories through the KE Singapore Group.

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## LETTER FROM THE BOARD

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As stated in the Company's announcement dated 3rd September, 2001, OASHK carries on the business of securities brokerage and dealing in Hong Kong. OASHK became a subsidiary of KES on 3rd September, 2001 and KES was thus in breach of the Deed. As explained in the above section headed "Reasons for the Disposal", KES and the Directors have come to the conclusion that the Disposal is the best solution to minimize the potential conflicts of interests between KES and the Group and to protect appropriately the interests of the Company and its minority Shareholders.

Upon Completion, the Group will no longer participate in the Disposed Businesses. The New Deed supersedes the Deed and sets out the updated non-competition arrangements between the Group and the KE Singapore Group following Completion.

Pursuant to the New Deed, KES covenants and undertakes to each member of the Group not to and to procure that none of the members of the KE Singapore Group will, within the Group Territories, directly or indirectly engage in, participate in or hold any right or interest in or otherwise be involved in (a) any business which the Group is engaged in from time to time in the Group Territories or (b) any business which directly competes with the business which the Group is engaged in from time to time in the Group Territories ("KEHK Business") other than (i) the holding of shares or other securities in any member of the Group; and (ii) the conducting of any KEHK Business in the Group Territories through the Group.

The New Deed is conditional upon the approval of the Independent Shareholders at the EGM and Completion.

### CONTINUING CONNECTED TRANSACTIONS

Upon Completion, the KE Singapore Group will hold 100% interests in the Brokerage Business Companies and any transaction entered into between the Group and the Brokerage Business Companies will constitute connected transactions for the purpose of the Listing Rules. It is envisaged that the KE Singapore Group will enter into certain transactions with the Group which would constitute ongoing connected transactions for the Company under the Listing Rules. Details of these transactions are as follows:

(a) **Sharing of office premises**

Currently, the office of the Group (including the Brokerage Business Companies) is located at Rooms 801-807 and 810, Alexandra House, 16-20 Chater Road, Central, Hong Kong, which were leased by Kim Eng Securities (Hong Kong) Limited from an independent third party for a term of three years expiring on 30th September, 2002. Upon Completion, the Brokerage Business Companies will continue to occupy Rooms 801-804 and 810 whereas the Group will continue to occupy Rooms 805-807 at Alexandra House. The Group will pay to Kim Eng Securities (Hong Kong) Limited an amount of rent based on the actual floor area occupied by the Group in those premises at a rate equivalent to the monthly rental payable by Kim Eng Securities (Hong Kong) Limited (including outgoings such as rates, management fees, air conditioning and other utilities charges) apportioned by reference to the actual floor area occupied by the Group. The terms of this arrangement have been arrived at after arm's length negotiations and are on normal commercial terms.

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## LETTER FROM THE BOARD

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### (b) **Sharing of facilities and administrative services**

At present, Kim Eng Securities (Hong Kong) Limited is responsible for paying all the operational and back office expenditures of the Group and provides management services and support staff to the Group. Upon Completion, the Group will continue to utilize certain administrative facilities and services, including but not limited to, accounting, personnel and general administration, computer facilities, use of furniture and fittings and office supplies (“Shared Facilities and Services”). The Group will pay to Kim Eng Securities (Hong Kong) Limited a monthly fee at a rate equivalent to the actual expenses incurred by Kim Eng Securities (Hong Kong) Limited for the Shared Facilities and Services apportioned by reference to the actual number of staff of the Group. The terms of this arrangement have been arrived at after arm’s length negotiations and are on normal commercial terms.

### (c) **Trades executed through the KE Singapore Group**

It is expected that after Completion, the Brokerage Business Companies will provide brokerage services to the Group for the Group’s investment and trading in securities and futures contracts. The KE Singapore Group will charge the Group commission and brokerage fees at rates prevailing in the respective markets from time to time. The rate of commission payable by the Group will be based on arm’s length negotiations and will not be less favourable than those available to independent third party clients of the Brokerage Business Companies.

It is envisaged that the aggregate value of the transactions as described in (a) and (b) above on an annual basis in each financial year, will be less than the higher of HK\$10,000,000 or 3% of the audited consolidated net tangible assets of the Company for the previous financial year from time to time. It is also envisaged that the total annual commission and fees payable by the Group to the KE Singapore Group as described in (c) above in each financial year, will be less than the higher of HK\$10,000,000 or 3% of the audited consolidated net tangible assets of the Company for the previous financial year from time to time. Under Rule 14.25(1) of the Listing Rules, these transactions will normally only be subject to disclosure requirements under Chapter 14 of the Listing Rules. As these transactions will be carried out on normal commercial terms and at arm’s length basis and in the ordinary and usual course of business of the Group, the Directors consider that it would be impractical to make disclosures of such transactions each time they arise. Accordingly, the Company will apply to the Stock Exchange for conditional waivers from strict compliance with the disclosure requirements of the Listing Rules in respect of the transactions described above, subject to the following conditions:

1. the Continuing Connected Transactions will be:
  - (a) entered into by the Group in the ordinary and usual course of business of the Company;

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## LETTER FROM THE BOARD

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- (b) 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 less favourable than those available to or from (as appropriate) independent third parties; and
  - (c) entered into on terms that are fair and reasonable in so far as the Shareholders are concerned;
2. the annual value of the transactions set out in paragraph (a) and (b) above in aggregate or the transaction set out in paragraph (c) above individually on an annual basis will not exceed the higher of HK\$10,000,000 or 3% of the audited consolidated net tangible assets value of the Group for the previous financial year from time to time;
  3. summary details of the Continuing Connected Transactions will be disclosed in the annual report of the Company for the next and each successive year in accordance with the requirements under rule 14.25(1)(A) to (D) of the Listing Rules;
  4. the independent non-executive Directors will review the Continuing Connected Transactions annually and confirm in the annual report of the Company of the relevant year that such transactions have been conducted in the manner as stated in paragraphs 1 and 2 above;
  5. the auditors of the Company shall review annually the Continuing Connected Transactions and will provide a letter to the Directors confirming that:
    - (a) the Continuing Connected Transactions have been approved by the Board of the Company;
    - (b) the Continuing Connected Transactions in relation to paragraph (a), (b) and (c) as stated above have been entered into in accordance with the pricing policies of the Company;
    - (c) has been entered into in accordance with the relevant agreement governing the transaction; and
    - (d) the values of the Continuing Connected Transactions have not exceeded the relevant caps as stipulated in 2 above.

In the event that, for whatever reason, the auditors of the Company decline to accept the engagement or are unable to provide the written confirmation as stated in paragraph 5 above, the Directors shall contact the Stock Exchange immediately.

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## LETTER FROM THE BOARD

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If the value of the transactions set out in paragraph (a) and (b) above in aggregate or the transaction set out in paragraph (c) above individually for any relevant financial year exceeds the higher of either HK\$10,000,000 or 3% of the audited consolidated net tangible asset of the Group or in the event that there are any material amendments to the terms of the Continuing Connected Transactions, the Stock Exchange has indicated that the applicable requirements relating to connected transactions under the Listing Rules in respect of such transactions should be fully complied with by the Company.

### EGM

Set out on pages 31 and 32 of this circular is a notice convening the EGM to be held at 8th Floor, Alexandra House, 16-20 Chater Road, Central, Hong Kong on 15th April, 2002 at 4:30 p.m. at which an ordinary resolution will be proposed and, if thought fit, to approve (a) the Disposal Agreement and the transactions contemplated thereunder; and (b) the New Deed.

A form of proxy for use at the EGM is enclosed. Whether or not you intend to attend such meeting, please complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for holding such meeting or any adjournment meeting (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting at the meeting or any adjourned meeting (as the case may be) should you so desire.

KES and its associates and parties acting in concert with any of them will abstain from voting in respect of the ordinary resolution relating to the approval of the Disposal Agreement and the New Deed to be proposed at the EGM in view of their interests in the Disposal Agreement and the New Deed.

### ADDITIONAL INFORMATION

Your attention is also drawn to the letter from the Independent Board Committee, the letter from MCL which sets out their advice to the Independent Board Committee, and other general information set out in appendix to this circular respectively.

Yours faithfully,  
For and on behalf of the Board of  
**Kim Eng Holdings (Hong Kong) Limited**  
**Fok Kwong Hang, Terry**  
*Managing Director*

**KIM ENG**

**Kim Eng Holdings (Hong Kong) Limited**

*(Incorporated in Hong Kong with limited liability)*

28th March, 2002

*To the Independent Shareholders*

Dear Sir or Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTION  
INVOLVING  
PROPOSED DISPOSAL OF THE BROKERAGE GROUP  
NEW DEED OF NON-COMPETITION**

We refer to the circular dated 28th March, 2002 issued by the Company (the “Circular”) of which this letter forms part. Terms defined in the Circular shall have the same meanings in this letter unless the context otherwise requires.

We have been appointed by the Board as the Independent Board Committee to consider the terms of the Disposal and the New Deed. MCL has been appointed by the Independent Board Committee as the independent financial adviser to advise us in this respect. Details of their recommendation and principal factors taken into consideration in arriving at their recommendation are set out in the letter of advice from MCL on pages 20 to 27 of the Circular.

Your attention is drawn to the letter from the Board as set out on pages 5 to 18 of the Circular and the additional information set out in the appendix to the Circular.

**RECOMMENDATION**

Having taken into account the terms of the Disposal and the New Deed and the advice from MCL, in particular, mainly based on their consideration on the price to-book ratio, we consider that the terms of the Disposal and the New Deed are fair and reasonable so far as the Independent Shareholders as a whole are concerned. Accordingly, we recommend the Independent Shareholders to vote at the EGM in favour of the ordinary resolution set out in the notice of the EGM included in the Circular to approve the Disposal and the New Deed.

Yours faithfully,

**Mao Yau Fong, Henry Chiang, Lily**  
*Independent Board Committee*

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# LETTER OF ADVICE FROM MANAGEMENT CAPITAL LIMITED

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*The following is the full text of the letter from MCL dated 28th March, 2002 setting out their advice to the Independent Board Committee:*

**MANAGEMENT CAPITAL LIMITED**

19th Floor, St. George's Building  
2 Ice House Street  
Central, Hong Kong

28th March, 2002

The Independent Board Committee  
Kim Eng Holdings (Hong Kong) Limited  
8th Floor, Alexandra House,  
16-20 Chater Road,  
Central,  
Hong Kong

Dear Sirs,

**DISCLOSEABLE AND CONNECTED TRANSACTION INVOLVING  
THE PROPOSED DISPOSAL OF THE BROKERAGE GROUP AND  
NEW DEED OF NON-COMPETITION**

We refer to our engagement as the independent financial adviser to the Independent Board Committee in respect of the discloseable and connected transaction (the "Disposal"), details of which are contained in the announcement dated 6th March, 2002 (the "Announcement") and the shareholders circular issued by Kim Eng Holdings (Hong Kong) Limited (the "Company") dated 28th March, 2002 (the "Circular"), of which this letter forms part. Management Capital Limited is independent from and not connected with any of the Company, Kim Eng Ong Asia Holdings Ltd. ("KES", which is a substantial shareholder of the Company holding approximately 54.86% of the issued Shares) and their respective associates or parties acting in concert with any of them and is accordingly considered suitable to give independent advice.

Expressions used in this letter have the same meanings as defined in the Letter from the Board unless the context otherwise requires.

The Board currently comprises Ms. Gloria Lee Woo Sau Yin ("Mrs. Lee" who is the Chairperson), Mr. Ronald Anthony Ooi Thean Yat ("Mr. Ooi"), Mr. Terry Fok Kwong Hang (Managing Director), Mr. Chan Yick Hung (Deputy Managing Director), Mr. Eddie Lau Kin Yeung, and Mr. Wong Chun Wai who are executive directors and, as independent non-executive directors, Mr. Henry Mao Yau Fong and Dr. Lily Chiang. Mrs. Lee and Mr. Ooi are also directors of KES and, therefore, did not participate in deliberations on this matter and have abstained from voting at the board meeting(s) of the Company approving the Disposal Agreement. The Independent Board Committee comprising Mr. Henry Mao Yau Fong and Dr. Lily Chiang has been established to consider the terms of the discloseable and connected transaction and the new deed of non-competition, and to advise

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## LETTER OF ADVICE FROM MANAGEMENT CAPITAL LIMITED

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Independent Shareholders thereon. We have been appointed by the Company to advise you as to whether the terms of the Disposal and the New Deed are fair and reasonable so far as the Independent Shareholders are concerned and to give our opinion for your consideration in making your recommendation to Independent Shareholders.

In formulating our recommendation, we have relied on the information and facts supplied, and the opinions expressed by the Company and its advisers. We have also sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and opinions expressed. We consider that we have been provided with sufficient information for us to reach an informed view, and have no reason to doubt the truth or accuracy of the information provided. We have assumed that all information and representations made or referred to in the Announcement and the Letter from the Board to be true. We have not however conducted an independent investigation into the financial position and affairs of the Group and KES Group.

### PRINCIPAL FACTORS CONSIDERED

In arriving at our opinion, we have considered the following principal factors and reasons:

#### THE DISPOSAL

##### (a) Background to and reasons for the Disposal

As noted in the letter from the Board, the principal activities of the Company are investment holding and securities trading and investment and its subsidiaries are engaged in securities and futures broking, provision of margin financing, corporate advisory services, placing and underwriting, as well as nominee and custodian services.

In September 2001, KES acquired Ong Asia Limited (“Ong Asia”), one of which subsidiaries i.e. Ong Asia Securities (HK) Limited (“OASHK”) is also engaged in securities brokerage and dealing in Hong Kong. This resulted in a breach of the Deed and, following months of review and assessment by KES of the business of OASHK, KES and the Directors (with the exception of Mrs. Lee and Mr. Ooi who did not participate nor vote at the Board meeting in view of their interests in KES) have resolved that the Disposal is the best solution to minimize the potential conflicts of interests between KES and the Group to protect the interests of the Company and its minority Shareholders.

Following the Disposal, the Group will no longer participate in the Disposed Businesses but will continue to carry on its fee-based corporate finance and corporate advisory activities and its investment and trading in securities activities. On 28th February, 2002, KES entered into the New Deed, which sets out updated non-competition arrangements between the Group and KE Singapore Group following Completion, in the People’s Republic of China (including Hong Kong), Korea, Taiwan and Japan.

On this basis, we accept that the Disposal provides a strategy to minimize the potential conflicts of interests between KES and the Group to protect the interests of the Company and its minority Shareholders.

### (b) Terms of the Disposal

Pursuant to the Disposal Agreement, the Company has agreed to sell to KE Investment, a wholly-owned subsidiary of KES, its entire interest in the Brokerage Business Companies free from all rights of pre-emption, options, liens, claims, equities, charges, pledges, encumbrances or third-party rights of any nature together with all rights, benefits and entitlements attaching to them as at the date of the Disposal Agreement and thereafter, including the right to any dividends, rights or other distributions thereon.

The consideration payable to the Company by KE Investment is HK\$159,473,220, which will be paid in full in cash on Completion, which is expected to take place on or before 5th June, 2002. We note that the consideration was arrived at through arm's length negotiations between the Company and KE Investment with reference to the unaudited net tangible asset value of the Brokerage Group of approximately HK\$141,321,638 as shown in the unaudited management accounts of the Group as at 31st January, 2002. Accordingly, the consideration represents a price to book ratio of 1.13 times (based on the agreed consideration of HK\$159,473,200 divided by the net book value of the Brokerage Group of HK\$141,321,638).

Based on the audited accounts of the Group, the proforma combined net profits before and after taxation and excluding extraordinary items attributable to the Brokerage Group were approximately HK\$52.1 million (2000: HK\$74.4 million) and HK\$43.4 million (2000: HK\$67.7 million) respectively for the year ended 31st March, 2001. Accordingly, the consideration represents a price earnings ratio of 3.67 times profits for the most recent year to 31st March, 2001. Based on the information given by the Company, the Disposed Businesses reported a proforma profit after taxation of HK\$12.5 million (including the one-off contribution from the disposal of its shares in Hong Kong Exchanges and Clearing Limited ("HKEx") of HK\$4.2 million) for the six months ended 30th September, 2001 (6 months to 30th September, 2000: HK\$65.3 million). On this basis, the exit price to earnings ratio for the Disposed Businesses based on current earnings is likely to be higher than the 3.67 times noted above.

We have reviewed the recent performance of the Group's securities and futures broking activities and note that gross brokerage and commission income declined (a) 30.1% in the latest year ended 31st March, 2001 to HK\$78.1 million (2000: HK\$111.7 million), and (b) 35% in the first half year to 30th September, 2001 to HK\$26.6 million (6 months ended 30th September, 2000: HK\$40.9 million), both attributed to the gloomy economic outlook and depressed stock market conditions. In the interim report for the six months to 30th September, 2001, the Group noted that income from securities and futures trading is *"heavily dependent on external factors including, particularly, the domestic and regional economic outlook, market sentiment and movements in interest rates. Hong Kong and other countries in the Asia-Pacific region are particularly exposed to the U.S. economic cycle. The bursting of the U.S. technology bubble and the slowdown in the U.S. economy has severely impacted the region, impeding activity in stock markets in the first half year. The 11 September attack tipped the U.S. economy into outright recession, hammering the region, with trading volume evaporating, investment flows drying up and investor sentiment shattered. As a result, the Group's operating performance is likely to remain depressed. Income is prone to further erosion in the second half year"*.

# LETTER OF ADVICE FROM MANAGEMENT CAPITAL LIMITED

## Comparables

We have compared the terms achieved for the Brokerage Group against the current market ratings of five listed companies in Hong Kong engaged in securities and futures broking, with most of their revenues generated from such activities and which were profitable in their latest respective financial years (i.e. Sun Hung Kai & Co Limited, Tai Fook Securities Group Limited, South China Brokerage Company Limited, Upbest Group Limited and Karl Thomson Holdings Limited). We have focused on Hong Kong comparables as about 84.1% of securities and futures broking revenue for the Brokerage Businesses in the year ended 31st March, 2001 (6 months ended 30th September, 2001: 91%) were generated in Hong Kong.

The following table sets out the price to book and the price to earnings ratios of the peer group:

Comparable Company	Price <sup>(1)</sup> (HK\$) (A)	Number of Shares Outstanding (million) (B)	Net Book Value <sup>(2)</sup> (HK\$ million) (C)	Basic EPS <sup>(3)</sup> (A) x (B) ÷ C	Price to Book Ratio	Price to Earnings Ratio
Sun Hung Kai & Co. Limited	1.20	1,504	4,438	0.10	0.41	12.0
Tai Fook Securities Group Limited	1.02	488	888	0.224	0.56	4.5
South China Brokerage Company Limited	0.095	4,865	475	0.005	0.97	19.0
Upbest Group Limited	1.63	280	172	0.231	2.65	7.1
Karl Thomson Holdings Limited	0.52	460	259	0.181	0.92	2.9

Consideration (HK\$ million) (D)	Total Book Value (HK\$ million) (E)	Profit after Taxation (HK\$ million) (F)	Price to Book Ratio (D) ÷ (E)	Price to Earnings Ratio (D) ÷ (F)	
Disposed Businesses	159.5	141.3	43.4	1.13	3.67

Source: Company reports and Bloomberg

### Notes:

- (1) Prices as of the Latest Practicable Date.
- (2) Net Book Value as disclosed in respective latest available unaudited interim results.
- (3) Earnings Per Share as disclosed in latest available audited annual results.

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## LETTER OF ADVICE FROM MANAGEMENT CAPITAL LIMITED

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The historical price to earnings ratios (“PER”) of this peer group ranges from 2.9 times to 19.0 times their respective latest historical reported earnings with an average PER of 6.5 times but with no discernible trend with regard to the respective PERs. If we exclude the highest and lowest price to earnings ratios in this sample, the average PER increases to 7.9 times. The earnings of peer group companies are however affected by a range of exceptional or one-off items such as profit on disposal of associated companies or subsidiaries, profit on disposal of investments, revaluation adjustments on investment properties, loss arising from default of loan agreement, permanent impairment in value of investments, and gains on holding of shares in HKEx. A number of brokerage companies are currently also loss-making. The broking industry is generally suffering from the global economic crisis, the after effects of the 11th September, 2001 attacks, increasing polarization with the dominance of larger firms contributed in part by the recent failure of a few brokerage houses, the possible issue by the Hong Kong Exchange of new trading rights upon expiration of the two year moratorium from the date of the merger of the Exchanges and the Clearing House on 6th March, 2000 and the potential deregulation of minimum commissions that has recently been delayed for at least a year. Given this outlook, we consider the comparison amongst the historical PERs of the Disposed Businesses and the peer group companies as a minor factor in arriving our recommendation and we provide these data for reference and completeness.

Looking at price to book ratios, the peer group has price to book ratios ranging from 0.41 times to 2.65 times and averaged 1.1 times. If we exclude the highest and lowest price to book ratios in this sample, the average price to book falls to 0.82 times.

It should be noted that both the above ratios (i.e. price to book and price to earnings ratios) are based on the market price of shares on the Stock Exchange and, as such, may not reflect any control premium which could be achieved on a change of control.

We have looked at four precedent transactions of securities broking firms locally in 2001 and 2002 i.e. the June 2001 acquisition by Wah Fu International Holdings Limited (since renamed Quam Limited (“Quam”)) of APC Capital Holdings, the June 2001 acquisition by Cash On-Line Limited of Celestial Asia Securities, the October 2001 acquisition by Quam of V Six Securities and the March 2002 acquisition by Kingly Profits Corp. of OSK Asia Corporation Limited which were transacted within a narrow range of price to book ratios of 1.15 times, 1.25 times, 1.1 times and 1.25 times respectively.

Based on the above, we conclude that the consideration for the Disposed Businesses, fixed at a price to book ratio of 1.13 times, is supportable.

### (c) **Effects of the Disposal**

#### *Earnings*

For the year ended 31st March, 2001, the Group reported an audited net profit before taxation of approximately HK\$115.5 million and an audited profit attributable to Shareholders of approximately HK\$105.2 million, lifted by a one-off gain on disposal of the Group’s shares in Hong Kong Exchanges and Clearing Limited of approximately HK\$39.5 million and the write-back of a specific doubtful debts provision of approximately HK\$4.4 million. These earnings may be attributed

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## LETTER OF ADVICE FROM MANAGEMENT CAPITAL LIMITED

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as to net profits before and after taxation and excluding extraordinary items of approximately HK\$52.1 million and HK\$43.4 million respectively to the Brokerage Group, and as to net profits before and after taxation and excluding extraordinary items of approximately HK\$19.5 million and HK\$17.5 million respectively to the Retained Businesses. Accordingly, the Disposal results in a significant contraction in the historic earnings base of the Group, before factoring in any returns that might be generated from the funds received therefrom.

As Completion is expected to take place on or before 5th June, 2002, the Disposal will not have any impact on the audited results for the year ending 31st March, 2002. Based on the unaudited management accounts as at 31st January, 2002, and assuming Completion had taken place on that date, a profit of approximately HK\$18.1 million would be crystallized as a result of the Disposal, being the difference between the net proceeds and the net book value of the Disposed Businesses of HK\$141,321,638 according to the unaudited management accounts as at 31st January, 2002. It should be noted that the actual quantum of the gain, which will decrease or increase with the attributable share of profits/losses accruing to the Group from 31st January, 2002 up to Completion, would only be ascertained at Completion.

### *Net asset value*

The pro-forma unaudited adjusted consolidated net tangible asset value of the Group, based on the audited consolidated net asset value of the Group as at 31st March, 2001, is set out in the Letter from the Board.

The effect of the Disposal on the consolidated net tangible asset value per share may be summarized as follows:

	<i>HK\$'M</i>	<b>Per share</b> <i>(HK\$)</i>
Unaudited consolidated net tangible asset value per share as at 30th September, 2001	358.2	4.975
Proforma unaudited adjusted consolidated net tangible asset value after Disposal	369.2	5.128

Based on the aforesaid, the Disposal will result in a modest increase in net tangible asset value per share.

### *Use of proceeds*

The Board has noted that the net proceeds from the Disposal, after deducting expenses, will amount to approximately HK\$155 million which it is intended will be used as general working capital or, if not used as working capital, will be placed with banks and other financial institutions on term deposit. Based on the unaudited management accounts as at 31st January, 2002, the Retained Businesses had cash on hand and at banks (the Group had no borrowings) of HK\$41.3 million. Accordingly, the Disposal will increase on a pro-forma basis its available cash resources to approximately HK\$196.3 million.

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## LETTER OF ADVICE FROM MANAGEMENT CAPITAL LIMITED

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### (d) Other considerations

Given the effects of the Disposal, the Board has noted that it is aware of the implications of Rule 14.35 of the Listing Rules regarding a company whose assets consist substantially of cash and thus ceases to trade, and paragraph 38 of the Listing Agreement in relation to the sufficiency of operations or tangible assets of sufficient value. In this regard, the Board has stated that the Group will (following completion of the Disposal) continue to carry on its fee-based corporate finance and corporate advisory activities and its investment and trading in securities activities. The Directors have suggested that, as the Group will require liquid cash for financing its business activities such as underwriting and its proprietary investment and trading in securities, both before and after the Disposal, it would not be unusual for the Group to maintain a high proportion of cash liquid assets. In addition, based on the Directors' assessment of the level of sufficiency of operations and tangible assets of the Retained Businesses, they are of the view that the Group will continue to comply with paragraph 38 of the Listing Agreement after the Disposal and that the Disposal will not result in the occurrence of the circumstances under Rule 14.35 of the Listing Rules. It is the Company's intention to remain suitable for listing.

### THE NEW DEED

As noted above, the terms of the Deed were breached by KES upon its acquisition of Ong Asia that resulted in KES directly competing with the Group through OASHK which is also engaged in securities brokerage and dealing in Hong Kong. To resolve these conflicts and the breach of the Deed, the Group has agreed to the Disposal and KES has agreed to execute the New Deed.

Under the New Deed which sets out revised non-compete arrangements between the Group and the KE Singapore Group following Completion, the KE Singapore Group undertakes not to directly or indirectly engage in, participate in or hold any right or interest in or otherwise be involved in (a) any business which the Group is engaged in from time to time in the Group Territories (as defined in the Letter from the Board) ("KEHK Businesses") or (b) any business which directly competes with the KEHK Businesses other than (i) the holding of shares or other securities in any member of the Group; and (ii) the conducting of any KEHK Businesses through the Group.

The New Deed is conditional upon (i) the approval of Independent Shareholders at the Extraordinary General Meeting, and (ii) Completion.

As the New Deed provides that the KE Singapore Group will not directly compete with the Group within the defined Group Territories, this limits potential conflicts of interests between KES and the Group and protects the interests of the Company and its minority Shareholders. On this basis, we consider the New Deed to be in the interest of the Group and minority Shareholders.

### OTHER CONSIDERATIONS

Subject to Completion, KE Investment will make an unconditional cash offer for all the issued Shares and outstanding Options to subscribe for Shares (other than those Shares already owned by KE Investment or parties acting in concert with it). We do not comment on the terms of the Offers in this letter as this will be the subject of a further letter of advice that will be sent to Shareholders and holders of Options after the fulfillment of the conditions precedent to the Offers.

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## LETTER OF ADVICE FROM MANAGEMENT CAPITAL LIMITED

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We note, however, that Shareholders who have invested in the Company on the basis that it was engaged in securities and futures broking services and who wish to reconsider their continuing investment in the Shares following the Disposal should take note that the Offers, if made, would provide a further avenue for them to divest of their interests in the Company.

### RECOMMENDATION

Having considered the above principal factors and reasons and, in particular, taking into account:

- the Directors having resolved that the Disposal is the best solution to minimize the potential conflicts of interests between KES and the Group which resulted in the breach of the Deed;
- the consideration for the Disposal represents a price to book ratio of 1.13 times which was arrived at through arm's length negotiations between the Company and KE Investment; and
- the New Deed provides that the KE Singapore Group will not directly compete with the Group within the defined Group Territories, which limits potential conflicts of interests between KES and the Group and protects the interests of the Company and its minority Shareholders;

we consider the Disposal and the New Deed to be fair and reasonable so far as the Independent Shareholders are concerned and advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the transactions at the EGM of the Company to be held on 15th April, 2002.

Yours faithfully,

For and on behalf of

**MANAGEMENT CAPITAL LIMITED**

**A.K.S. Li**  
*Director*

**David Yu**  
*Director*

**1. RESPONSIBILITY STATEMENT**

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company.

The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, their opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in the circular, the omission of which would make any statement in this circular misleading.

**2. DISCLOSURE OF INTERESTS**

As at the Latest Practicable Date, the interests of the Directors in the issued share capital of the Company and its associated corporations (within the meaning of the SDI Ordinance) which have to be notified to the Company and the Stock Exchange under Section 28 of the SDI Ordinance and including interests in which a Director has taken under Section 31 or Part I of the Schedule to the SDI Ordinance or required to be entered into the register under Section 29 of the SDI Ordinance or required pursuant to the Model Code for Securities Transaction by Directors of Listed Companies under the Listing Rules are as follow:

<b>The Company (Ordinary shares)</b>	<b>Number of shares held</b>	<b>Nature of interest</b>
Fok Kwong Hang, Terry	13,120,000	Personal
Chan Yick Hung	400,000	Personal
Lau Kin Yeung, Eddie	600,000	Personal
Wong Chun Wai	380,000	Personal
<b>KES (Ordinary shares)</b>		
Lee Woo Sau Yin, Gloria	45,941,770	Personal
Fok Kwong Hang, Terry	3,309,000	Personal
Ooi Thean Yat, Ronald Anthony	85,544,928	Personal
<b>The Company (Options with exercise price of HK\$8 per Share)</b>		
Chan Yick Hung	720,000 (Note 1)	Personal
Wong Chun Wai	720,000 (Note 2)	Personal

*Notes:*

1. These options are exercisable from 27th April, 1999 to 26th April, 2002.
2. These options are exercisable from 4th May, 1999 to 3rd May, 2002.

Save as disclosed above, as at the Latest Practicable Date, none of the Company's directors or any of their associates had or was deemed to have interests in the securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

### 3. SUBSTANTIAL SHAREHOLDER

As at the Latest Practicable Date, the only other party, other than the directors of the Company, directly or indirectly, interested in 10% or more of the issued share capital of the Company as recorded in the register required to be kept under section 16(1) of the SDI Ordinance was as follows:

Name	Number of shares
KES	39,500,000

Save as disclosed above, no person other than the directors of the Company has any interest in the share capital of the Company which is required to be recorded in the register kept under section 16 of the SDI Ordinance as at the Latest Practicable Date.

### 4. LITIGATION

Neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and there is no litigation or claim of material importance known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

### 5. SERVICE CONTRACTS

None of the Directors have any existing or proposed service contracts with the Company or any member of the Group (excluding contracts expiring or determinable by the Company within one year without payment of compensation other than statutory compensation).

### 6. MATERIAL CHANGE

The Directors are not aware of any material change in the financial and trading position or prospects of the Group since 31st March, 2001, the date to which its latest published audited accounts were made up.

### 7. QUALIFICATION OF EXPERTS

The following are the qualification of the professional adviser whose opinion or advice is contained in this circular:

Name	Qualification
MCL	an investment adviser registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong)

### 8. CONSENTS

MCL has given and has not withdrawn their written consent to the issue of this circular with the inclusion of their letter and/or report and/or references to their name, as the case may be, in the form and context in which they respectively appear.

**9. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection during normal business hours at the head office and principal place of business in Hong Kong of the Company at 8th Floor, Alexandra House, 16-20 Chater Road, Central, Hong Kong up to and including 11th April, 2002:

- (a) the Disposal Agreement;
- (b) the New Deed;
- (c) the letter from the Independent Board Committee dated 28th March, 2002, the text of which is set out on page 19 to this circular;
- (d) the letter of advice from MCL dated 28th March, 2002, the text of which is set out on pages 20 to 27 this circular; and
- (e) the written consents referred to in the section headed “Consents” in this appendix.

**10. MISCELLANEOUS**

- (a) The secretary of the Company is Mr. Hung Kam Wing, Timmy, who is an associate member of the Hong Kong Society of Accountants and a fellow member of the Association of Chartered Certified Accountants.
- (b) The registered office and its principal place of business is at 8th Floor, Alexandra House, 16-20 Chater Road, Central, Hong Kong.
- (c) The share registrar and transfer office of the Company is Central Registration Hong Kong Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Hong Kong.
- (d) The directors of KE Investment are Mr. Ooi, Mrs. Lee and Ms. Gee Gek Leng.
- (e) Save as the Disposal, as at the Latest Practicable Date, none of the Directors nor the expert whose name is listed in the section headed “Qualification of Experts” in this appendix had any direct or indirect material interest in any assets acquired or disposed of by or leased to or by or proposed to be acquired or disposed of by or leased to or by any member of the Group since 31st March, 2001, being the date to which the latest published audited accounts of the Company were made up.
- (f) As at the Latest Practicable Date, none of the Directors was materially interested in any contracts or arrangements which were subsisting at the Latest Practicable Date and were significant in relation to the business of the Group.
- (g) The English language text of this circular shall prevail over the Chinese language text.

**KIM ENG**

**Kim Eng Holdings (Hong Kong) Limited**

*(Incorporated in Hong Kong with limited liability)*

**NOTICE IS HEREBY GIVEN THAT** an extraordinary general meeting of Kim Eng Holdings (Hong Kong) Limited (the “Company”) will be held at 8th Floor, Alexandra House, 16-20 Chater Road, Central, Hong Kong on 15th April, 2002 at 4:30 p.m. for the purpose of considering and, if thought fit, passing the following resolutions:

**ORDINARY RESOLUTION**

1. **“THAT:**

- (a) the conditional agreement (the “Agreement”) dated 28th February, 2002 between Kim Eng Holdings (Hong Kong) Limited (the “Company”) and Kim Eng Investment Limited (the “Purchaser”), pursuant to which, inter alia, the Company agreed to sell and the Purchaser agreed to purchase the entire issued share capital of Kim Eng Securities (Hong Kong) Limited and Kim Eng Futures (Hong Kong) Limited for an aggregate consideration of HK\$159,473,220 (a copy of the Agreement has been produced to the meeting marked “A” and initialled by the Chairman of the Meeting (“Chairman”) for the purpose of identification) and the execution of the Agreement by the directors of the Company (“Directors”) on behalf of the Company be and is hereby confirmed, approved and ratified;
- (b) the conditional deed of non-competition (the “Deed”) dated 28th February, 2002 executed by Kim Eng Ong Asia Holdings Ltd (the “Covenantor”) in favour of the Company and its subsidiaries setting out non-competition arrangements between the Company and its subsidiaries and Covenantor and its subsidiaries upon completion of the Agreement (a copy of the Deed has been produced to the meeting marked “B” and initialled by the Chairman for the purpose of identification) and the affixing of the common seal of the Company on the Deed by the Directors the execution of the Deed by the Directors on behalf of the Company be and is hereby confirmed, approved and ratified; and
- (c) the Directors be and are hereby authorised to take such steps and/or execute such documents as they shall in their absolute discretion consider necessary, desirable or expedient to implement the Agreement and Deed and all other transactions contemplated thereunder.”

By Order of the Board  
**Hung Kam Wing, Timmy**  
*Company Secretary*

Hong Kong, 28th March, 2002

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## NOTICE OF EGM

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*Registered Office:*

8th Floor, Alexandra House  
16-20 Chater Road  
Central  
Hong Kong.

**Notes:**

1. Any member entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person as his proxy to attend and vote instead of him. On a poll, votes may be given either personally or by proxy. A proxy need not be a member of the Company. A member may appoint more than one proxy to attend on the same occasion.
2. The instrument appointing a proxy shall be in writing under the hand of the appointer or of his attorney duly authorised in writing, or if the appointer is a corporation either under seal or under the hand of an officer or attorney duly authorised.
3. The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority shall be deposited at Central Registration Hong Kong Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not less than 48 hours before the time for holding the meeting or adjourned meeting or poll as the case may be at which the person named in such instrument proposes to vote, and in default the instrument of proxy shall not be treated as valid.
4. Where there are joint registered holders of any share, any one of such persons may vote at any meeting either personally or by proxy in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at any meeting personally or by proxy, then any one of the said persons so present whose name stands first on the register in respect of such share shall alone be entitled to vote in respect thereof.