



*Kingsway*Group

SW Kingsway Capital Holdings Limited

Incorporated in Bermuda with limited liability

Stock Code: 188

Moving Ahead

Driving Results

07
Annual Report

Well-anchored Service Platform

We focus on where we excel. Our objective is to become the best local investment bank in Hong Kong, creating value for local and international clients with passion and integrity.

CLIENT SERVICES					PROPRIETARY
INVESTMENT BANKING		BROKERAGE		ASSET MANAGEMENT	PROPRIETARY INVESTMENTS
Financial Advisory	Merger and Acquisition	Equities Trading	Electronic Trading	Direct Investment Vehicles	Securities Investment
IPO Sponsor	Corporate Restructuring	Futures & Commodities Trading	Research	Discretionary Portfolio Management	Pre-IPO Investments
Equity Capital Markets		Margin Financing	Insurance Brokerage		China Properties

With over 15 years in the capital markets, Kingsway has expanded its reach into global securities markets including Hong Kong, China, North America, Europe and the rest of Asia. We have an extensive network of institutional investors and a successful track record of delivering a right mix of financial services to our clients globally.

Kingsway is committed to the core values of integrity, teamwork, respect, responsibility and the pursuit of excellence.

We believe that successful companies are built on these core values, the same ones that align and guide our thinking and actions in every area of our business. Our established core values have served our Group well and will continue to guide our growth into the future.

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Chief Executive's Statement





Dear Friends and Shareholders,

On behalf of the Board of Directors, I am delighted to present the annual report for the financial year ended June 2007 of SW Kingsway Capital Holdings Limited.

The Financial Year under review was a year of record results and tremendous progress for Kingsway. Turnover increased 1.7 times to a record HK\$412 million, profit attributable to shareholders and our EPS soared 9 fold to a record of HK\$208 million and HK6.40 cents, respectively.

The Financial Year has also been a successful period of transformation. During the year we made a strategic decision to sell our unit trust and MPF business to the Taifook Securities Group. By selling that business, we were able to refocus our attention on the opportunities presented by the buoyant Hong Kong financial market, which saw the Hang Seng Index close at a record high by the end of June 2007. Those opportunities included increased investment banking transactions and proprietary trading. Our investment in securities and merchant banking divisions contributed HK\$278 million to the Group, a 6.5 times increase over last year. We are continually reevaluating the composition of our investment portfolio to balance risks and rewards.

In view of the Group's strong financial performance, the Board has proposed a final dividend of HK0.7 cent per Share (2006: HK0.67 cent). Together with the interim dividend paid, total dividend per Share for the year under review amounted to HK1.03 cents (2006: HK1 cent), representing a payout of approximately 16% of profit attributable to shareholders for the year. The Board has balanced the needs for capital to fuel the growth of the Company and provision of satisfactory returns to the shareholders. It believes the steady dividend pay out during the last few years is suitable for the Company.

Although we are pleased with these results, we are always looking for ways to improve our performance and our position in the marketplace. I would like to share with you some of our efforts this past year to enhance profitability and strengthen our prospects for the future.

Brokerage remained a cornerstone of Kingsway's business in 2006/07, providing HK\$81.5 million of revenue for the year under review, a 26% increase over last year. Our focus on customer relationships and services allowed us to maintain our results in the face of reduced spreads and commission rates. During the year, we continue to

offer brokerage services outside Hong Kong to serve the needs of our diverse client segments from institutions and retail clients in Singapore, United Kingdom, US, Continental Europe, Japan and Greater China. During the year under review, we have maintained a balanced mix of client base with over two-third of our brokerage business from institutional clients, while commission income from foreign accounts accounted for a major part. Our brokerage team was ranked second in the best local brokerage houses in the 2006 Asiamoney Brokers Poll for two consecutive years.

We have already undertaken significant steps to build our institutional business, which is a key growth opportunity. We are expanding our product offerings and adding other brokering capabilities and investment products to further improve the breadth of services we offer. A recent example of these new initiatives is our investment in developing the infrastructure to offer gold bullion and stock options trading.

Investment banking proved to be another important driver for our growth, with underwriting, private placements and advisory services contributing HK\$46.4 million to the Group's turnover. This team took full advantage of an attractive market environment in 2006/07 to deliver a strong finish to the year. We acted as advisor on numerous transactions involving financial services to mid-cap firms, provided equity financings and served as advisor on corporate restructuring. During the year under review, we completed over 30 transactions. Equity offerings were an important part of investment banking service. One of our more prominent lead-managed equity offerings included the HK\$662 million initial public offering for Tianneng Power International Ltd. Our goal, which we believe we are well on the track to achieving, is to be recognised as the premier financial advisory services provider for growing mid-cap companies in Hong Kong and China.

Geographically, we see huge potential in the Asia Pacific markets. The high projected GDP growth rates of the region offer significant opportunities for expansion, particularly in the Greater China region. We plan to capitalise on this potential by marshaling our current strengths, improving cooperation across divisions and adding resources to these areas. For example, we plan to enhance our presence in both China and Singapore by establishing local institutional sales and research teams.

Residence 66, the blue chip residential property in Beijing jointly owned by the Group and the Marubeni Corporation, is now being marketed to the expatriate communities at Beijing. As China's economic growth will be further guaranteed by the numerous commercial activities and influx of foreign investment, the property sector for the next few years will likely be booming. Coupled with encouraging factors such as Beijing's hosting of the 2008 Olympic Games, we should benefit from the strong property demands in Beijing.

At Kingsway, we believe being good corporate citizens is an extension of our core values of integrity, respect, and responsibility. To bring those values to life we focus our efforts on being a good neighbour in our communities and providing a great place to work for our employees. I am proud of our social achievements during the year and look forward to continued progress in the year ahead.

As we look forward to the end of 2007 and beyond, prospects for the global economy remain steady and China's rapid development will continue to drive worldwide economic growth. While the pace of growth in the United States is forecast to slow down, reductions of interest rates will be more likely. Strong corporate earnings in the PRC are expected to continue in the year to come. We see opportunities to further increase our market share in our existing areas of focus.

We want to build the best local investment bank to serve the needs of growing and mid-cap companies and their investors. Looking ahead, we will continue to expand both our investment banking and brokerage businesses across Greater China, Asia Pacific region as well as in Europe and America. We will also be working to deepen the synergies among our services in order to maximise the results of our full-service platform.

I would like to take this opportunity to express my sincere gratitude to our Board members and management team, and to all our talented employees, business partners and shareholders, for their support and contributions to the Group. I look forward to the challenges and rewards we will share.

Wu Wai Leung William
Chief Executive Officer

Management Discussion and Analysis

The Market

The Hong Kong market benefited from ample liquidity and favourable policy initiatives introduced by the People's Republic of China ("PRC") government. The PRC securities market was one of the best performing markets during the fiscal year ended 30 June 2007 (the "Period"). Although new listings of major PRC state owned companies slowed down towards the end of the Period, the announcement of the Qualified Domestic Institutional Investors ("QDII") arrangements provided a big boost for the market. The Hang Seng Index as well as market turnover continued to rise to new heights during 2007.

The Hang Seng Index closed at 21,773 at end of June 2007, compared with 16,268 at the end of June 2006 and 19,965 at the end of December 2006. 2006 was a record year for the Hong Kong stock market. The amount of funds raised from Initial Public Offerings ("IPOs") and market turnover reached record highs. The bull run continued into 2007. The average monthly turnover on the Main Board during the six months ended June 2007 was approximately HK\$1,183 billion, which was 60% higher than the previous six months ended December 2006. Funds raised from IPOs on the Main Board in the first half of 2007 amounted to HK\$98 billion. The market was excited by the QDII arrangements announced by the PRC government, since the Hong Kong market is the only approved foreign market currently available to PRC investors.

The market experienced much higher volatility in July and August 2007. Increased concerns on the US subprime markets and the liquidity squeeze that followed affected the global market. The unwinding of the Japanese Yen carry trade also contributed to the increased volatility.

Major central banks reacted by injecting liquid funds into the financial system. The underlying economies remain fundamentally sound. The Hong Kong market recovered quickly due to policy incentives from the PRC government, such as the new rules allowing individual investors to invest in Hong Kong listed shares. The market is likely to remain volatile in the coming months until the full impact of the US subprime crisis is clear.

Business Activities

FINANCIAL HIGHLIGHTS

The profit for the Period was HK\$236 million, as compared to HK\$32 million for the same period last year. Profit attributable to shareholders for the Period was HK\$208 million, as compared to HK\$19 million for the same period last year.

Net gain on the disposal of financial assets and the remeasurement to fair value increased from HK\$38 million in the last fiscal year to HK\$285 million for this fiscal year. Commission and fee income from the Client Services Group increased from HK\$90 million to HK\$95 million. The effect of the reduction in brokerage turnover and income from our clients following the reduction of trading spreads in July 2006 was overshadowed by the bull market extending into 2007. Income from corporate finance increased following the successful listing of a company sponsored by Kingsway before the end of our financial year. Interest income and related finance costs increased as a result of a very active IPO financing market combined with higher interest rates compared with the same period of the last fiscal year.

The increase in general and administrative costs was mainly due to higher discretionary staff costs in line with good performance, as well as higher office rental costs following the lease renewal in 2006. This increase was partly offset by lower non-recurring legal costs in relation to the mortgage arrangement for the investment properties last year, and the recovery of doubtful debts provided for last year.

Last year, the revaluation of the investment properties held in Beijing resulted in a HK\$48 million gain, with a corresponding deferred tax provision of approximately HK\$4 million. Because of the macro-economic austerity measures introduced in July 2006, only a small valuation gain was noted when comparing the valuation at disposal with the end of June position, and the gain was mainly due to the appreciation of the RMB.

As announced in September 2006, half of the beneficial interest in the properties was sold to the Marubeni Corporation. The transaction was completed in October and there was a gain of approximately HK\$2 million on the disposal of subsidiaries. In addition, a gain of approximately HK\$9 million was realised following the completion of the disposal of the Fund Management operations at the end of March 2007. The tax provision increased from HK\$2 million to HK\$29 million and resulted in a higher effective tax rate. This trend will continue since many operating companies have fully utilised any relevant tax losses brought forward.

BROKERAGE

Total revenue of the division was HK\$81.5 million for the fiscal year, representing a 26% increase over the same period last year.

During the first few months of the fiscal year, the performance of the division was negatively affected by narrowed trading spreads in July 2006. However, with the large number of IPOs and the resultant increase in market activities, commission and interest income picked up in the later part of the financial year. The division is keen to diversify its product portfolio and will offer gold bullion and stock options trading when they have completed the set up of necessary infrastructure and related tests. The industry faces strong competition from banks and the Group will keep improving its service standards in order to maintain its competitive edge.

Kingsway was again ranked second in the category of “Best Broker in Hong Kong” by the Asiamoney Brokers Poll announced in November 2006.

INVESTMENT BANKING

Total revenue of the division was HK\$46.4 million for the fiscal year, representing a 12% increase over the same period last year.

With the completion of an IPO in the last fiscal quarter, the division was able to produce strong results for the year. The division also identified a number of key investment opportunities for the Group which led to higher inter-segment revenues. The divisions now have better coordination, and this synergy will contribute to better performance in the future. The IPO market is still very competitive, and the Group will look for opportunities in secondary placement and corporate advisory projects to stabilise the revenue stream.

ASSET MANAGEMENT

In January 2007 the Group announced the sale of its unit trusts and MPF business to the Taifook Securities Group. The transaction was completed at the end of March 2007. The related results are separately disclosed as discontinued operations in accordance with generally accepted accounting principles.

The relatively small scale of our public fund management operations made it difficult to compete with other large mutual funds companies or MPF service providers in the market. The division had achieved significant results in producing good returns for investors and providing excellent services to our clients. However, the Group evaluated the costs and benefits of continuing to run the business, as well as the need to allocate management resources to activities to maintain a competitive edge, and made a strategic decision to sell the public funds business.

After the disposal of the public funds business, the Group re-organised its structure and re-named the Private Equity division the Asset Management division. Any future asset management business for private clients will also be managed by this division.

The division contributed revenues of HK\$29.0 million, representing a 95% increase over the same period last year.

Sinochem Kingsway Capital Inc., a private equity fund co-sponsored with Sinochem Group, is looking for suitable investment opportunities. Kingsway SBF Investment, another private equity fund co-sponsored with Softbank AM Corporation, is now fully invested. The investment performance of this fund was very good and contributed to

higher management and performance fees for the division. Further fund raising will be arranged if there are new investment opportunities.

Following the July 2006 announcement of the new measures to slow down foreign investments in PRC properties, the Group has evaluated the latest market dynamics and decided to focus on the development of the investment properties in Beijing jointly owned by the Marubeni Corporation. The Real Estate Services Department may expand again in the future if there are suitable opportunities.

INVESTMENT IN SECURITIES AND MERCHANT BANKING

These divisions contributed HK\$277.9 million in revenue, which represented an approximate 5.5 times increase over the same period last year.

The Group benefited from the bull run in the Hong Kong market. A number of strategic investments performed very well during the period. In view of the recent increased volatility, the investment managers are reviewing the composition of our investment portfolio to balance the risks and returns.

The investment properties held by the jointly controlled entities have been renovated, and are now being marketed to the expatriate communities in Beijing. The Group expects an increase in occupancy after more publicity events are held.

Changes in Board Composition

In October 2006, the Company sadly announced the passing of Dr Raymond Wu, an Independent Non-Executive Director.

In November 2006, the company announced the resignation of Ms Rebecca Lau as the Deputy Chief Executive Officer. Ms Lau was re-designated from an Executive Director to a Non-Executive Director effective from December 2006.

In January 2007, the Company announced that Mr Michael Wu, a Non-Executive Director, was re-designated as an Independent Non-Executive Director. The Company also announced and welcomed Dr Lee G. Lam to the Board as a Non-Executive Director with effect from February 2007.

Liquidity and Financial Resources

Total assets as at end of June 2007 were HK\$2,071 million, of which approximately 90% was current in nature. Net current assets were HK\$699 million and accounted for approximately 78% of the net assets of the Group as at the end of June 2007.

The Group generally finances its operations from internal resources. Total borrowings of approximately HK\$800 million at the end of June 2007 comprised of the following:

- approximately HK\$6 million in mortgage loans secured by the Company's office premises in Beijing and Shenzhen;
- approximately HK\$2 million in finance lease obligations for office equipments;
- approximately HK\$792 million in short-term loans mainly utilised for re-financing customers' IPO subscriptions.

All short-term bank loans were repaid shortly after year end. They were mainly denominated in Hong Kong dollars or United States dollars to match the cash flows of our business operations. At the year end, the Group's gearing ratio, calculated as a percentage of bank borrowings over the shareholders' funds was approximately 99%.

The Group's properties with a carrying value of HK\$15.8 million were pledged as security against bank loans granted to the Group.

Foreign Exchange Exposure

The Group's assets are mainly in Hong Kong and the PRC and most of the monetary assets and liabilities of the Group are denominated in Hong Kong dollars. Financial assets denominated in foreign currencies, including equity and debt investments, are monitored on a daily basis together with the changes in market value of these investments as part of our investment monitoring process. Hedging instruments may be used as part of the overall investment strategy if deemed necessary by the investment managers. The Group has purchased properties in the PRC for its own use and holds properties in the PRC through jointly controlled entities for investment purposes. These assets are financed by internal resources and loans denominated in either Hong Kong dollars or US dollars. In view of the gradual and steady appreciation in the exchange rate of RMB against Hong Kong and US dollars, the Group considers that there is no need to hedge these assets denominated in RMB. Management will monitor the situation closely and introduce suitable hedging measures if there are any adverse changes. The Group does not have other material exposure to fluctuation in exchange rates and does not use any hedging instruments.

Employment, Training and Development Policies

Following the completion of the disposal of the Fund Management operations at the end of March 2007, there was a decrease in staff numbers. The number of full time employees decreased from 153 last year to 129 at the end of this financial year.

Remuneration and bonuses are based on performance and are reviewed annually in conjunction with the annual employee performance appraisal, along with the results of the division to which the employee belongs and the Group as a whole.

The Group provides a full induction program and in-house training courses to all staff – particularly professionals registered with relevant regulatory bodies who must meet their mandatory training requirements.

The Group also operates an employee share option scheme. The scheme is available to all full time employees of the Group. Details of the scheme are set out in the section “Share options” of the Report of the Directors.

Corporate Governance

The Group is committed to conducting our business ethically and in a way that is transparent, accountable to shareholders and the community, and under the governance of an effective board.

As a listed company mainly engaged in regulated businesses, we believe our corporate governance practices are appropriately rigorous and of high standard. The Group reviews its practices on a regular basis to ensure that any new developments in best practices are reviewed and considered by the Group.

As in previous years, a separate and detailed statement on our corporate governance practices is included under the heading “Corporate Governance Report”.

Community

In line with our philosophy of being a responsible corporate citizen, the Group has contributed HK\$1.4 million to charitable organisations during the financial year. Please refer to our Social Responsibility Report for further details.

Social Responsibility Report



☐ Kingsway Charity Smiles Dress Rainbow Day was held on 29 September 2006



☐ Our volunteer team at 30 Hour Famine

Kingsway is committed to conducting its business in an ethical, socially responsible and environmentally sustainable manner and we are a strong believer in good practices of social responsibility. Throughout the years, the Group has demonstrated its commitment through the involvement in various environmental and social activities.

During the year under review, we continued to strengthen our links with various community groups, and increased the portfolio of charity events that we support. These projects were supported with a mix of financial support and employee involvement, both inside and outside of office hours. These projects are good for the community and our people, who gain valuable experience.

We maintain a close association with major sponsorship projects to ensure they gain maximum long-term benefit from our assistance. During the year, we raised over HK\$1.4 million. Our charitable efforts support charities working primarily in three areas: education, hunger relief and environmental protection.

Encourage Participation of Staff

Apart from donations, Kingsway also sees the importance of employee participation. We want to secure the commitment of our staff, giving them the opportunity to get involved in voluntary work that can develop their skills and contribute to our long-term business development. As part of our emphasis on giving through service, we encourage staff to help those in need. Thus, the Group established a corporate volunteer team in 2006.

The Kingsway Caring Team, chaired by a senior executive, meets regularly during the year to review and administer our charitable activities and to encourage participation of volunteer work by our staff.

During the year, our Caring Team gave over 100 hours of their time to participate in a wide spectrum of voluntary projects. Staff are encouraged to bring their family and friends to lend a hand with our community work, which helps spread the volunteer spirit even wider.



Kingsway comes 2nd amongst the 80 organisations in Hong Kong that participated in the “Skip-A-Meal” donation exercise held in April 2007

“Skip-A-Meal”

In conjunction with World Vision Hong Kong, a Christian relief organisation whose goal is to tackle poverty worldwide, Kingsway once again organised the “Skip-A-Meal” program to help fight hunger and poverty. The Group and our staff raised a total of HK\$30,000 and was ranked the Top 2 corporate donor amongst the 80 organisations in Hong Kong that participated in this donation exercise.

2006 Matilda Sedan Chair Race

Since 1975, The Matilda Bazaar and Sedan Chair Race is held annually to help raise money for local charities, the race and bazaar have helped to raise over HK\$30 million in the past 30 years. The Kingsway team, composed of eight bearers and a cheerleader, all dressed up in brightly-coloured fancy costumes for a 2.1Km race around the Victoria Peak carrying sedan chairs. The Group contributed matching donations and we raised a total of over HK\$38,000 for Matilda Sedan Chair Race Charities Fund.



The Kingsway team participates in the 2006 Matilda Sedan Chair Race

Running for Good Course

During the year, we supported the Community Chest in their various programmes-10Km and Half Marathon Corporate Challenge, Walks for Millions and Dress Special Day.

To support the Chest and our community, our staff participated in the Community Chest’s 10Km and Half Marathon Corporate Challenge, an event that raises funds for disadvantaged groups in Hong Kong and China Coast. Kingsway team members joined over 1,000 runners and walkers who raised over HK\$3 million, while the team helped raise HK\$16,000 toward that amount.

On 15 April, 2007, the Group registered a team of 10 colleagues and their family and friends in the Walk for Millions, Community Chest’s annual flagship fund-raising event, held at the Hong Kong-Shenzhen Western Corridor. The Western Corridor is the fourth vehicular boundary crossing linking Hong Kong and Shenzhen, the route of the Walk covers the Hong Kong section of the Corridor with a total distance of 7Km. Our colleagues enjoyed the valuable experience to set foot on the Corridor before its official opening in July 2007.

Nurturing Talents of Tomorrow

Education is a central part of our community investment. Our wish is to help ensure the success of our Country's students and future leaders. Through donation programmes below, we are not only investing in the present but we also invest in the promise of a better life for future generations.

The Open University of Hong Kong

At Kingsway, we believe that expanding educational opportunities is one of the most effective ways of improving our community. In 2007, Kingsway continued to fund its three-year, HK\$1 million grant to help The Open University of Hong Kong to construct a new campus. We donated HK\$400,000 as the second instalment for this Financial Year.



The new campus of The Open University of Hong Kong

International Christian School

Kingsway continued our commitment to the International Christian School for its new school building project. The Group has pledged a portion of our annual profit to the School since 2005. During the year under review, Kingsway donated a total of HK\$940,000 to the School. By the end of 2007, students can complete their studies in a spacious new campus featuring many student-friendly amenities.

Care for the Environment

It is Kingsway's aim to encourage the widest possible environmental awareness amongst our corporation and the community as a whole. We believe that only by raising awareness of environmental issues can we hope to ensure our children will live in a clean and healthy world. Some of the steps we took include supporting and participating in organisations that are taking effective action on the issue, including WWF Hong Kong and continue to educate and encourage staff about conservation through Kingsway internal communications.

During the year, we continued our commitment to support WWF by donating HK\$25,000 for renewing our corporate membership with the organisation.

Recognition from the Community

We are pleased to report that our passion and commitment to charity have brought us both recognition and rewards. Kingsway has been awarded the 2006/07 Caring Company Logo by the Hong Kong Council of Social Service. This award recognised our contribution and outstanding performance in corporate social responsibility. We would like to take this opportunity to once again express our heartfelt thanks to World Vision Hong Kong for nominating Kingsway as a Caring Company in 2006.



Going Forward

Kingsway has set a number of objectives to enhance our level of community involvement, and we will report our progress in our next annual report. Going forward, we will:

- Maintain our status as a Caring Company by continuing to demonstrate good corporate citizenship;
- Continue to focus our philanthropy on activities with employee participation; and
- Further promote new and existing volunteering opportunities to our people and encourage wider participation.

Corporate Governance Report

The Company is committed to sound corporate governance practices designed to promote greater transparency, investor confidence and the ongoing development of the Group, having always as its ultimate objective, the best long term interest of the Group and the enhancement of value for all shareholders. The Company also believes that sound corporate governance practices benefit the Group's employees and the community in which the Group operates.

Code on Corporate Governance Practices

The Company has applied the principles and, save as disclosed herein, has complied with the code provisions of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") throughout the year ended 30 June 2007.

Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules. The Company has made specific enquiry of all directors regarding any non-compliance with the Model Code during the year under review and they have all confirmed that they have complied with the required standard set out in the Model Code.

The Board of Directors

The Board currently comprises nine directors and the composition is set out as follows:

Jonathan Koon Shum Choi	<i>Chairman</i>
Mary Yuk Sin Lam	<i>Deputy Chairman & Executive Director</i>
William Wai Leung Wu	<i>Chief Executive Officer & Executive Director</i>
Michael Koon Ming Choi	<i>Executive Director</i>
Rebecca Yuk Fung Lau	<i>Non-Executive Director</i>
Lee G. Lam	<i>Non-Executive Director</i>
Robert Tsai To Sze	<i>Independent Non-Executive Director</i>
Stanley Kam Chuen Ko	<i>Independent Non-Executive Director</i>
Michael Wai Chung Wu	<i>Independent Non-Executive Director</i>

The brief biographical details of the directors, including financial, business, family or other material or relevant relationships among members of the board, are set out in the "Biographical Details of Directors and Senior Management" section on pages 25 to 27.

There is a clear division of responsibilities between the Board and management. The Board is responsible for providing high-level guidance and effective oversight of the management while day-to-day management of the Group is delegated to the management team of each respective subsidiary. Generally speaking, the Board is responsible for:

- Formulating the Group’s long term strategy and monitoring the implementation thereof;
- Approval of dividends;
- Reviewing and approving the interim and annual reports;
- Ensuring good corporate governance and compliance;
- Monitoring the performance of the management;
- Reviewing and approving any material acquisition and assets disposal and material transactions.

The Board authorises the management to carry out the strategies that have been approved.

The Board meets at least four times a year and additional meetings are convened as and when the Board considers necessary. During the year, six board meetings were held and the principal businesses transacted included approving interim and final results and reports, assessing business performance and implementation, and approving material transactions. The attendance record of each director during the year ended 30 June 2007 is set out as follows:

Board Directors	Number of Board meetings Attended/eligible to attend
Chairman	
Jonathan Koon Shum Choi	5/6
Executive Directors	
Mary Yuk Sin Lam	6/6
William Wai Leung Wu	6/6
Michael Koon Ming Choi	6/6
Non-executive Directors	
Rebecca Yuk Fung Lau (re-designated 1 Dec 2006)	5/6
Lee G. Lam (appointed 1 Feb 2007)	2/2

Board Directors	Number of Board meetings Attended/eligible to attend
Independent Non-executive Directors	
Robert Tsai To Sze	6/6
Raymond Wai Yung Wu (deceased 3 Oct 2006)	1/2
Stanley Kam Chuen Ko	4/6
Michael Wai Chung Wu (re-designated 2 Jan 2007)	3/6

The non-executive directors (a majority of whom are independent) provide the Group with a wide range of expertise and experience.

Save and except that during the period from 3 October 2006 to 1 January 2007, when the number of independent non-executive directors fell below the minimum number of three as required under Rule 3.10(1) of the Listing Rules, the Company has complied with Rules 3.10(1) and (2) of the Listing Rules relating to the appointment of at least three independent non-executive directors and one of the independent non-executive directors has appropriate professional qualifications or accounting or related finance management expertise. Each of the independent non-executive directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive directors have met independence guidelines set out in Rule 3.13 of the Listing Rules.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Long before the implementation of the CG Code, the Company has taken the initiative to separate the role of the Chairman and the Chief Executive Officer. Currently, Dr Jonathan Koon Shum Choi serves as the Chairman of the Board and Mr William Wai Leung Wu serves as the Chief Executive Officer.

The Chairman is responsible for the leadership of the Board and the Chief Executive Officer is responsible for the conduct of the Group's business, day-to-day operation, and implementing the Group's strategy with respect to the achievement of its business objectives with the assistance of the executive directors and senior management. The responsibilities of the Chairman and the Chief Executive Officer are clearly segregated.

The Chairman is also responsible for ensuring that all directors are properly briefed on issues arising at Board meetings and receive adequate and reliable information in a timely manner.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Pursuant to code provision A.4.1 of the CG Code, non-executive directors should be appointed for a specific term, subject to re-election and, pursuant to code provision A.4.2 of the CG Code, all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment and every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

During the period under review, all non-executive directors of the Company were appointed for a specific term and subject to re-election pursuant to the Company's Bye-laws. Currently, Ms Rebecca Yuk Fung Lau and Mr Michael Wai Chung Wu have each been appointed for a specific term of one year, Mr Robert Tsai To Sze, Mr. Stanley Kam Chuen Ko and Dr Lee G. Lam have each been appointed for a specific term of three years. Additionally, the Chairman, Dr Jonathan Koon Shum Choi has been appointed for a specific term of three years.

Those directors who are appointed to fill a casual vacancy or as an addition to the Board during the year ended 30 June 2007 would hold office only until the next following annual general meeting and should then be eligible for election at that meeting.

Board Committees

As an integral part of good corporate governance, the Board has established the following committees whose authority, functions, compositions and duties are set out below:

(1) AUDIT COMMITTEE

The Audit Committee has been established since 2000. During the period from 3 October 2006 to 1 January 2007, the audit committee members of the Company fell below the minimum number of three as required under rule 3.21 of the Listing Rules. Save and except as above, the Audit Committee comprises three independent non-executive directors during the year under review in compliance with rule 3.21 of the Listing Rules.

The Audit Committee's terms of reference includes those specific duties as set out in the code provision C.3.3 of the CG Code. Pursuant to its terms of reference, the Audit Committee is required, amongst other things, to consider and recommend to the Board the appointment, re-appointment and removal of the external auditors and to approve their remuneration, to review the interim and annual financial statements, to review the Group's financial controls, internal controls and risk management system and to consider any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management's response. The Audit Committee should meet at least twice each year and when the need arises.

During the year ended 30 June 2007, two committee meetings were held, one to consider the annual results of the Group for the financial year ended 30 June 2006 which focused particularly on any changes in accounting policies and practices, major judgmental areas, significant adjustments resulting from the audit and compliance with accounting standards and one to consider the interim results of the Group for the six months ended 31 December 2006.

The attendance record for each member during the year is set out as follows:

Committee members	Number of Committee meetings Attended/eligible to attend
Robert Tsai To Sze (<i>Chairman</i>)	2/2
Stanley Kam Chuen Ko	2/2
Michael Wai Chung Wu (appointed 2 Jan 2007)	1/1
Raymond Wai Yung Wu (deceased 3 Oct 2006)	0/1

(2) COMPENSATION COMMITTEE

Pursuant to code provision B.1.1 of the CG Code, a majority of the members of the remuneration committee should be independent non-executive directors. During the period from 3 October 2006 to 1 January 2007, the Company's compensation committee was not comprised of a majority of independent non-executive directors. Apart from that, the Company is in compliance with the code provision B.1.1 of the CG Code. Currently, the Compensation Committee consists of the Chairman and Deputy Chairman of the Board and three Independent Non-Executive Directors, namely Mr Stanley Kam Chuen Ko (Chairman), Mr Robert Tsai To Sze and Mr Michael Wai Chung Wu.

The Compensation Committee's terms of reference includes those specific duties as set out in the code provision B.1.3 of the CG Code. Pursuant to its terms of reference, the Compensation Committee is required, amongst other things, to review and recommend to the Board the compensation packages of the executive directors and senior management, to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time; to review and approve the compensation payable to executive directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company; and to ensure that no director is involved in deciding his/her own remuneration. The Compensation Committee should meet at least once a year and when the need arises.

One committee meeting was held during the year ended 30 June 2007 to review and determine the specific remuneration packages including year end bonuses of the executive directors and officers, including the remuneration of the Chief Executive Officer. It takes into account whether the packages offered are appropriate for the duties and performance of the executive directors and officers and whether the packages are competitive and sufficiently attractive to retain the executive directors and officers. The attendance record of each member is set out as follows:

Committee members	Number of Committee meetings Attended/eligible to attend
Stanley Kam Chuen Ko (<i>Chairman</i>)	1/1
Jonathan Koon Shum Choi	1/1
Robert Tsai To Sze	1/1
Raymond Wai Yung Wu (deceased 3 Oct 2006)	1/1
Mary Yuk Sin Lam	1/1
Michael Wai Chung Wu (appointed 2 Jan 2007)	NA

(3) NOMINATION COMMITTEE

The Nomination Committee consists of the Chairman and Deputy Chairman of the Board and an independent non-executive director, who also acts as the chairman of the Nomination Committee.

The Nomination Committee's terms of reference includes those specific duties as set out in the code provision A.4.5 of the CG Code in September 2005. Pursuant to its terms of reference, the Nomination Committee is required, amongst other things, to review the structure, size and composition of the Board and make recommendations for changes as necessary, to identify individuals suitably qualified to become board members and select or make recommendations to the Board on the selection of, individuals nominated for directorships, to assess the independence of independent non-executive directors, and to make recommendations to the Board on relevant matters relating to the appointment or re-appointment of directors and succession planning for directors in particular the Chairman and the Chief Executive Officer. The Nomination Committee should meet at least once a year and when the need arises.

The Nomination Committee is responsible for identifying, recruiting and evaluating new nominees to the Board and the assessment of the qualifications of the directors. The criteria adopted to select and recommend candidates for directorship includes the candidate's experience, professional knowledge, integrity, time commitment and other statutory or regulatory requirements.

One committee meeting was held during the year ended 30 June 2007 to recommend the appointment of Dr Lee G. Lam as a Director and the re-designation of Mr Michael Wai Chung Wu as an Independent Non-Executive Director of the Board. The attendance record of each member is set out as follows:

Committee members	Number of Committee meetings Attended/eligible to attend
Stanley Kam Chuen Ko (<i>Chairman</i>) (appointed 13 Sep 2006)	1/1
Jonathan Koon Shum Choi	1/1
Mary Yuk Sin Lam	1/1
Raymond Wai Yung Wu (deceased 3 Oct 2006)	NA

(4) CORPORATE GOVERNANCE COMMITTEE

The Corporate Governance Committee has been established since 2005 and currently consists of a non-executive director and two independent non-executive directors. The committee is responsible for reviewing and further developing the Group's corporate governance policies and principles and the implementation thereof. The Corporate Governance Committee meets once a year and when the need arises.

During the year ended 30 June 2007, the Corporate Governance Committee held one meeting to review the Company's corporate governance practices and to bring them in line with the CG Code. Details of the Corporate Governance member attendance record is shown below:

Committee members	Number of Committee meeting Attended/eligible to attend
Michael Wai Chung Wu (<i>Chairman</i>)	1/1
Rebecca Yuk Fung Lau	1/1
Stanley Kam Chuen Ko	1/1

Other Committees

Risk Management Control Committees

The Group views the management of risk as integral to the Group's goal to achieve and maintain profitability. As mentioned before in recognition of the increasingly varied, complex and global nature of the financial services business, we continue to believe that risk management must be handled internally, but independently of the Group's core business activities. This is to protect the interest of all stakeholders and to manage our professional and legal obligations.

The Group's principle in relation to risk management is that where risk is assumed, it is within a calculated and controlled framework with continuous assessment and reporting. The process is multi-faceted covering market risk, credit risk, concentration risk and systems failure risk.

In order to monitor specific risks, an Investment Committee, an Investment Monitoring Committee, a Credit Committee and a Finance Committee were established with the objectives of identifying risks, continuously assessing and managing risk, quantifying and assessing risk and setting prudential credit limits and introducing regular reporting to senior management. With the assistance of the committees, the Board determines the overall risk management policies for the Group.

(a) Investment Committee

The Board has established the Investment Committee to manage the Group's investments and financial commitments. The Investment Committee (i) reviews and proposes to the Board for approval of the investment policies and guidelines, including policies and guidelines regarding asset class, asset allocation ranges, prohibited investments, and proposes proprietary investment limits for the Committee and the Group's Chief Investment Manager; (ii) reviews and approves the proposed proprietary investments which are above the investment limits set on the Chief Investment Manager; and (iii) reviews the investment performance of the various investment decisions made by the Chief Investment Manager.

The committee consists of the Chief Investment Manager and two Executive Directors. The committee meets as required, but at least once a month.

(b) Investment Monitoring Committee

In order to monitor the Group's proprietary trading activities, the Board has established an Investment Monitoring Committee to oversee these activities. Within parameters set by the Board, the committee monitors the policies and the maximum limits for the Group's proprietary trading, financial commitments and investment activities.

The committee currently consists of the Chief Financial Officer, who acts as the Chairman, the Chief Administrative Officer, the Head of Compliance and the Assistant Financial Controller. The committee meets on a monthly basis and reports to the Board through the Chairman.

(c) Credit Committee

The role of the Credit Committee is to establish the procedures and guidelines for granting credit to the Group's brokerage clients, assessing credit risk and setting credit limits.

The committee currently consists of, among others, an executive director, three SFO Responsible Officers from the Group's Brokerage Division, the Head of Operations, the Chief Financial Officer and the Assistant Financial Controller. The committee usually meets once a month.

(d) Finance Committee

The role of the Finance Committee is to minimise the Group's exposure to the credit risk arising from the Group's general loan financing operations and to set out the internal policies and guidelines under which loans are to be assessed and properly authorised.

The committee consists of two executive directors. The committee meets when the need arises.

Accountability and Audit

FINANCIAL REPORTING

The Board acknowledges that it is its responsibility to prepare financial statements of the Company for each financial period which give a true and fair view of the state of affairs of the Company and ensure that financial statements are prepared in accordance with statutory and regulatory requirements and applicable accounting standards. The Board also ensures the timely publication of the financial statements of the Company.

The Board confirms that, to the best of its knowledge and, having made appropriate enquiries, it considers that the Company has adequate resources to continue in operational existence for the foreseeable future and has prepared the financial statements on a going concern basis accordingly.

INTERNAL CONTROLS

The Board recognises that constant changes taking place in the business environment call for periodic reviews of the system of internal controls. Well-managed internal controls enable effective and efficient operations, ensure the reliability of internal and external reporting and assist in the compliance with applicable laws and regulations.

The Board recognises that it has overall responsibility for the Group's system of internal controls and for reviewing its effectiveness. Pursuant to the Group's framework, senior management is primarily responsible for designing and implementing the policies and procedures of internal controls, while the Board and the Audit Committee oversee the actions of senior management and monitor the effectiveness of the controls previously established.

The Company's internal audit function is performed by the Legal and Compliance Department ("L&C"), which is headed by the Chief Administrative Officer ("CAO"). L&C has unrestricted access to review all aspects of the Group's business activities. The CAO reports directly to the Chief Executive Officer and has direct access to the Chairman of the Audit Committee. The tasks of L&C in respect of its internal audit functions include, (i) review and report on internal and operational controls, (ii) follow-up on the suggestions made by external auditors, (iii) ongoing monitoring and reviews on different operating cycles in the financial and brokerage industry, and (iv) special review of areas of concern identified by senior management. Throughout the financial year, L&C continually monitors various operational aspects of the Group's business activities and issues monthly compliance reports to senior management covering those activities.

All staff, including all Executive Directors, are subject to the provisions set out in the Company's Staff Handbook and Compliance Manual (collectively, the "Company Manuals"). The Company Manuals clearly set out the policies and procedures which apply to the Group's businesses and places staff under specific obligations as to duty, ethics, integrity and principles under which our businesses operate. Each core business division has its own operating manual which specifically outlines the respective division's operating procedures. Failure to comply with the policies and procedures as set out in the Company Manuals and/or the division operating manuals may result in disciplinary action, including dismissal from employment.

As previously noted, the Board has established the Investment Committee and the Investment Monitoring Committee to manage and monitor the Group's investments and financial commitments. The Executive Directors meet on a monthly basis to review detailed financial accounts of each material business division.

The CAO reviews and monitors the effectiveness of the Group's internal controls and reports its findings to the Audit Committee. However, internal controls can only provide reasonable, but not absolute, assurance against errors or deliberate attempts to defraud the Company. The Audit Committee reviews the findings and opinions of the CAO and holds discussions with the auditors in relation to the audit of the Group's financial statements and reports to the Board on such review. The Board has through L&C and the Audit Committee conducted a review of the effectiveness of material aspects of the Group's internal control system. Improvements to the system of internal controls have been identified and appropriate measures have been taken. In respect of the year ended 30 June 2007, after considering the report of the CAO and the review of the Audit Committee, the Board considered that there were no material weaknesses in the Group's internal control system that should be brought to the shareholders' attention.

EXTERNAL AUDITORS

During the financial year and up to the date of this report, the external auditor of the Group is KPMG. Fees for auditing services and non-auditing services (included interim review, report of agreed-upon procedures on on-going connected transactions and report on the working capital forecast in respect of a major transaction) provided by the external auditor for the year ended 30 June 2007 are HK\$1,342,000 and HK\$516,500 respectively.

Risk Management

The Group's business, financial conditions and results of operations may be affected by risks and uncertainties pertaining to the Group's business. The factors set out below are those that the Company believes could result in the Group's financial condition or results of operations differing materially from expected or historical results. There may be other risks in addition to those mentioned below which are unknown to the Group or which may not be material now but could turn out to be material in the future.

OPERATIONAL RISK AND INTEREST RATE RISK

The Group's results are affected by trends in the industry in which it operates, particularly, investment, brokerage and wealth management. Income from these operations is dependent upon interest rates, conditions in global investment and money markets and therefore there can be no assurance that changes in these conditions will not adversely affect the Group's financial conditions and results of operations.

MARKET RISK

The Group operates in highly competitive and rapidly changeable markets. New market entrants, the intensification of price competition by existing competitors, product innovation or technical advancement could adversely affect the Group's financial conditions and result of operations.

CREDIT RISK

Credit risk arises from a number of areas. These include the possibility that a counter-party in a transaction may default during the settlement process. It also arises from lending, settlement, treasury, market making, proprietary trading, and other activities undertaken by the Group.

The Group's Finance and Credit Committees are responsible for establishing credit approval and monitoring procedures, which are in accordance with sound business practices, the requirements and provisions of the relevant ordinances, and where applicable, the codes or guidelines issued by the Securities and Futures Commission ("SFC").

Day-to-day credit management is performed by the Operations Department with reference to the aforementioned criteria including creditworthiness, collateral pledged, and risk concentration of the counter-parties. The Finance Committee and Credit Committee are responsible for review of guidelines on credit limits on a regular basis and approval of specific loans or advances if the amount exceeds our pre-set guideline.

FOREIGN EXCHANGE RISK

Foreign exchange risk is the risk to the Group's financial conditions and results of operations arising from movements of foreign exchange rates. The Group's foreign exchange risk primarily arises from currency exposures originating from its proprietary investments. Foreign exchange rates fluctuate in reaction to the macro-economic performances of different countries and fund flows between countries arising from trade or capital movements.

IMPACT OF NEW LEGISLATION

The introduction of new legislation and rules by the Stock Exchange, SFC and other regulatory bodies in Hong Kong and overseas may induce change in market conditions that may adversely affect the operating results of the Company.

POLICIES AND PROCEDURES

The Group has established policies and procedures for risk management which are reviewed regularly by the management, to ensure the proper monitoring and control of all major risks arising from the Group's activities at all times. The Group's Legal and Compliance Department together with Finance and Account Department and other control committees also perform regular reviews to supplement the various internal control measures adopted by the management and various divisions within the Group, to ensure compliance with policies and procedures.

Communication with Shareholders

The Board recognises the importance of good communication with shareholders. Information in relation to the Group is disseminated to shareholders in a timely manner through a number of formal channels, which include interim and annual reports, announcements and circulars.

The general meetings of the Company provide a forum for exchange of views between the shareholders and the Board. The Chairman of the Board, the directors and senior management of the Company and where applicable, the independent non-executive directors, are available to answer questions at the shareholders' meeting.

The rights of shareholders and the procedures for demanding a poll on resolutions at shareholders' meetings are contained in the Company's Bye-Laws. Details of such right to demand a poll and the poll procedures are included in all circulars to shareholders which will call for a general meeting and will be explained during the proceedings of meeting.

Separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors.

The Company continues to enhance communications and relationships with its shareholders. Enquiries from shareholders are dealt with in an informative and timely manner.

To promote effective communication, the Company also maintains a website at www.kingswaygroup.com, where information and updates on the Company's business developments and operations and other information are posted.

Upon the implementation of the new Listing Rules on the electronic disclosure and abolition of paid announcements on 25 June 2007 all the regulatory announcements relating to the Company are posted on the websites of the Company and of the Stock Exchange. The Company will also post the poll results on the business day following the shareholders' meeting on the said websites.

Biographical Details of Directors and Senior Management

Chairman

Dr Jonathan Koon Shum Choi, BBS, JP, aged 50, is the Chairman of the Group. He has been responsible for the overall strategic planning of the Group since 1995. Dr Choi is also Co-Chairman of the Kingsway International Holdings Limited, the parent company of the Company and a substantial shareholder of the Company pursuant to Part XV of the Securities and Futures Ordinance (“SFO”). Concurrently Dr Choi is the President of the Sun Wah Group and Chairman of the Vietnam Opportunity Fund listed on London AIM.

Apart from being a Member of the National Committee of the Chinese People’s Political Consultative Conference of the People’s Republic of China (the “PRC”), Dr Choi also holds a number of public positions which include the Vice-Chairman of the Hong Kong Chinese General Chamber of Commerce, Honorary Consul of the Democratic Republic of Congo, an Economic Advisor to the President of the Chinese Academy of Sciences, PRC, a Member of The Greater Pearl River Delta Business Council, Hong Kong SAR, the Chairman of the China Trade Advisory Committee of the Hong Kong Trade Development Council, the Chairman of the China-India Software Association, and the Chairman of China Hong Kong Israel Technology Center. Dr Choi is a Court/Council Member of a number of universities including United College of the Chinese University of Hong Kong, the Hong Kong University of Science and Technology, the Hong Kong Polytechnic University, the Fudan University, and the Nanjing University. Dr Choi has extensive experience in the food industry, real estate development, international trade, technology and finance related business. Dr Choi is the elder brother of Mr Michael Koon Ming Choi.

Executive Directors

Ms Mary Yuk Sin Lam, aged 53, was re-appointed as an Executive Director and appointed as Deputy Chairman of the Company in April 2006. Prior to her appointments, Ms Lam was the Group Managing Director-Brokerage of Kingsway Financial Services Group Limited (“KFSGGL”). Currently Ms Lam is a Securities and Futures Commission (“SFC”) licensed representative of KFSGGL. Prior to joining the Group in 1995, Ms Lam had over 11 years of experience in securities dealing with various securities houses. Ms Lam is also a member of the Hong Kong Securities Institute. Ms Lam is a director and Co-Chairman of Kingsway International Holdings Limited and a substantial shareholder of the Company pursuant to Part XV of the SFO. Ms Lam is the sister of Ms Rebecca Yuk Fung Lau.

Mr William Wai Leung Wu, aged 41, was appointed as Executive Director and Chief Executive Officer of the Company in April 2006 and June 2006 respectively. Mr Wu is responsible for the overall strategy, corporate planning and business development of the Group. Mr Wu joined the Group in 2002 as the Head of Equity Capital Markets and was appointed as the Group Managing Director – Investment Banking of KFSGGL in 2005. Mr Wu has extensive experience in the investment banking and institutional broking business covering clients all around the world. Prior to joining the Group in 2002, Mr Wu held senior positions in several local and international investment banks. Mr Wu has over 14 years of experience in the financial services industry.

Mr Michael Koon Ming Choi, aged 39, is an Executive Director of the Company. Mr Choi has extensive experience in the financing activities of corporate and property mortgage, real estate development and property investment prior to joining the Group in 1995. Mr Choi is a director of Kingsway International Holdings Limited, a substantial shareholder of the Company pursuant to Part XV of the SFO. Mr Choi is the brother of Dr Jonathan Koon Shum Choi.

Non-executive Directors

Ms Rebecca Yuk Fung Lau, aged 48, was appointed as an Executive Director in September 2004. Ms Lau was appointed as the Deputy Chief Executive Officer in June 2006. In December 2006, Ms Lau was re-designated as a Non-Executive Director. Ms Lau joined the Group as Legal Counsel in 2000 and was promoted to Head of Legal and Compliance and Company Secretary in 2001. Ms Lau was also the former Chief Operating Officer of the Group. Ms Lau is a qualified solicitor of the High Court of Hong Kong and the Supreme Court of England and Wales. She has over 25 years experience in the commercial area covering legal, investment advisory and insurance fields in Hong Kong, Taiwan, Philippines, Canada and the United States. Prior to joining the Group, she was with Linklaters, an international law firm. Ms Lau is the sister of Ms Mary Yuk Sin Lam.

Dr Lee G. Lam, aged 48, was appointed as a Non-Executive Director of the Company in February 2007. Dr Lam holds a Bachelor of Science in Mathematics and Sciences, a Master of Science in Systems Science, and a Master of Business Administration, all from the University of Ottawa in Canada, a Post-graduate Diploma in Public Administration from Carleton University in Canada, a Post-graduate Diploma in English and Hong Kong Law and a Bachelor of Law (Hons) from Manchester Metropolitan University in the UK, and a Doctor of Philosophy from the University of Hong Kong. Dr Lam has over 25 years of multinational general management, corporate governance, investment banking, and direct investment experience. Dr Lam is the Chairman of Monte Jade Science and Technology Association of Hong Kong, and serves on the board of a number of publicly-listed companies in the Asia Pacific region. Dr Lam is a Member of the Hong Kong Institute of Bankers, a Member of the Young Presidents' Organization, a Fellow of the Hong Kong Institute of Directors and the China Institute of Directors, and a Member of the General Council of the Chamber of Hong Kong Listed Companies.

Independent Non-executive Directors

Mr Robert Tsai To Sze, aged 66, was appointed as an Independent Non-Executive Director in 2000. Mr Sze is a member of the Shanghai Committee of Chinese People's Political Consultative Conference in the PRC. Mr Sze had worked in Price Waterhouse (now known as PricewaterhouseCoopers) Hong Kong for 25 years where he had been a partner for over 22 years. Mr Sze is a fellow member of The Institute of Chartered Accountants in England & Wales and a fellow member of the Hong Kong Institute of Certified Public Accountants.

Mr Stanley Kam Chuen Ko, aged 61, was appointed as an Independent Non-Executive Director in September 2004. Mr Ko has extensive experience and network in both Hong Kong and the PRC and he also serves actively in the Hong Kong community including being an Executive Committee Member of the Hong Kong Coalition of Service Industries where he was the Chairman for the past 5 years, a Council Member of the Hong Kong Logistics Council, a Member of Hong Kong/Japan Business Cooperation Committee, a Director of the Link Management Limited, Harvard Business School Association and China National Aviation Corporation (Group) Ltd. Mr Ko is the Deputy Chairman of The Open University of Hong Kong and the Chairman of Boyden China Ltd and Jardine Airport Services Ltd.

Mr Michael Wai Chung Wu, aged 58, was appointed as an Independent Non-Executive Director in 2000 and was subsequently appointed as an Executive Director of the Company in December 2002. In January 2005 Mr Wu was re-designated as a Non-Executive Director. In January 2007 Mr Wu was further re-designated as an Independent Non-Executive Director. Mr Wu was formerly the Deputy Chairman of the Shanghai Stock Exchange and a Commissioner in the Strategy & Development Committee of the China Securities Regulatory Commission in the PRC. Prior to that, he was the Deputy Chairman, Chief Operating Officer and Executive Director of the SFC responsible for the Intermediaries Division, comprising the Licensing and Intermediaries Supervision Departments until his departure on 31 December 1997.

Dr Raymond Wai Yung Wu, (deceased October 2006), was appointed as an Independent Non-Executive Director in December 2002. Dr Wu was the former Chairman of The Community Investment and Inclusion Fund Committee. Dr Wu was the founder and was the former Chairman of The Hong Kong Professional Consultant's Association and founder and former Chairman of New Life Psychiatric Rehabilitation Association. Dr Wu was once a deputy of the 9th and 10th National People's Congress PRC and a Member of the Basic Law Committee.

Chief Financial Officer

Mr Eric Kwok Keung Chan, aged 44, was appointed as Chief Financial Officer (CFO) in April 2004. Mr Chan is responsible for overseeing the Group's financial operations. Mr Chan is a fellow of the Association of Chartered Certified Accountants (UK). Mr Chan is also a member of the Hong Kong Institute of Certified Public Accountants and the Hong Kong Securities Institute and a Certified International Investment Analyst. Mr Chan also offers significant assurance and business advisory experience gained from working with the Hong Kong and Boston offices of PricewaterhouseCoopers for 14 years. Mr Chan joined the Group from his responsibilities as CFO and Company Secretary of a Hong Kong listed company with operations in nine countries and annual turnover of over HK\$6 billion.

Chief Administrative Officer and Company Secretary

Mr Vincent Wai Shun Lai, aged 46, was appointed as the Company Secretary in November 2004. Mr Lai is also the Chief Administrative Officer of the Company. Mr Lai is a Solicitor of the High Court of the Hong Kong Special Administrative Region and an Attorney at Law of the State of New York, USA. Immediately prior to joining the Company, Mr Lai worked in an international law firm. Mr Lai holds a Juris Doctor degree from Union University-Albany Law School and a Bachelor of Science degree from the State University of New York at Albany.

Report of the Directors

The directors have the pleasure in submitting their report together with the audited financial statements for the year ended 30 June 2007.

Principal activities

The principal activity of the Company is investment holding. The principal activities and other particulars of significant subsidiaries are set out in note 35 on the financial statements.

The analysis of the principal activities and geographical locations of the operations of the Group are set out in note 12 on the consolidated financial statements.

Results and appropriations

The profit of the Group for the year ended 30 June 2007 and the state of the Company's and the Group's affairs as at that date are set out in the consolidated financial statements on pages 41 to 98.

An interim dividend for the year ended 30 June 2007 of 0.33 HK cent per ordinary share was paid on 22 March 2007. The directors propose, subject to the approval of the shareholders at the forthcoming Annual General Meeting, the payment of a final dividend of 0.7 HK cent per ordinary share for the year.

Five year financial summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 99 of the annual report.

Reserves

Movements in the reserves of the Group during the year are set out in note 31 on the financial statements.

Donations

Charitable and other donations made by the Group during the year amounted to HK\$1,429,615 (2006: HK\$828,275).

Other properties and equipment

Movements in other properties and equipment of the Group during the year are set out in note 14 on the financial statements.

Share capital

Details of the Company's share capital are set out in note 29 on the financial statements.

Distributable reserves

The Company's reserves available for distribution to shareholders as at 30 June 2007 consisted of contributed surplus of HK\$199,229,696 (2006: HK\$199,229,696) and retained profits of HK\$123,160,076 (2006: HK\$106,196,440).

Share options

Details of the share options granted by the Company are disclosed below pursuant to the requirements under Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"):

(a) INFORMATION OF THE SHARE OPTION SCHEME

Details of the share option scheme (the "Scheme") approved by the shareholders of the Company on 23 August 2000, which became unconditional upon listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), are summarised as follows:

- | | | | |
|-------|---|---|---|
| (i) | Purpose of the Scheme | : | As an incentive to executive management and employees. |
| (ii) | Participants of the Scheme | : | Eligible full-time employees including executive directors of the Company and its subsidiaries. |
| (iii) | Maximum number of shares available for subscription | : | Before 1 September 2001, the maximum number of shares in respect of which options could be granted under the Scheme and any other share option schemes of the Company could not exceed 10% of the issued share capital of the Company from time to time. On or after 1 September 2001, it cannot exceed 10% of the issued share capital as at the date of approval of the Scheme. |
| (iv) | Total number of shares available for issue under the Scheme | : | As at the date of this report, 244,941,034 shares (representing 7.54% of total issued share capital) are available for issue under the Scheme, of which 8,000,000 shares represents shares that will be issued upon exercise of outstanding options. |

Share options (Continued)

(a) INFORMATION OF THE SHARE OPTION SCHEME (Continued)

- (v) Maximum entitlement of each participant under the Scheme : Before 1 September 2001, 25% of the aggregate number of shares issued and issuable under the Scheme. After 1 September 2001, in any 12-month period not more than 1% of the shares in issue.
- (vi) Minimum period for which an option must be held before it can be exercised and the exercise period of the option : Subject to the decision of the Board, the exercise period of the option cannot exceed a period of 42 months commencing on the later of (i) the expiry of 6 months after the date on which the option is accepted or (ii) the expiry of 12 months from the date of employment of such grantee with the Group, or such shorter period as the Board may from time to time determine, provided that only up to one-third of the option granted can be exercised in any 12-month period.
- (vii) Amount payable on acceptance of the option and the period within which payment must be made : Nominal amount of HK\$1 upon acceptance of the option.
- (viii) Basis of determining the exercise price : For options granted before 1 September 2001, the exercise price is determined by the Board and will not be less than 80% of the average closing prices of the Company's shares on the Stock Exchange for the five trading days immediately preceding the date of offer of the option or the nominal value of the Company's shares, whichever is the higher.
- For options granted on or after 1 September 2001, the exercise price is the highest of the nominal value of the shares; the closing price of the shares on the Stock Exchange on the date of grant; and the average closing price of the shares on the Stock Exchange for the five business days immediately preceding the date of grant.
- (ix) Remaining life of the Scheme : The Scheme will expire on 22 August 2010.

Note: For more details of options granted to individual directors, please refer to the section "Directors' and chief executives' interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation" on page 32.

Directors

The directors during the year and up to the date of this report were:

CHAIRMAN

Jonathan Koon Shum Choi

EXECUTIVE DIRECTORS

Mary Yuk Sin Lam (Deputy Chairman)

William Wai Leung Wu

Michael Koon Ming Choi

NON-EXECUTIVE DIRECTORS

Rebecca Yuk Fung Lau (re-designated on 1 December 2006)

Lee G. Lam (appointed on 1 February 2007)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Robert Tsai To Sze

Stanley Kam Chuen Ko

Michael Wai Chung Wu (re-designated on 2 January 2007)

Raymond Wai Yung Wu (deceased on 3 October 2006)

In accordance with clauses 86(2) and 87(1) of the Company's Bye-Laws, Ms Rebecca Yuk Fung Lau, Dr Lee G. Lam and Mr Michael Koon Ming Choi will retire at the forthcoming Annual General Meeting and being eligible, offer themselves for re-election.

The Company has received annual confirmations of independence from Mr Robert Tsai To Sze, Mr Stanley Kam Chuen Ko and Mr Michael Wai Chung Wu and as at the date of this report, still considers them to be independent.

Biographical details of directors and senior management

Biographical details of directors and senior management are set out on pages 25 to 27.

Directors' service contracts

No director proposed for re-election at the forthcoming Annual General Meeting has entered into any service agreements with any member of the Group which is not determinable within one year without payment of compensation, other than statutory compensation.

Directors' interests in contracts

No contract of significance to which the Company, any of its holding companies, subsidiaries or fellow subsidiaries, was a party and in which a director of the Company had a material interest, subsisted at the end of the year or at any time during the year.

Directors' and chief executive's interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation

As at 30 June 2007, the interests and/or short positions of each director and chief executive in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV the Hong Kong Securities and Futures Ordinance ("SFO"), as recorded in the register maintained under Section 352 of the SFO or as notified to the Company were as follows:

(I) INTEREST IN LONG POSITIONS OF ORDINARY SHARES OF THE COMPANY

Name of director	Type of interest	* Number of ordinary shares in the Company	* % of total issued shares
Dr Jonathan Koon Shum Choi**	Corporate	2,411,661,327	74.25%
Ms Mary Yuk Sin Lam**	Corporate	2,411,661,327	74.25%
Ms Mary Yuk Sin Lam	Personal	7,500,000	0.23%
Ms Rebecca Yuk Fung Lau	Personal	4,200,000	0.13%
Mr Michael Wai Chung Wu	Personal	2,514,000	0.08%
Mr Stanley Kam Chuen Ko	Corporate	1,200,000	0.04%

* Excludes interest in options to acquire ordinary shares of the Company which is disclosed in section (iv) below.

** Dr Jonathan Koon Shum Choi and Ms Mary Yuk Sin Lam are deemed to be interested in 2,411,661,327 ordinary shares by virtue of the SFO. Such interest in shares is also set out under the section "Substantial shareholders' interests and short positions in the shares and underlying shares of the Company" shown on page 35.

Directors' and chief executive's interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (Continued)

(II) INTEREST IN LONG POSITIONS OF COMMON SHARES OF KINGSWAY INTERNATIONAL HOLDINGS LIMITED ("KINGSWAY INTERNATIONAL"), THE ULTIMATE HOLDING COMPANY OF THE COMPANY

Name of director	Personal interest	Corporate interest	Other interest	* Total number of common shares	* % of total issued shares
Dr Jonathan Koon Shum Choi **	10,101,596	26,828,055 <i>(Note 1)</i>	–	36,929,651	46.1%
Ms Mary Yuk Sin Lam **	9,790,507	–	22,641,810 <i>(Note 2)</i>	32,432,317	40.5%
Mr Michael Koon Ming Choi	106,937	–	–	106,937	0.1%
Mr Stanley Kam Chuen Ko	20,400	–	–	20,400	<0.1%
Ms Rebecca Yuk Fung Lau	100	–	–	100	<0.1%

* Excludes interest in options to acquire common shares of Kingsway International which is disclosed in section (v) below.

** By virtue of their interest in Kingsway International, Dr Jonathan Koon Shum Choi and Ms Mary Yuk Sin Lam are deemed to be interested in the shares of the subsidiaries (including the Company as disclosed in section (i) above) of Kingsway International under the SFO.

Notes:

- (1) Of these, 12,750,000 shares are held by Sun Wah Capital Limited. Dr Jonathan Koon Shum Choi is deemed to be interested in these shares as he is entitled to exercise or control the exercise of one third or more of the voting power at general meetings of Sun Wah Capital Limited.

The remaining 14,078,055 shares are held by Scarlet Red Limited. Dr Jonathan Koon Shum Choi is deemed to be interested in these shares as he is entitled to exercise or control the exercise of one third or more of the voting power at general meetings of Scarlet Red Limited.

- (2) Of these, 9,726,750 shares are held by the estate of Mr William Ka Chung Lam who was the spouse of Ms Mary Yuk Sin Lam.

Of these, 10,515,060 shares are held by Dynasty International Holdings Limited which is a wholly owned subsidiary of Global Fame Limited. Global Fame Limited is wholly owned by The WKC Lam Family Trust which is a discretionary trust with Ms Mary Yuk Sin Lam's two children as the beneficiaries. Ms Lam is a trustee of The WKC Lam Family Trust.

Of these, 2,400,000 shares are held by Abundant World Limited. Abundant World Limited is wholly owned by The Mary Lam Family Trust which is a discretionary trust with Ms Mary Yuk Sin Lam and her two children as the beneficiaries.

Directors' and chief executive's interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (Continued)

(III) INTEREST IN LONG POSITIONS OF ORDINARY SHARES OF HK WEAVER GROUP LIMITED, A FELLOW SUBSIDIARY OF THE COMPANY

Name of director	Type of interest	Number of ordinary shares	% of total issued shares
Ms Mary Yuk Sin Lam	Personal	28,518	2.2%
Ms Mary Yuk Sin Lam	Other	59,620	4.6%
Mr Michael Wai Chung Wu	Personal	39,474	3.0%
Ms Rebecca Yuk Fung Lau	Personal	5,000	0.4%

(IV) INTEREST IN OPTIONS TO ACQUIRE ORDINARY SHARES OF THE COMPANY

Details of the directors' interests in options under the Scheme are as follows:

Name of director	Exercise period	Exercise price per share	At 1 July 2006	Lapsed during the year	At 30 June 2007
Mr William Wai Leung Wu	2 October 2003 to 1 April 2007	\$0.3833	3,000,000	(3,000,000)	–
	24 September 2004 to 23 March 2008	\$0.43	7,000,000	–	7,000,000
Ms Rebecca Yuk Fung Lau*	5 October 2003 to 4 April 2007	\$0.363	24,000,000	(24,000,000)	–

* Ms Rebecca Yuk Fung Lau resigned as an executive director with effect from 1 December 2006 and the related share options lapsed on that date.

(V) INTEREST IN OPTIONS TO ACQUIRE COMMON SHARES OF KINGSWAY INTERNATIONAL

Pursuant to a share option plan operated by Kingsway International, certain directors had been granted options to subscribe for the shares of Kingsway International. There were no options outstanding as at 30 June 2007 and no options were granted to the directors during the year.

Save as disclosed above, none of the directors and chief executive of the Company or any of their spouses or children under 18 years of age has interests or short positions in the shares, underlying shares or debentures of the Company and associated corporations as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

Directors' and chief executive's interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (Continued)

Save as disclosed above, as at 30 June 2007, none of the directors and chief executive had any interests or short positions in the shares of the Company and its associated corporations as defined in the SFO, and none of the directors and chief executive or their spouses or children under 18 years of age had been granted any rights to subscribe for the shares of the Company, or had exercised any such rights during the year.

Save as disclosed above, at no time during the year was the Company or any of its holding companies, subsidiaries and fellow subsidiaries a party to any arrangement to enable the directors or chief executive of the Company to hold any interests or short positions in the shares or underlying shares in, or debentures of, the Company or any other body corporate.

Substantial shareholders' interests and short positions in the shares and underlying shares of the Company

As at 30 June 2007, the register of substantial shareholders maintained under Section 336 of the SFO shows that the Company had been notified of the following substantial shareholders' interests, being 5% or more of the Company's issued share capital. These interests represent long positions in the shares of the Company.

	Name of shareholders	Country of incorporation	Number of ordinary shares in the Company		% of total issued shares	Note
			Direct interest	Deemed interest		
(1)	World Developments Limited	British Virgin Islands	2,411,661,327	–	74.25%	(a)
(2)	Innovation Assets Limited	British Virgin Islands	–	2,411,661,327	74.25%	(a)
(3)	Kingsway International Holdings Limited	Bermuda	–	2,411,661,327	74.25%	(a)

Note:

- (a) These shares represent the same interest and are therefore duplicated amongst World Developments Limited, Innovation Assets Limited and Kingsway International. World Developments Limited is a wholly owned subsidiary of Innovation Assets Limited whose entire issued share capital is beneficially owned by Kingsway International. Dr Jonathan Koon Shum Choi beneficially owns or has control of approximately 46.1% of the issued share capital of Kingsway International and therefore is deemed (by virtue of the SFO) to be interested in these 2,411,661,327 shares. Ms Mary Yuk Sin Lam beneficially owns or has control of approximately 40.5% of the issued share capital of Kingsway International and therefore is deemed (by virtue of the SFO) to be interested in these 2,411,661,327 shares.

Save as disclosed above, the register of substantial shareholders maintained under Section 336 of the SFO shows that the Company had not been notified of any substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital.

Management contracts

No contracts of significance concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Purchase, sale or redemption of shares

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

Pre-emptive rights

There are no provisions for pre-emptive rights under the Company's Bye-Laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

Major customers and suppliers

During the year, the Group earned less than 30% of its turnover from its five largest customers.

The Group is a provider of financial services. In the opinion of the directors, it is therefore of no value to disclose details of the Group's suppliers.

Related party and connected party transactions

Significant related party and connected party transactions entered into by the Group during the year are disclosed in note 34 on the financial statements.

Details of those transactions which also constitute connected transactions and are required to be disclosed under Chapter 14A of the Listing Rules are as follows:

- (a) Security transactions between Kingsway Financial Services Group Limited ("Kingsway Financial") and each of the directors of the Group and their respective associates (the "Security Transactions")

Brokerage commission was received from the Group's directors and their respective associates in the ordinary course of the Group's business of dealing in securities and futures. Commission rates are set at the same level as those normally offered to third party clients or the applicable staff rate if the clients are directors or employees of the Group. The total brokerage commissions received by the Group from a corporation controlled by the father of a director amounted to HK\$1,143,145 for the year ended 30 June 2007.

Related party and connected party transactions (Continued)

- (b) Margin financing transactions between Kingsway Financial, and each of the directors of the Group and their respective associates (the “Margin Financing Transactions”)

Total loans for the purpose of subscribing to initial public offer of securities granted to any director and their respective associates are less than HK\$10 million. During the year, the associates of a director were granted loans for subscribing initial public offers and the loan amounts exceeded HK\$1 million. The maximum loan amount granted to any of the director and the respective associates was HK\$5,327,215 and the interest received by the Group amounted to HK\$55,446. The interest rates are set at the same level as those normally offered to third party clients or the applicable staff rate if the clients are directors or employees of the Group.

- (c) Securities transactions between Kingsway Financial and SBI E*Trade Securities Company Limited (SBI E*Trade) (the “E*Trade Transactions”)

SBI E*Trade is a subsidiary of SBI Holdings, Inc., which in turn is a minority shareholder of a subsidiary of the Group. SBI E*Trade entered into a brokerage agreement with Kingsway Financial on 11 March 2005 and appointed Kingsway Financial as its executing broker and custodian, to execute and facilitate the clearing of all of SBI E*Trade’s securities transactions for securities traded on the Stock Exchange made through the electronic trading platform. On 11 March 2007, Kingsway Financial and SBI E*Trade entered into a supplemental agreement to extend the term of the brokerage agreement for a period of three years from 14 March 2007 to 14 March 2010. The brokerage commission rate is set at the same level as those normally offered to third party clients and is subject to a minimum monthly fee. The total brokerage commission received by the Group under the arrangement amounted to HK\$1,930,004 for the year ended 30 June 2007.

The Securities Transactions, Margin Financing Transactions and E*Trade Transactions are hereinafter referred to as the “Transactions”.

The independent non-executive directors have reviewed the Transactions as disclosed in notes (a), (b) and (c) above and confirmed that:

- (1) the Transactions are:
 - (i) entered into in the ordinary course of business of each of the companies of the Group;
 - (ii) on normal commercial terms; and
 - (iii) fair and reasonable so far as the shareholders of the Company are concerned;
- (2) (i) the aggregate amount of the commission received by the Group in respect of the Securities Transactions for the year ended 30 June 2007 did not exceed HK\$10 million; and
- (ii) the aggregate amount of the loan granted and amount of interest charged by the Group in respect of the Margin Financing Transactions for the year ended 30 June 2007 did not exceed HK\$10 million.

Related party and connected party transactions (Continued)

The auditors of the Company have reviewed the continuing connected transactions during the year as disclosed in note (c) above and confirmed that these transactions:

- (i) were approved by the board of directors of the Company; and
- (ii) had been entered into in accordance with the relevant agreements governing the transactions.

Sufficiency of public float

According to the information that is publicly available to the Company and within the knowledge of the Board, the percentage of the Company's shares which are in the hands of the public exceeds 25% of the Company's total number of issued shares as at the date of this report, the latest practicable date to ascertain such information prior to the issue of this annual report.

Corporate Governance

The Company is committed to maintaining a high standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 13 to 24.

Directors' interest in competing business

Set out below is information disclosed pursuant to paragraph 8.10 of the Listing Rules:

- (1) Kingsway International and its subsidiaries, other than those in the Group ("Kingsway International Group"), are mainly engaged in direct and regional investments, the development, production and distribution of software products and the provision of technical services relating to the financial markets in Hong Kong and Asia Pacific countries, and the provision of other financial services in Australia and Canada. The Company has entered into a non-competition undertaking with Kingsway International on 25 August 2000 ("the Kingsway International Undertaking"). According to the Kingsway International Undertaking, Kingsway International shall not, and shall procure Kingsway International Group not to, among other things, engage in the provision of financial, advisory, stockbroking, financing, fund management and futures brokerage services relating to stocks and futures in Hong Kong. Kingsway International has also undertaken not to, and will procure Kingsway International Group not to, apply for or obtain licenses to conduct such services in Hong Kong. In addition, investment in securities for the Group and the Kingsway International Group are performed independently from each other.

Directors' interest in competing business (Continued)

- (2) The Company and Dr Jonathan Koon Shum Choi ("Dr Choi") entered into a non-competition undertaking ("the Choi's Undertaking") on 10 August 2000. According to the Choi's Undertaking, Dr Choi shall not, and shall procure the covenanters (as defined therein) not to, among other things, engage in the provision of financial, advisory, stockbroking, financing, fund management and futures broking services relating to stocks and futures in Hong Kong which may only be lawfully provided by a registered person (as defined therein) but excluding the provision of financial accommodation which does not fall within the definition of "Securities Margin Financing" for the purposes of the Hong Kong Securities Ordinance (which was repealed on 1 April 2003 and replaced by the SFO) in competition with the Group.

Auditors

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the board

Jonathan Koon Shum Choi

Chairman

Hong Kong, 18 September 2007

Independent Auditor's Report

Independent auditor's report to the shareholders of SW Kingsway Capital Holdings Limited (Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of SW Kingsway Capital Holdings Limited (the "Company") set out on pages 41 to 98, which comprise the consolidated and Company balance sheets as at 30 June 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 30 June 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG

Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

18 September 2007

Consolidated Income Statement

For the year ended 30 June 2007 (Expressed in Hong Kong dollars)

	Note	2007	2006 (restated)
Continuing operations:			
Turnover			
Net gain on disposal of financial assets at fair value			
through profit or loss and remeasurement to fair value	3	\$ 285,019,274	\$ 38,036,890
Commission and fee income	3	94,818,199	89,541,906
Interest and dividend income	3	32,239,072	24,699,160
		\$ 412,076,545	\$ 152,277,956
Other income	4	10,086,103	2,242,552
		\$ 422,162,648	\$ 154,520,508
Valuation gains on investment properties	13	4,538,858	47,778,422
Gains on disposal of subsidiaries		10,763,253	–
Operating expenses			
Commission expenses		(14,683,452)	(18,472,885)
General and administrative expenses		(150,337,762)	(138,868,342)
Reversal of revaluation loss/(revaluation loss) on building held for own use		548,409	(548,409)
Finance costs	5(a)	(18,672,580)	(18,330,647)
		\$ 254,319,374	\$ 26,078,647
Share of profits of associates	17	7,885,582	3,748,805
Share of profits of jointly controlled entities	18	360,432	–
Profit before taxation	5	\$ 262,565,388	\$ 29,827,452
Income tax	6(a)	(28,856,202)	(1,988,185)
Profit for the year from continuing operations		\$ 233,709,186	\$ 27,839,267
Discontinued operations:			
Profit for the year from discontinued operations	7	2,186,617	4,606,303
Profit for the year		\$ 235,895,803	\$ 32,445,570
Attributable to:			
Equity shareholders of the Company	9	\$ 207,536,982	\$ 19,338,078
Minority interests		28,358,821	13,107,492
Profit for the year		\$ 235,895,803	\$ 32,445,570
Dividends payable to equity shareholders of the Company attributable to the year:			
Interim dividend paid during the year	10	\$ 10,719,139	\$ 10,719,139
Final dividend proposed after the balance sheet date		22,737,567	21,763,100
		\$ 33,456,706	\$ 32,482,239
Basic earnings per share			
From continuing and discontinued operations	11(a)	6.4 cents	0.6 cent
From continuing operations		6.3 cents	0.5 cent
From discontinued operations		0.1 cent	0.1 cent
Diluted earnings per share	11(b)	N/A	N/A

The notes on pages 47 to 98 form part of these financial statements.

Consolidated Balance Sheet

At 30 June 2007 (Expressed in Hong Kong dollars)

	Note	2007	2006
Non-current assets			
Investment properties	13	\$ –	\$ 280,357,490
Other properties and equipment	14	24,017,665	19,496,464
Intangible assets	15	2,731,141	2,731,141
Interests in associates	17	50,740,533	42,860,863
Interests in jointly controlled entities	18	114,328,811	–
Other financial assets	19	9,029,110	10,371,290
		\$ 200,847,260	\$ 355,817,248
Current assets			
Financial assets at fair value through profit or loss	20	\$ 597,971,875	\$ 290,814,281
Accounts, loans and other receivables	21	1,180,216,096	143,244,268
Amounts due from related companies	22	17,804	17,851
Tax prepaid		3,395,834	1,744,066
Cash and cash equivalents	23	88,075,637	141,604,670
		\$ 1,869,677,246	\$ 577,425,136
Current liabilities			
Financial liabilities at fair value through profit or loss	24	\$ 83,700,000	\$ –
Accruals, accounts and other payables	25	256,107,940	114,798,856
Bank loans	26	792,555,840	5,142,752
Obligations under finance leases	27	447,136	–
Current taxation		37,963,105	9,589,116
		\$ 1,170,774,021	\$ 129,530,724
Net current assets		\$ 698,903,225	\$ 447,894,412
Total assets less current liabilities		\$ 899,750,485	\$ 803,711,660
Non-current liabilities			
Non-current bank loans	26	\$ 5,505,570	\$ 112,560,290
Non-current obligations under finance leases	27	1,747,857	–
Deferred tax liabilities	28	515,955	4,434,599
		\$ 7,769,382	\$ 116,994,889
NET ASSETS		\$ 891,981,103	\$ 686,716,771
CAPITAL AND RESERVES			
Share capital	29	\$ 324,822,391	\$ 324,822,391
Reserves	31	483,668,946	306,763,395
		\$ 808,491,337	\$ 631,585,786
Minority interests	31	83,489,766	55,130,985
TOTAL EQUITY		\$ 891,981,103	\$ 686,716,771

Approved and authorised for issue by the board of directors on 18 September 2007

Mary Yuk Sin Lam

Director

William Wai Leung Wu

Director

The notes on pages 47 to 98 form part of these financial statements.

Balance Sheet

At 30 June 2007 (Expressed in Hong Kong dollars)

	Note	2007	2006
Non-current assets			
Investment in subsidiaries	16	\$ 673,068,764	\$ 605,658,428
Current assets			
Prepayments and deposits	21	\$ 178,000	\$ 183,006
Cash and cash equivalents		8,153,651	57,265,044
		\$ 8,331,651	\$ 57,448,050
Current liabilities			
Accruals, accounts and other payables	25	\$ 2,365,492	\$ 959,308
Net current assets		\$ 5,966,159	\$ 56,488,742
NET ASSETS		\$ 679,034,923	\$ 662,147,170
CAPITAL AND RESERVES			
Share capital	29	\$ 324,822,391	\$ 324,822,391
Reserves	31	354,212,532	337,324,779
TOTAL EQUITY		\$ 679,034,923	\$ 662,147,170

Approved and authorised for issue by the board of directors on 18 September 2007.

Mary Yuk Sin Lam

Director

William Wai Leung Wu

Director

The notes on pages 47 to 98 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 30 June 2007 (Expressed in Hong Kong dollars)

	Note	2007	2006
Total equity at 1 July 2006/2005		\$ 686,716,771	\$ 686,129,457
Net income recognised directly in equity:			
Exchange differences on translation of			
financial statements of overseas subsidiaries	31	\$ (486,313)	\$ (278,484)
Share of reserve of associates	31	(5,912)	5,251
Surplus on revaluation of buildings held for own use	31	2,341,101	864,409
Net income for the year recognised directly in equity		\$ 1,848,876	\$ 591,176
Net profit for the year	31	235,895,803	32,445,570
Total recognised income and expense for the year		\$ 237,744,679	\$ 33,036,746
Attributable to:			
Equity shareholders of the Company		\$ 209,385,858	\$ 19,929,254
Minority interests		28,358,821	13,107,492
		\$ 237,744,679	\$ 33,036,746
Dividends paid	31	\$ (32,482,239)	\$ (32,482,239)
Movements in equity arising from capital transactions:			
Equity settled share-based transactions	31	\$ 1,932	\$ 32,807
Eliminated on disposal of a subsidiary	31	(40)	–
		\$ 1,892	\$ 32,807
Total equity at 30 June 2007/2006		\$ 891,981,103	\$ 686,716,771

The notes on pages 47 to 98 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 30 June 2007 (Expressed in Hong Kong dollars)

	2007	2006 (restated)
Continuing operations:		
Operating activities		
Profit before taxation	\$ 262,565,388	\$ 29,827,452
Adjustment for:		
Gains on disposal of subsidiaries	(10,763,253)	–
Valuation gains on investment properties	(4,538,858)	(47,778,422)
(Reversal of revaluation loss)/revaluation loss on building held for own use	(548,409)	548,409
Reversal of impairment losses on intangible assets	–	(180,000)
Depreciation	2,992,882	2,443,092
Interest expense	18,672,580	18,330,647
Dividend income	(5,385,737)	(5,542,067)
Interest income	(26,853,335)	(19,157,093)
Share of profits of associates	(7,885,582)	(3,748,805)
Share of profits of jointly controlled entities	(360,432)	–
Net loss on disposal of equipment	3,427	17,911
Equity settled share-based transactions	1,932	32,807
(Reversal of)/charge for impairment losses for bad and doubtful debts (net)	(7,287,191)	7,106,963
Effect of foreign exchange rate changes	(455,949)	(297,122)
Operating profit/(loss) before changes in working capital	\$ 220,157,463	\$ (18,396,228)
Decrease/(increase) in other financial assets	1,342,180	(2,224,298)
(Increase)/decrease in financial assets at fair value through profit or loss	(307,157,594)	112,227,919
(Increase)/decrease in accounts, loans and other receivables	(1,039,172,163)	325,652,979
Decrease in amounts due from related companies	–	15,124
Decrease in amount due from ultimate holding company	–	54,709
Increase in amount due from jointly controlled entities	(1,499,178)	–
Increase/(decrease) in accruals, accounts and other payables	222,206,610	(305,105,926)
Increase/(decrease) in financial liabilities at fair value through profit or loss	83,700,000	(21,187,500)
Decrease in amount due to a related company	–	(120,000)
Cash (used in)/generated from operations	\$ (820,422,682)	\$ 90,916,779
Interest received	26,154,224	19,209,034
Dividend received	5,385,737	6,932,792
Interest paid	(18,656,046)	(15,016,773)
Hong Kong Profits Tax paid	(2,051,768)	(4,678,954)
Net cash (used in)/generated from operating activities of continuing operations	\$ (809,590,535)	\$ 97,362,878

Consolidated Cash Flow Statement

For the year ended 30 June 2007 (Expressed in Hong Kong dollars)

	Note	2007	2006
Investing activities			
Payment for purchase of other properties and equipment		\$ (2,245,535)	\$ (3,306,544)
Payment for purchase of investment properties		–	(176,862,911)
Proceeds from sale of equipment		140,131	4,972
Dividend received from associates		–	1,500,000
Proceeds from disposal of subsidiaries	36	26,816,149	–
Advances to jointly controlled entities		(27,310,000)	–
Net cash used in investing activities of continuing operations		\$ (2,599,255)	\$ (178,664,483)
Financing activities			
Proceeds from new bank loans		\$ 792,000,000	\$ 113,000,000
Repayment of other loans		–	(80,700,000)
Repayment of bank loans		(2,012,614)	(55,372,134)
Decrease/(increase) in pledged bank deposits		4,225,273	(4,011,122)
Repayment of obligations under finance leases		(367,418)	–
Dividends paid to equity shareholders of the Company		(32,482,239)	(32,482,239)
Net cash generated from/(used in) financing activities of continuing operations		\$ 761,363,002	\$ (59,565,495)
Cash flows used in continuing operations		\$ (50,826,788)	\$ (140,867,100)
Discontinued operations:			
Net cash flows generated from discontinued operations		1,523,028	454,063
Net decrease in cash and cash equivalents		\$ (49,303,760)	\$ (140,413,037)
Cash and cash equivalents at 1 July 2006/2005		137,379,397	277,792,434
Cash and cash equivalents at 30 June 2007/2006		\$ 88,075,637	\$ 137,379,397
Analysis of the balances of cash and cash equivalents			
Bank balances and cash		\$ 88,075,637	\$ 141,604,670
Less: Pledged bank deposits		–	(4,225,273)
		\$ 88,075,637	\$ 137,379,397

The notes on pages 47 to 98 form part of these financial statements.

Notes to the Financial Statements

For the year ended 30 June 2007 (Expressed in Hong Kong dollars)

1 Corporate information

The Company was incorporated in Bermuda under the Companies Act as an exempted company with limited liability on 17 May 2000. Pursuant to a Group reorganisation completed on 10 August 2000 (the “Reorganisation”) to rationalise the Company and its subsidiaries in preparation for the listing of the Company’s shares on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the Company issued shares in exchange for the entire share capital of SW Kingsway Capital Group Limited and thereby became the holding company of the Group. The Company’s shares were successfully listed on the Stock Exchange on 15 September 2000.

The address of the registered office and the principal place of business of the Company are disclosed in the Corporate Information of the annual report.

The principal activities of the Company and its significant subsidiary companies are disclosed in the Director’s Report of the annual report and in note 35.

2 Significant accounting policies

(a) STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for accounting periods beginning on or after 1 January 2006. The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment is required.

2 Significant accounting policies (Continued)

(b) BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The consolidated financial statements for the year ended 30 June 2007 comprise the Company and its subsidiaries and special purpose entities (together referred to as the “Group”) and the Group’s interest in associates and jointly controlled entities.

The financial statements have been prepared under the historical cost convention except that, as explained in the accounting policies below, buildings held for own use, investment properties and financial assets and liabilities held at fair value through profit or loss are stated at fair value.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in this year are discussed in note 38.

2 Significant accounting policies (Continued)

(c) SUBSIDIARIES

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a controlled subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet and statement of changes in equity within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

Where losses attributable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 2(k)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

2 Significant accounting policies (Continued)

(d) ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

An associate is a company in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group and other parties, where the contractual arrangement establishes that the Group and one or more of the other parties share joint control over the economic activity of the entity.

An investment in an associate or a jointly controlled entity is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's or the jointly controlled entity's net assets, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the associates and jointly controlled entities for the year, including any impairment loss on goodwill relating to the investment in associates and jointly controlled entities recognised for the year.

When the Group's share of losses exceeds its interest in the associate or the jointly controlled entity, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or the jointly controlled entity. For this purpose, the Group's interest in the associate or the jointly controlled entity is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the jointly controlled entity.

Unrealised profits and losses resulting from transactions between the Group and its associates and jointly controlled entities are eliminated to the extent of the Group's interest in the associate or jointly controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the income statement.

(e) SPECIAL PURPOSE ENTITY

A special purpose entity is an entity created to accomplish a narrow and well-defined objective. A special purpose entity included investment in a unit trust fund. An investment in a unit trust fund was consolidated when the Group had the right to obtain majority of the benefits and risks of the unit trust fund. The net assets attributable to minority unitholders of the consolidated unit trust fund were presented as liabilities in the Group's consolidated balance sheet as the redeemable units issued by the unit trust fund provided the unitholders with the right to require redemption for cash, giving rise to financial liabilities. Net changes in net assets attributable to minority unitholders were presented as finance costs in the consolidated income statement.

2 Significant accounting policies (Continued)

(f) GOODWILL

Goodwill represents the excess of the cost of a business combination or an investment in an associate or a jointly controlled entity over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment. Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in an associate or a jointly controlled entity is recognised immediately in the income statement.

Goodwill arising on acquisitions prior to 1 July 2001 continues to be held in reserves, and will be charged to the retained profits at the time when the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

On disposal of a cash-generating unit, an associate or a jointly controlled entity during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(g) FINANCIAL INSTRUMENTS

(i) Classification and measurement

The Group classifies its financial instruments into different categories at inception, depending on the purpose for which the assets were acquired or the liabilities were incurred. The financial instruments are classified under the following categories:

Fair value through profit or loss

This category comprises financial assets and financial liabilities held for trading, and those designated at fair value through profit or loss under initial recognition. Trading financial instruments are financial assets or financial liabilities which are acquired or incurred principally for the purpose of trading, or are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking. Non-hedging derivatives are accounted for as trading instruments.

Financial assets and liabilities under this category are classified as current assets and are initially stated at fair value. At each balance sheet date, the fair value is remeasured, with any resultant gain or loss being recognised in the income statement.

2 Significant accounting policies (Continued)

(g) FINANCIAL INSTRUMENTS (Continued)

(i) Classification and measurement (Continued)

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity which the Group has the positive intention and ability to hold to maturity. Held-to-maturity investments are initially recognised in the balance sheet at fair value plus transaction costs. Subsequently, they are stated in the balance sheet at amortised cost less impairment losses (see note 2(k)).

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables mainly comprise accounts and other receivables, secured margin loans and secured loans.

Loans and receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less impairment losses for bad and doubtful debts (see note 2(k)) except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such case, the receivables are stated at cost less impairment loss for bad and doubtful debts (see note 2(k)).

(ii) Fair value measurement principles

The fair value of financial instruments is based on their quoted market prices at the balance sheet date without any deduction for estimated future selling costs. Fair values of financial assets are normally based on current bid prices, while financial liabilities are based on current asking prices.

If a quoted market price is not available on a recognised stock exchange or from a broker/dealer for non-exchange-traded financial instruments, the fair value of the instruments is estimated using valuation techniques that provide a reliable estimate of prices which could be obtained in actual market transactions.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market rate at the balance sheet date applicable for an instrument with similar terms and conditions. Where other pricing models are used, inputs are based on market data at the balance sheet date.

2 Significant accounting policies (Continued)

(h) INTANGIBLE ASSETS (OTHER THAN GOODWILL)

Trading rights, exchange seats and club debentures

The trading rights in the Stock Exchange, the B-Shares Special Seat of Shenzhen Stock Exchange, the B-Shares Tangible Trading Seat of Shanghai Stock Exchange and non-redeemable club memberships are recognised as intangible assets in the balance sheet and are stated at cost less impairment losses (see note 2(k)). They are not amortised as they have indefinite useful lives.

(i) INVESTMENT PROPERTIES

Investment properties are completed properties which are owned or held under a leasehold interest to earn rental income and/or for capital appreciation. Investment properties are stated at fair value based on independent professional valuation in the balance sheet. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in the income statement.

(j) OTHER PROPERTY, PLANT AND EQUIPMENT

(i) Buildings held for own use

Buildings held for own use are stated in the balance sheet at their revalued amount, being their fair value at the date of the revaluation less any subsequent accumulated depreciation. Revaluations are performed with sufficient regularity to ensure that the carrying amount of these assets does not differ materially from that which would be determined using fair values at the balance sheet date.

Changes arising on the revaluation of building held for own use are generally dealt with in reserves. The only exceptions are as follows:

- when a deficit arises on revaluation, it will be charged to the income statement to the extent that it exceeds the amount held in the reserve in respect of that same asset immediately prior to the revaluation; and
- when a surplus arises on revaluation, it will be credited to the income statement to the extent that a deficit on revaluation in respect of that same asset had previously been charged to the income statement.

Gains or losses arising from the retirement or disposal of buildings are determined as the difference between the net disposal proceeds and the carrying amount of this item and are recognised in the income statement on the date of retirement or disposal. Any related revaluation surplus is transferred from the revaluation reserve to retained profits.

2 Significant accounting policies (Continued)

(j) OTHER PROPERTY, PLANT AND EQUIPMENT (Continued)

(ii) Equipment

Equipment, comprising leasehold improvements, furniture and fixtures, office equipment and motor vehicles are stated at cost less accumulated depreciation and impairment losses (see note 2(k)).

The gain or loss on disposal of equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

(iii) Depreciation

Depreciation is calculated to write off the cost or valuation of items of buildings held for own use and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

Buildings held for own use	Shorter of the remaining lease terms or 50 years
Leasehold improvements	Shorter of the unexpired lease terms or 5 years
Furniture and fixtures	20%
Office equipment	20%
Motor vehicles	20%

Both the useful life of an asset and its residual value, if any, are reviewed annually. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

(k) IMPAIRMENT

Goodwill and intangible assets that have indefinite useful lives are not subject to amortisation, are tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to depreciation and amortisation and financial assets that are stated at cost or amortised cost are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there is separately identifiable cash flows (cash-generating units) if an impairment test cannot be performed for an individual asset.

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

2 Significant accounting policies (Continued)

(l) ACCOUNTS AND OTHER PAYABLES

Accounts and other payables are initially recognised at fair value and thereafter stated at amortised cost.

(m) INTEREST-BEARING BORROWINGS

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings using the effective interest method.

(n) CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. 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 consolidated cash flow statement.

(o) EMPLOYEE BENEFITS

(i) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. An accrual is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Bonus plans

The expected cost of bonus payments are recognised as a liability 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.

Liabilities for bonus payments are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

2 Significant accounting policies (Continued)

(o) EMPLOYEE BENEFITS (Continued)

(iii) Defined contribution pension plan obligations

The Group has operated a defined-contribution pension scheme ("MPF Scheme") since 1 December 2000 under the rules and regulations of the Hong Kong Mandatory Provident Fund ("MPF") Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group has chosen to follow the minimum statutory contribution requirement of 5% of eligible employees' relevant aggregate income subject to the relevant monthly income cap of \$20,000 imposed by the MPF Schemes Ordinance. Additional contribution may be made by the Group if certain conditions are met. The Group's contributions to the MPF Scheme are expensed as the employees have rendered their service entitling them to the contributions and are reduced by contributions forfeited, if applicable, by those employees who leave the scheme prior to vesting fully in the contributions.

(iv) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the Black-Scholes model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the income statement for the year of the review. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

2 Significant accounting policies (Continued)

(p) INCOME TAX

- (i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.
- (ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.
- (iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

2 Significant accounting policies (Continued)

(p) INCOME TAX (Continued)

(iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(q) PROVISIONS AND CONTINGENT LIABILITIES

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that the outflow is probable, it will be recognised as a provision.

2 Significant accounting policies (Continued)

(r) REVENUE RECOGNITION

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

- (i) Brokerage and commission income is recognised on a trade date basis when the relevant transactions are executed and related services are provided. Underwriting and sub-underwriting commission is recognised once the corresponding underwriting exposure has ceased. Corporate finance advisory, asset management, loan arrangement, secretarial and other service fees are recognised upon such services being rendered.
- (ii) Interest income is recognised as it accrues using the effective interest method.
- (iii) Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

- (iv) Payments received under operating leases net of any incentives paid to the lessee are recognised as rental income on a straight-line basis.

(s) TRANSLATION OF FOREIGN CURRENCIES

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

Exchange differences relating to financial instruments at fair value through profit or loss and derivative financial instruments are included in gains and losses on investments and net gain/(loss) on derivatives, respectively. All other exchange differences relating to monetary items are presented separately in the income statement.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items, including goodwill arising on consolidation of foreign operations acquired on or after 1 July 2005, are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity. Goodwill arising on consolidation of a foreign operation acquired before 1 July 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

2 Significant accounting policies (Continued)

(s) TRANSLATION OF FOREIGN CURRENCIES (Continued)

On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in equity which relate to that foreign operation is included in the calculation of the profit or loss on disposal.

(t) LEASED ASSETS

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, except that property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease (see note 2(i)).

(ii) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased assets, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as out in note 2(j). Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(k). Finance charges implicit in the lease payments are charged to the income statement over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

(iii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

(u) DISCONTINUED OPERATIONS

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

2 Significant accounting policies (Continued)

(u) DISCONTINUED OPERATIONS (Continued)

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. It also occurs when the operation is abandoned.

Where an operation is classified as discontinued, a single amount is presented on the face of the income statement, which comprises:

- the post-tax profit or loss of the discontinued operation; and
- the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operation.

(v) RELATED PARTIES

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

(w) SEGMENT REPORTING

A segment is a distinguishable component of the Group that is engaged either in providing services (business segment), or in providing services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include financial instruments, trade receivables and other properties and equipment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidated process, except to the extent that such intra-group balances and transactions are between Group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated item represents tax balances of the Group.

Notes to the Financial Statements

For the year ended 30 June 2007 (Expressed in Hong Kong dollars)

3 Turnover

The principal activities of the Group are investment in securities and investment properties, stock and futures brokerage, provision of financial advisory services, asset management, money lending and other securities related financial services.

	2007	2006 (restated)
Net gain/(loss) on disposal of financial assets at fair value through profit or loss and remeasurement to fair value		
– equity securities	\$ 291,182,151	\$ 24,523,772
– debt securities	(15,843,006)	13,182,771
– derivatives and others	9,680,129	330,347
	\$ 285,019,274	\$ 38,036,890
Commission and fee income on		
– stock and futures brokerage	\$ 47,092,163	\$ 40,218,577
– underwriting and placements in equity capital market	30,043,423	28,767,794
– corporate finance	9,853,359	9,052,405
– miscellaneous fee income	7,829,254	11,503,130
	\$ 94,818,199	\$ 89,541,906
Interest and dividend income		
– interest from		
– bank deposits	\$ 6,144,571	\$ 4,423,388
– margin and IPO financing	18,495,938	13,476,238
– other financing	676,010	572,378
– unlisted debt securities	–	37,096
– others	1,536,816	647,993
– dividends from listed equity securities	5,385,737	5,542,067
	\$ 32,239,072	\$ 24,699,160
	\$ 412,076,545	\$ 152,277,956

Notes to the Financial Statements

For the year ended 30 June 2007 (Expressed in Hong Kong dollars)

4 Other income

	2007	2006 (restated)
Exchange gain	\$ 512,184	\$ –
Reversal of impairment losses for bad and doubtful debts (net)	7,287,191	–
Reversal of impairment losses on intangible assets	–	180,000
Other income	2,286,728	2,062,552
	\$ 10,086,103	\$ 2,242,552

5 Profit before taxation

Profit before taxation is arrived at after charging:

	2007	2006 (restated)
(a) Finance costs:		
Interest on:		
– bank loans and overdrafts	\$ 14,096,528	\$ 9,311,678
– other accounts payable	4,321,079	5,805,285
– obligations under finance leases	251,882	–
– other	3,091	3,213,684
	\$ 18,672,580	\$ 18,330,647
(b) Staff costs:		
Salaries and other allowances	\$ 102,386,636	\$ 75,818,000
Pension costs – defined contribution plan	1,703,542	1,548,658
Equity settled share-based payment expenses	1,932	32,807
	\$ 104,092,110	\$ 77,399,465
(c) Other items:		
Impairment losses for bad and doubtful debts (net)	\$ –	\$ 7,106,963
Operating lease charges		
– land and buildings	8,189,504	1,953,432
– office equipment	–	441,600
Share of associates' taxation	245,675	128,519
Depreciation	2,992,882	2,443,092
Net loss on disposal of equipment	3,427	17,911
Auditors' remuneration	1,735,268	1,775,800

6 Income tax in the consolidated income statement

(a) TAXATION IN THE CONSOLIDATED INCOME STATEMENT REPRESENTS:

Hong Kong Profits Tax has been provided at the rate of 17.5% (2006: 17.5%) on the estimated assessable profits for the year.

	2007	2006
Current tax – Provision for Hong Kong Profits Tax		
Tax for the year	\$ 28,373,989	\$ 2,712,781
Under/(Over) provision in prior years	400,000	(4,705,865)
	\$ 28,773,989	\$ (1,993,084)
Deferred tax		
Origination and reversal of temporary differences	82,213	3,981,269
	\$ 28,856,202	\$ 1,988,185

(b) RECONCILIATION BETWEEN TAX CREDIT AND ACCOUNTING PROFIT AT APPLICABLE TAX RATES:

	2007	2006 (restated)
Profit before tax	\$ 262,565,388	\$ 29,827,452
Tax at the domestic income tax rate of 17.5%	\$ 45,948,943	\$ 5,219,804
Effect of different tax rates of subsidiaries operating in other jurisdictions	1,834,893	11,865,892
Tax effect of non-deductible expenses	4,079,518	13,729,853
Tax effect of non-taxable revenue	(4,968,698)	(20,787,306)
Tax effect of utilisation of tax losses not previously recognised	(18,239,043)	(5,251,552)
Tax effect of tax losses not recognised	1,257,448	2,306,306
Under/(Over) provision in prior years	400,000	(4,705,865)
Others	(1,456,859)	(388,947)
Actual tax expense	\$ 28,856,202	\$ 1,988,185

7 Discontinued operations

On 10 January 2007, Kingsway Asset Management Limited (“KAM”), a wholly-owned subsidiary of the Company, entered into a memorandum of understanding with a third party buyer to dispose of its entire shareholding interest in Kingsway Fund Management Limited (“KFM”). KFM is a subsidiary principally engaging in the wealth management business. The disposal was completed and the Group’s wealth management business segment was discontinued on 31 March 2007, on which date control of KFM was passed.

An analysis of the results of the wealth management business segment is set out below:

	2007	2006
Discontinued operations:		
Revenue	\$ 11,432,238	\$ 18,116,356
Expenses	9,245,621	13,510,053
Profit before taxation from discontinued operations	\$ 2,186,617	\$ 4,606,303
Income tax	–	–
Profit for the year from discontinued operations	\$ 2,186,617	\$ 4,606,303

8 Directors’ and management’s emoluments

(a) DIRECTORS’ EMOLUMENTS

The aggregate amounts of emoluments paid and payable to directors of the Company during the year are as follows:

	2007	2006
Fees	\$ 2,016,667	\$ 720,000
Salaries, commissions and other allowances	9,944,183	9,037,159
Bonuses	32,789,414	5,933,259
Retirement scheme contributions	251,000	264,405
	\$ 45,001,264	\$ 15,954,823

Included in the directors’ emoluments were fees of \$540,000 (2006: \$560,000) paid to the independent non-executive directors during the year.

In addition to the above emoluments, certain directors were granted share options under the Company’s share option scheme. The details of these benefits in kind are disclosed under the section “Share options” in the report of directors.

8 Directors' and management's emoluments (Continued)

(a) DIRECTORS' EMOLUMENTS (Continued)

Details of the emoluments of the directors are as follows:

	2007	2006
Jonathan Koon Shum Choi	\$ 2,601,787	\$ –
William Ka Chung Lam	–	5,310,000
Michael Koon Ming Choi	1,428,807	1,612,000
Mary Yuk Sin Lam	6,545,715	953,905
William Wai Leung Wu	31,603,288	461,107
Rebecca Yuk Fung Lau	2,118,334	5,012,000
Patrick Sun	–	1,885,811
Michael Wai Chung Wu	180,000	160,000
Robert Tsai To Sze	200,000	200,000
Stanley Kam Chuen Ko	200,000	200,000
Raymond Wai Yung Wu	40,000	160,000
Lee G. Lam	83,333	–
	\$ 45,001,264	\$ 15,954,823

There was no arrangement under which a director waived or agreed to waive any remuneration during the current and previous year.

(b) MANAGEMENT'S EMOLUMENTS (EXCLUDING COMMISSIONS)

The five individuals whose emoluments (excluding commissions) were the highest in the Group for the year include 2 (2006: 2) directors whose emoluments (excluding commissions) received in their capacity as directors of the Company are reflected in the analysis presented above. In the prior year, part of the emolument (excluding commissions) of a director whose emolument was fully disclosed below was also reflected in the analysis presented above. The emoluments (excluding commissions) payable to the remaining 3 (2006: 3) individuals during the year are as follows:

	2007	2006
Salaries, other allowances and benefits in kind	\$ 2,421,953	\$ 5,065,000
Bonuses	8,264,284	10,891,199
Inducement payment	500,000	–
Retirement scheme contributions	29,000	36,000
	\$ 11,215,237	\$ 15,992,199

8 Directors' and management's emoluments (Continued)

(b) MANAGEMENT'S EMOLUMENTS (EXCLUDING COMMISSIONS) (Continued)

The emoluments are within the following bands:

	2007 Number of individuals	2006 Number of individuals
\$2,500,001 – \$3,000,000	–	1
\$3,000,001 – \$3,500,000	1	–
\$3,500,001 – \$4,000,000	1	–
\$4,000,001 – \$4,500,000	1	–
\$5,000,001 – \$5,500,000	–	1
\$8,000,001 – \$8,500,000	–	1

9 Profit attributable to equity shareholders of the Company

The consolidated profit attributable to equity shareholders includes a profit of \$49,368,060 (2006: \$106,466,472) which has been dealt with in the financial statements of the Company.

10 Dividends

(a) DIVIDENDS PAYABLE TO EQUITY SHAREHOLDERS OF THE COMPANY ATTRIBUTABLE TO THE YEAR

	2007	2006
Interim dividend paid of 0.33 cent per share (2006: 0.33 cent per share)	\$ 10,719,139	\$ 10,719,139
Final dividend proposed after the balance sheet date of 0.7 cent per share (2006: 0.67 cent per share)	22,737,567	21,763,100
	\$ 33,456,706	\$ 32,482,239

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

10 Dividends (Continued)

(b) DIVIDENDS PAYABLE TO EQUITY SHAREHOLDERS OF THE COMPANY ATTRIBUTABLE TO THE PREVIOUS FINANCIAL YEAR, APPROVED AND PAID DURING THE YEAR

	2007	2006
Final dividend in respect of the previous financial year, approved and paid during the year, of 0.67 cent per share (2006: 0.67 cent per share)	\$ 21,763,100	\$ 21,763,100

11 Earnings per share

(a) BASIC EARNINGS PER SHARE

FROM CONTINUING AND DISCONTINUED OPERATIONS

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of \$207,536,982 (2006: \$19,338,078) and on 3,248,223,906 (2006: 3,248,223,906) ordinary shares in issue during the year.

FROM CONTINUING OPERATIONS

	2007	2006
Earnings for the year attributable to equity shareholders of the Company	\$ 207,536,982	\$ 19,338,078
Less: Earnings for the year from discontinued operations	(2,186,617)	(4,606,303)
	\$ 205,350,365	\$ 14,731,775

The denominators used are the same as those detailed above for basic earnings per share from continuing and discontinued operations.

FROM DISCONTINUED OPERATIONS

Basic earnings per share for discontinued operations is 0.1 cent (2006: 0.1 cent) which is calculated based on the profit for the year from discontinued operations of \$2,186,617 (2006: \$4,606,303). The denominators used are the same as those detailed above for basic earnings per share from continuing and discontinued operations.

11 Earnings per share (Continued)

(b) DILUTED EARNINGS PER SHARE

Diluted earnings per share for the current and prior years have not been disclosed as the outstanding share options have no dilutive effects on the basic earnings per share for the year, as their exercise prices were above the average market price of the shares during the year.

12 Segment reporting

(a) BY BUSINESS SEGMENTS

The Group's activities are organised under the following business segments:

Investment in securities	: Investment in securities for treasury and liquidity management
Merchant banking	: Investment in structured deals including listed and unlisted equity, debt securities and investment properties
Brokerage	: Provision of stock and futures brokerage services, margin and other financing, and other related services
Investment banking	: Provision of financial advisory services to corporate clients in connection with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and acting as underwriting and placing agent in the equity capital market
Asset Management	: Provision of real estate services, asset management and related advisory services to private equity funds and private clients
Wealth management	: Provision of wealth management services to authorised unit trust and MPF

Inter-segment revenues are charged among segments at an agreed rate with reference to the rate normally charged to third party customers, the nature of services or the costs incurred.

Net gains from revaluation of investment properties are included in the segment result for the merchant banking segment.

Notes to the Financial Statements

For the year ended 30 June 2007 (Expressed in Hong Kong dollars)

12 Segment reporting (Continued)

	2007									
	Continuing operations							Discontinued operations	Eliminations	Consolidated
	Investment in securities	Merchant banking	Brokerage	Investment banking	Asset management	Others	Total	Wealth management		
Segmental income statement										
Turnover	\$ 165,650,345	\$ 112,277,953	\$ 71,306,557	\$ 41,323,526	\$ 16,469,890	\$ 5,048,274	\$ 412,076,545	\$ 2,998,840	\$ (2,410,900)	\$ 412,664,485
Inter-segment revenue	14,744	214	2,646,781	5,062,500	12,557,819	34,860,305	55,142,363	8,434,447	-	63,576,810
Other revenue	(3,209)	(35,113)	7,546,874	49,467	12,241	2,515,843	10,086,103	(1,049)	(1,023,398)	9,061,656
	\$ 165,661,880	\$ 112,243,054	\$ 81,500,212	\$ 46,435,493	\$ 29,039,950	\$ 42,424,422	\$ 477,305,011	\$ 11,432,238	\$ (3,434,298)	\$ 485,302,951
Eliminations							(55,142,363)	(8,434,447)	-	(63,576,810)
Total revenue							\$ 422,162,648	\$ 2,997,791	\$ (3,434,298)	\$ 421,726,141
Segment results	\$ 126,254,236	\$ 94,092,064	\$ 317,721	\$ 16,604,342	\$ 18,188,126	\$ (1,217,115)	\$ 254,319,374	\$ 2,186,617	\$ -	\$ 256,505,991
Share of profits of associates	\$ -	\$ 4,812,391	\$ 2,138,598	\$ -	\$ 934,593	\$ -	7,885,582	-	-	7,885,582
Share of profits of jointly controlled entities	-	360,432	-	-	-	-	360,432	-	-	360,432
Profit before taxation							\$ 262,565,388	\$ 2,186,617	\$ -	\$ 264,752,005
Income tax										(28,856,202)
Profit after taxation										\$ 235,895,803
Segment assets and liabilities										
Segment assets	\$ 296,083,211	\$ 251,487,417	\$ 1,227,620,777	\$ 88,750,712	\$ 3,018,589	\$ 37,139,876	\$ 1,904,100,582	\$ -	\$ -	\$ 1,904,100,582
Interests in associates	-	39,109,163	8,905,326	-	2,726,044	-	50,740,533	-	-	50,740,533
Interests in jointly controlled entities	-	114,328,811	-	-	-	-	114,328,811	-	-	114,328,811
Unallocated assets										3,395,834
										\$ 2,072,565,760
Eliminations										(2,041,254)
Total assets										\$ 2,070,524,506
Segment liabilities	\$ 17,659,191	\$ 4,866,616	\$ 990,849,675	\$ 93,485,101	\$ 6,148,640	\$ 29,096,374	\$ 1,142,105,597	\$ -	\$ -	\$ 1,142,105,597
Unallocated liabilities										38,479,060
										\$ 1,180,584,657
Eliminations										(2,041,254)
Total liabilities										\$ 1,178,543,403
Other segmental information										
Depreciation of tangible assets for the year	\$ -	\$ -	\$ 977,288	\$ 148,067	\$ 46,497	\$ 1,821,030	\$ 2,992,882	\$ -	\$ -	\$ 2,992,882
Reversal of revaluation loss recognised in the income statement	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 548,409	\$ 548,409	\$ -	\$ -	\$ 548,409
Capital expenditure during the year	\$ -	\$ -	\$ 1,225,420	\$ 30,221	\$ -	\$ 3,552,305	\$ 4,807,946	\$ -	\$ -	\$ 4,807,946
(Reversal of)/charge for impairment losses	\$ -	\$ -	\$ (7,347,330)	\$ 13,429	\$ -	\$ 46,710	\$ (7,287,191)	\$ -	\$ -	\$ (7,287,191)

Notes to the Financial Statements

For the year ended 30 June 2007 (Expressed in Hong Kong dollars)

12 Segment reporting (Continued)

	2006									
	(restated)									
	Continuing operations						Discontinued operations	Eliminations	Consolidated	
	Investment in securities	Merchant banking	Brokerage	Investment banking	Asset management	Others	Total	Wealth management		
Segmental income statement										
Turnover	\$ 20,612,549	\$ 22,047,936	\$ 57,774,468	\$ 41,304,433	\$ 6,022,454	\$ 4,516,116	\$ 152,277,956	\$ 2,071,989	\$ (3,998,928)	\$ 150,351,017
Inter-segment revenue	251,450	-	6,400,492	-	8,894,486	26,453,403	41,999,831	16,044,367	-	58,044,198
Other revenue	54,929	-	297,542	243,259	200	1,646,622	2,242,552	-	(612,595)	1,629,957
	\$ 20,918,928	\$ 22,047,936	\$ 64,472,502	\$ 41,547,692	\$ 14,917,140	\$ 32,616,141	\$ 196,520,339	\$ 18,116,356	\$ (4,611,523)	\$ 210,025,172
Eliminations							(41,999,831)	(16,044,367)	-	(58,044,198)
Total revenue							\$ 154,520,508	\$ 2,071,989	\$ (4,611,523)	\$ 151,980,974
Segment results	\$ (4,840,634)	\$ 33,589,696	\$ (6,177,423)	\$ 13,221,559	\$ 1,750,048	\$ (11,464,599)	\$ 26,078,647	\$ 4,606,303	\$ -	\$ 30,684,950
Share of profits/(losses) of associates	\$ -	\$ 3,226,298	\$ (78,895)	\$ -	\$ 601,402	\$ -	3,748,805	-	-	3,748,805
Profit before taxation							\$ 29,827,452	\$ 4,606,303	\$ -	\$ 34,433,755
Income tax										(1,988,185)
Profit after taxation										\$ 32,445,570
Segment assets and liabilities										
Segment assets	\$ 135,558,562	\$ 458,836,110	\$ 188,731,641	\$ 7,234,911	\$ 6,649,709	\$ 85,610,376	\$ 882,621,309	\$ 11,511,039	\$ -	\$ 894,132,348
Interests in associates	-	34,302,683	6,766,728	-	1,791,452	-	42,860,863	-	-	42,860,863
Unallocated assets										1,744,066
										\$ 938,737,277
Eliminations										(5,494,893)
Total assets										\$ 933,242,384
Segment liabilities	\$ 11,235,105	\$ 112,615,119	\$ 78,611,033	\$ 5,099,332	\$ 4,303,377	\$ 18,812,509	\$ 230,676,475	\$ 7,320,316	\$ -	\$ 237,996,791
Unallocated liabilities										14,023,715
										\$ 252,020,506
Eliminations										(5,494,893)
Total liabilities										\$ 246,525,613
Other segmental information										
Depreciation of tangible assets for the year	\$ -	\$ -	\$ 1,016,738	\$ 159,793	\$ 15,881	\$ 1,250,680	\$ 2,443,092	\$ 167,460	\$ -	\$ 2,610,552
Revaluation loss recognised in the income statement	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 548,409	\$ 548,409	\$ -	\$ -	\$ 548,409
Capital expenditure during the year	\$ -	\$ 232,579,068	\$ 1,443,644	\$ -	\$ 43,131	\$ 1,819,769	\$ 235,885,612	\$ -	\$ -	\$ 235,885,612
(Reversal of)/charge for impairment losses	\$ -	\$ -	\$ 6,442,302	\$ 578,000	\$ 15,671	\$ (109,010)	\$ 6,926,963	\$ -	\$ -	\$ 6,926,963

12 Segment reporting (Continued)

(b) BY GEOGRAPHICAL SEGMENTS

The following table provides an analysis of the Group's turnover, assets and capital expenditure of continuing operations by geographical markets:

	Turnover		Group Assets		Capital expenditure	
	2007	2006 (restated)	2007	2006	2007	2006
Hong Kong	\$ 430,211,061	\$ 137,100,540	\$1,837,142,921	\$ 486,092,411	\$ 4,778,422	\$ 1,565,704
The People's Republic of China (the "PRC")	2,621,995	2,363,286	22,074,750	306,891,013	29,524	234,319,908
Japan	(18,086,240)	13,182,771	32,117,975	47,967,047	-	-
Other markets	(2,670,271)	(368,641)	12,764,936	41,670,838	-	-
	\$ 412,076,545	\$ 152,277,956	\$1,904,100,582	\$ 882,621,309	\$ 4,807,946	\$ 235,885,612

No geographical analysis of the discontinued operation is provided as less than 10% of the turnover, operating results and total assets of the discontinued operation are attributable to markets outside Hong Kong.

13 Investment properties

	Group	
	2007	2006
<i>Fair Value</i>		
At 1 July	\$ 280,357,490	\$ -
Addition	-	232,579,068
Fair value adjustment (Note)	4,538,858	47,778,422
Disposal	(284,896,348)	-
	\$ -	\$ 280,357,490

The investment properties disposed of during the year were located in the PRC and were held on a long lease of more than 50 years. The properties were valued on 30 June 2006 by RHL Appraisal Limited, an independent firm of chartered surveyors, who have among their staff Fellows of the Hong Kong Institute of Surveyors ("HKIS") with recent experience in the location and category of property being valued. The valuation, which conforms to HKIS Valuation Standards, was arrived at by reference to market evidence of transaction prices for similar properties.

Location	Classification	Term of lease
Level 3 to Level 22 of Block 6, No. 66 Xiaguang Lane, Chaoyang District, Beijing, PRC	Residential	Expires in 2073

Note: The fair value adjustment included an exchange gain of \$4,538,858 (2006: \$4,282,120) in respect of the appreciation of the Renminbi during the year.

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For the year ended 30 June 2007 (Expressed in Hong Kong dollars)

14 Other properties and equipment

	Group						Total
	Buildings held for own use	Leasehold improvements	Furniture and fixtures	Office equipment	Motor vehicles		
Cost or valuation:							
At 1 July 2005	\$ 13,090,140	\$ 5,426,632	\$ 2,020,646	\$ 11,054,362	\$ 2,431,212	\$ 34,022,992	
Exchange adjustment	–	45,809	–	7,868	19,116	72,793	
Additions	–	1,285,645	80,239	1,719,949	220,711	3,306,544	
Disposals	–	(251,550)	(121,737)	(567,971)	–	(941,258)	
Elimination on revaluation	(243,132)	–	–	–	–	(243,132)	
Surplus on revaluation	316,000	–	–	–	–	316,000	
At 30 June 2006 and 1 July 2006	\$ 13,163,008	\$ 6,506,536	\$ 1,979,148	\$ 12,214,208	\$ 2,671,039	\$ 36,533,939	
Exchange adjustment	–	78,244	1,288	15,741	45,255	140,528	
Additions	–	78,220	71,196	4,658,530	–	4,807,946	
Disposals	–	(87,430)	(120,836)	(1,032,118)	(512,184)	(1,752,568)	
Elimination on revaluation	(298,338)	–	–	–	–	(298,338)	
Surplus on revaluation	2,889,510	–	–	–	–	2,889,510	
At 30 June 2007	\$ 15,754,180	\$ 6,575,570	\$ 1,930,796	\$ 15,856,361	\$ 2,204,110	\$ 42,321,017	
Accumulated depreciation and impairment							
At 1 July 2005	\$ –	\$ 4,804,810	\$ 1,758,370	\$ 8,316,946	\$ 654,149	\$ 15,534,275	
Exchange adjustment	–	44,433	–	4,372	5,350	54,155	
Charge for the year	243,132	528,919	130,647	1,209,310	498,544	2,610,552	
Elimination on revaluation	(243,132)	–	–	–	–	(243,132)	
Disposals	–	(251,550)	(121,737)	(545,088)	–	(918,375)	
At 30 June 2006 and 1 July 2006	\$ –	\$ 5,126,612	\$ 1,767,280	\$ 8,985,540	\$ 1,158,043	\$ 17,037,475	
Exchange adjustment	–	78,244	212	9,248	18,416	106,120	
Charge for the year	298,338	467,617	100,040	1,662,972	463,915	2,992,882	
Elimination on revaluation	(298,338)	–	–	–	–	(298,338)	
Disposals	–	(87,430)	(90,652)	(972,567)	(384,138)	(1,534,787)	
At 30 June 2007	\$ –	\$ 5,585,043	\$ 1,776,880	\$ 9,685,193	\$ 1,256,236	\$ 18,303,352	
Carrying values:							
At 30 June 2007	\$ 15,754,180	\$ 990,527	\$ 153,916	\$ 6,171,168	\$ 947,874	\$ 24,017,665	
At 30 June 2006	\$ 13,163,008	\$ 1,379,924	\$ 211,868	\$ 3,228,668	\$ 1,512,996	\$ 19,496,464	
Representing:							
Cost	\$ –	\$ 6,575,570	\$ 1,930,796	\$ 15,856,361	\$ 2,204,110	\$ 26,566,837	
Valuation	15,754,180	–	–	–	–	15,754,180	
At 30 June 2007	\$ 15,754,180	\$ 6,575,570	\$ 1,930,796	\$ 15,856,361	\$ 2,204,110	\$ 42,321,017	
Representing:							
Cost	\$ –	\$ 6,506,536	\$ 1,979,148	\$ 12,214,208	\$ 2,671,039	\$ 23,370,931	
Valuation	13,163,008	–	–	–	–	13,163,008	
At 30 June 2006	\$ 13,163,008	\$ 6,506,536	\$ 1,979,148	\$ 12,214,208	\$ 2,671,039	\$ 36,533,939	

Notes to the Financial Statements

For the year ended 30 June 2007 (Expressed in Hong Kong dollars)

14 Other properties and equipment (Continued)

The Group's interest in buildings held for own use represents two buildings located in the PRC which are held on a medium lease of less than 50 years. The buildings were revalued at 30 June 2007 by RHL Appraisal Limited, an independent firm of chartered surveyors employed by the Group, on the basis of open market value. The revaluation surplus of \$3,990,358 (2006: \$1,649,257) was credited to the revaluation reserve (note 31).

During the year, additions to office equipment of the Group financed by new finance leases were \$2,562,411 (2006: \$Nil). At the balance sheet date, the net book value of office equipment held under finance leases of the Group was \$2,092,636 (2006: \$Nil). At the end of the lease term the Group has the option to purchase the leased equipment at a price deemed to be a bargain purchase option. None of the leases includes contingent rentals.

15 Intangible assets

	Membership of Chinese Gold & Silver Exchange Society	Club memberships	Exchange trading rights	Total
Cost				
At 1 July 2005	\$ 280,000	\$ 590,000	\$ 9,897,318	\$ 10,767,318
Elimination of accumulated amortisation	–	–	(7,930,883)	(7,930,883)
At 30 June 2006, 1 July 2006 and 30 June 2007	\$ 280,000	\$ 590,000	\$ 1,966,435	\$ 2,836,435
Accumulated amortisation and impairment				
At 1 July 2005	\$ –	\$ 250,000	\$ 7,966,177	\$ 8,216,177
Elimination against cost at 1 July 2005	–	–	(7,930,883)	(7,930,883)
Reversal of impairment loss	–	(180,000)	–	(180,000)
At 30 June 2006, 1 July 2006 and 30 June 2007	\$ –	\$ 70,000	\$ 35,294	\$ 105,294
Carrying amount				
At 30 June 2007	\$ 280,000	\$ 520,000	\$ 1,931,141	\$ 2,731,141
At 30 June 2006	\$ 280,000	\$ 520,000	\$ 1,931,141	\$ 2,731,141

Notes to the Financial Statements

For the year ended 30 June 2007 (Expressed in Hong Kong dollars)

16 Investment in subsidiaries

	Company	
	2007	2006
Unlisted shares, at cost	\$ 271,222,358	\$ 271,222,358
Amounts due from subsidiaries	401,846,406	334,436,070
	\$ 673,068,764	\$ 605,658,428

The amounts due from subsidiaries are unsecured, interest free and have no fixed terms of repayment.

Particulars of the significant subsidiaries of the Group are set out in note 35.

17 Interests in associates

	Group	
	2007	2006
Share of net assets	\$ 50,740,533	\$ 42,860,863

Notes: In the prior year, Modern Harvest Limited, an associate of the Company, entered into an agreement with two third parties to set up a consultancy company in the PRC. Under the agreement, Modern Harvest Limited is committed to inject RMB8 million for a 40% equity interest in the consultancy company. As at 30 June 2007, RMB4 million has been injected by Modern Harvest Limited.

Notes to the Financial Statements

For the year ended 30 June 2007 (Expressed in Hong Kong dollars)

17 Interests in associates (Continued)

The following list contains only the particulars of significant associates, all of which are unlisted corporate entities, which principally affected the results or assets of the Group:

Name	Form of business structure	Place of incorporation/ operations	Principal activities	Particulars of issued shares	Interest indirectly held
KCG Capital Holdings Limited	Incorporated	British Virgin Islands	Investment holding	20,000,000 ordinary shares of \$1 each	30%
KCG Securities Asia Limited	Incorporated	Hong Kong	Securities brokerage	20,000,000 ordinary shares of \$1 each	30%
Sinochem Kingsway Asset Management Limited	Incorporated	Cayman Islands/ Hong Kong	Asset management	70,000 ordinary shares of US\$1 each	50%
Sinochem Kingsway Capital Inc.	Incorporated	Cayman Islands	Investment holding	100,000 ordinary shares of \$0.1 each	30%
Modern Harvest Limited	Incorporated	British Virgin Islands	Investment holding	1 ordinary share of US\$1 each	30%

Summary financial information on associates:

	Assets	Liabilities	Equity	Revenue	Profit
2007					
100 per cent	\$ 231,876,107	\$ 66,375,721	\$ 165,500,386	\$ 50,268,946	\$ 25,039,149
Group's effective interest	\$ 70,783,929	\$ 20,043,396	\$ 50,740,533	\$ 16,508,459	\$ 7,885,582
2006					
100 per cent	\$ 189,345,373	\$ 48,864,430	\$ 140,480,943	\$ 35,435,691	\$ 11,694,146
Group's effective interest	\$ 57,655,279	\$ 14,794,416	\$ 42,860,863	\$ 11,724,342	\$ 3,748,805

Notes to the Financial Statements

For the year ended 30 June 2007 (Expressed in Hong Kong dollars)

18 Interests in jointly controlled entities

	Group	
	2007	2006
Share of net assets	\$ 16,248,822	\$ –
Amount due from jointly controlled entities	98,079,989	–
	\$ 114,328,811	\$ –

Details of the Group's interest in the significant jointly controlled entities are as follows:

Name	Form of business structure	Place of incorporation/operation	Principal activity	Particulars of issued shares	Interest indirectly held
Total Express Investment Limited	Incorporated	British Virgin Islands	Investment holding	2,000 ordinary share of US\$1 each	50%
Overseas Billion Limited	Incorporated	Hong Kong	Property investment	100,000 ordinary shares of \$1 each	50%
Well Talent Limited	Incorporated	Hong Kong	Property investment	100,000 ordinary shares of \$1 each	50%
Luxury Development Limited	Incorporated	Hong Kong	Property investment	100,000 ordinary shares of \$1 each	50%

Summary financial information on jointly controlled entities – Group's effective interest:

	2007	2006
Non-current assets	\$ 165,214,553	\$ –
Current assets	8,981,800	–
Non-current liabilities	(151,580,811)	–
Current liabilities	(6,366,720)	–
Net assets	\$ 16,248,822	\$ –
Income	\$ 7,152,282	\$ –
Expenses	(6,791,850)	–
Profit for the year	\$ 360,432	\$ –

Notes to the Financial Statements

For the year ended 30 June 2007 (Expressed in Hong Kong dollars)

19 Other financial assets

	Group	
	2007	2006
Unlisted held-to-maturity convertible bonds	\$ 40,070,000	\$ 40,070,000
Statutory deposits	5,421,164	6,805,960
Others	3,607,946	3,565,330
	\$ 49,099,110	\$ 50,441,290
Less: Impairment loss	(40,070,000)	(40,070,000)
	\$ 9,029,110	\$ 10,371,290

20 Financial assets at fair value through profit or loss

	Group	
	2007	2006
Listed equity securities, at fair value		
– in Hong Kong	\$ 540,582,386	\$ 200,557,434
– outside Hong Kong	11,660,151	39,647,866
	\$ 552,242,537	\$ 240,205,300
Unlisted investments, at fair value		
– equity securities	\$ –	\$ 1,170,300
– unit trust fund (Note (a))	–	1,520,910
– debt securities (Note (b))	32,074,765	47,917,771
– derivative instruments (Note (c))	13,654,573	–
	\$ 45,729,338	\$ 50,608,981
	\$ 597,971,875	\$ 290,814,281
The carrying amounts of the above financial assets are classified as follows:		
Held for trading	\$ 552,242,537	\$ 241,726,210
Designated as fair value through profit or loss on initial recognition	45,729,338	49,088,071
	\$ 597,971,875	\$ 290,814,281

Notes: (a) The unit trust fund authorised by the Securities and Futures Commission of Hong Kong was launched and managed by a subsidiary of the Group.

(b) The debt securities represent convertible bonds with a maturity over 1 year but less than 5 years.

(c) The derivative instruments represent share options with a maturity over 1 year but less than 5 years.

Notes to the Financial Statements

For the year ended 30 June 2007 (Expressed in Hong Kong dollars)

21 Accounts, loans and other receivables

	Note	Group		Company	
		2007	2006	2007	2006
Accounts and loans receivables					
Amounts due from brokers and clearing houses	(a)	\$ 38,311,585	\$ 13,283,084	\$ -	\$ -
Amounts due from margin clients	(b)	63,933,609	71,884,793	-	-
Amounts due from cash clients	(c)	1,035,377,691	50,646,561	-	-
Loans receivable	(d)	18,929,066	11,193,319	-	-
Others	(e)	3,296,802	3,568,755	-	-
		\$ 1,159,848,753	\$ 150,576,512	\$ -	\$ -
Less: Impairment losses		(8,835,208)	(16,186,834)	-	-
		\$ 1,151,013,545	\$ 134,389,678	\$ -	\$ -
Prepayments, deposits and other receivables		29,202,551	8,854,590	178,000	183,006
		\$ 1,180,216,096	\$ 143,244,268	\$ 178,000	\$ 183,006

The ageing analysis of accounts and loans receivables net of impairment losses is as follows:

	Group		Company	
	2007	2006	2007	2006
Current and within one month	\$ 1,149,709,675	\$ 132,713,094	\$ -	\$ -
More than one month and within three months	1,240,135	592,683	-	-
More than three months	63,735	1,083,901	-	-
	\$ 1,151,013,545	\$ 134,389,678	\$ -	\$ -

Notes:

- (a) Amounts due from brokers and clearing houses are required to be settled on the settlement day determined under the relevant market practices or exchange rules.

The Group maintains clients' monies arising from the ordinary course of business of dealing in options and futures contracts in trust with HKFE Clearing Corporation Limited ("HKFECC"). At 30 June 2007, the Group held \$7,396,416 (2006: \$8,329,827) with HKFECC in trust for clients which was not dealt with in these financial statements.

- (b) Margin clients of the brokerage division are required to pledge securities collateral to the Group in order to obtain the credit facilities for securities trading. The amount of credit facilities granted to them is determined by the discounted value of securities accepted by the Group. The amounts due from margin clients are repayable on demand and bear interest at commercial rates.
- (c) There are no credit facilities granted to cash clients of the brokerage division. They are required to settle their securities trading balances on the settlement day determined under the relevant market practices or exchange rules.
- (d) The credit terms for loans granted by the Group's brokerage division are set by management with reference to the financial background and the value and nature of collaterals pledged by the borrower.
- (e) The balance included an amount of \$241,040 (2006: \$Nil) receivable from an associate arising from normal business transactions.

Notes to the Financial Statements

For the year ended 30 June 2007 (Expressed in Hong Kong dollars)

22 Amounts due from related companies

The amounts due from related companies are unsecured, interest-free and repayable on demand.

23 Cash and cash equivalents

The Group maintains segregated clients' accounts with licensed banks to hold clients' monies arising from normal business transactions in connection with the Group's brokerage and asset management activities. As at 30 June 2007, segregated clients' accounts not otherwise dealt with in these financial statements amounted to \$434,125,148 (2006: \$178,346,909).

24 Financial liabilities at fair value through profit or loss

	Group	
	2007	2006
Short positions in equity securities listed in Hong Kong	\$ 83,700,000	\$ –

In connection with a placing transaction where the Group acted as a placing agent, the issuer granted to the Group a call option which fully covers the Group's short positions arising from the over-allotment of the underlying securities. The Group did not exercise the call option before its expiry on 1 July 2007. As at 30 June 2007, the Group recognised such short positions at the fair value of the underlying securities.

25 Accruals, accounts and other payables

	Group		Company	
	2007	2006	2007	2006
Accounts payable (current and within one month)				
Amounts due to brokers and clearing houses	\$ 90,915,014	\$ 10,174,707	\$ –	\$ –
Clients' accounts payable (net of bank and clearing house balances in segregated clients' accounts)	88,095,787	56,282,458	–	–
Others	7,755,735	8,024,503	–	–
	\$ 186,766,536	\$ 74,481,668	\$ –	\$ –
Other creditors and accruals	69,341,404	40,317,188	2,365,492	959,308
	\$ 256,107,940	\$ 114,798,856	\$ 2,365,492	\$ 959,308

Notes to the Financial Statements

For the year ended 30 June 2007 (Expressed in Hong Kong dollars)

26 Bank loans

	Group	
	2007	2006
Unsecured bank loans	\$ 792,000,000	\$ –
Secured bank loans (Note (a))	6,061,410	117,703,042
	\$ 798,061,410	\$ 117,703,042

The bank loans are repayable as follows:

	Group	
	2007	2006
Within one year or on demand	\$ 792,555,840	\$ 5,142,752
More than one year, but not exceeding two years	599,096	5,505,947
More than two years, but not exceeding five years	2,091,987	18,961,718
After five years	2,814,487	88,092,625
	\$ 798,061,410	\$ 117,703,042
Less: Amount due after one year shown under non-current liabilities	(5,505,570)	(112,560,290)
	\$ 792,555,840	\$ 5,142,752

Note:

- (a) Certain banking facilities of the Group were secured by the Group's securities held for trading and the Group's bank deposits with market value of \$Nil (2006: \$44,596,691) and \$Nil (2006: \$4,225,273) respectively. The banking facilities were not utilised as at 30 June 2007 and 30 June 2006.

As at 30 June 2007, the Group's buildings held for own use with a carrying value of \$15,754,180 (2006: \$13,163,008) were pledged as security for certain bank loans. \$6,061,410 was outstanding on these facilities as at 30 June 2007 (2006: \$6,569,917).

As at 30 June 2006, the Group's investment properties with a carrying value of \$280,357,490 were pledged as security for certain bank loans. \$111,133,125 was outstanding as at 30 June 2006.

27 Obligations under finance leases

At 30 June 2007, the Group had obligations under finance leases repayable as follows:

	30 June 2007	
	Present value of the minimum lease payments	Total minimum lease payments
Within one year	\$ 447,136	\$ 675,600
After one year but within two years	\$ 501,137	\$ 675,600
After two years but within five years	1,246,720	1,407,500
	\$ 1,747,857	\$ 2,083,100
	\$ 2,194,993	\$ 2,758,700
Less: Total future interest expenses		(563,707)
Present value of lease obligations		\$ 2,194,993

The Group did not have any obligations under finance leases at 30 June 2006.

28 Deferred taxation

(a) DEFERRED TAX LIABILITIES RECOGNISED

The components of deferred tax liabilities recognised in the consolidated balance sheet and the movements during the year are as follows:

	Accelerated depreciation	Group Revaluation of investment properties	Total
At 1 July 2005	\$ 453,330	\$ –	\$ 453,330
(Credited)/charged to income statement	(19,588)	4,000,857	3,981,269
At 30 June 2006 and 1 July 2006	\$ 433,742	\$ 4,000,857	\$ 4,434,599
Exchange adjustment	–	64,772	64,772
Charged to income statement	82,213	–	82,213
Released upon disposal of subsidiaries	–	(4,065,629)	(4,065,629)
At 30 June 2007	\$ 515,955	\$ –	\$ 515,955

28 Deferred taxation (Continued)

(a) DEFERRED TAX LIABILITIES RECOGNISED (Continued)

	2007	2006
Deferred tax liabilities		
– Accelerated depreciation	\$ 515,955	\$ 433,742
– Revaluation of investment properties	–	4,000,857
	\$ 515,955	\$ 4,434,599

(b) DEFERRED TAX ASSETS NOT RECOGNISED

In accordance with the accounting policy set out in note 2(p), the Group has not recognised deferred tax assets in respect of cumulative tax losses of \$153 million (2006: \$250 million) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses do not expire under current tax regulation.

29 Share capital

	No. of shares	Amount
Authorised:		
Ordinary shares of \$0.1 each	4,000,000,000	\$ 400,000,000
Issued and fully paid:		
At 1 July 2005, 30 June 2006 and 2007	3,248,223,906	\$ 324,822,391

30 Equity settled share-based transactions

The Company has a share option scheme which was adopted on 23 August 2000 whereby the directors of the Company are authorised, at their discretion, to invite full-time employees, including executive directors of the Company and its subsidiaries, to take up options to subscribe for shares of the Company. For options granted before 1 September 2001, the exercise price of options was determined by the Board and was not less than 80% of the average of the closing prices of the shares on the Stock Exchange for the five trading days immediately preceding the date of the offer. For options granted on or after 1 September 2001, the exercise price of options is the highest of the nominal value of the shares, the closing price of the shares on the Stock Exchange on the date of grant and the average closing price of the shares on the Stock Exchange for the five business days immediately preceding the date of grant. Details of the share option scheme are disclosed under the section "Share Options" in the report of the directors.

Notes to the Financial Statements

For the year ended 30 June 2007 (Expressed in Hong Kong dollars)

30 Equity settled share-based transactions (Continued)

(i) MOVEMENTS IN SHARE OPTIONS

	2007 Number	2007 Weighted average exercise price \$	2006 Number	2006 Weighted average exercise price \$
At 1 July of previous year	38,000,000	0.38	75,950,000	0.37
Lapsed	(30,000,000)	0.37	(37,950,000)	0.36
At 30 June	8,000,000	0.43	38,000,000	0.38
Exercisable at the end of the year	8,000,000	0.43	34,333,331	0.38

(ii) TERMS OF UNEXPIRED AND UNEXERCISED SHARE OPTIONS AT BALANCE SHEET DATE

Date of share options granted	Range of exercise periods	Exercise price per share \$	At 1 July 2005	Transfer (note)	Lapsed during the year	At 30 June 2006 and 1 July 2006	Lapsed during the year	At 30 June 2007
Directors:								
31 August 2001	1 March 2002 to 31 August 2005	0.3233	2,400,000	-	(2,400,000)	-	-	-
20 December 2002	2 October 2003 to 1 April 2007	0.3833	-	3,000,000	-	3,000,000	(3,000,000)	-
4 April 2003	5 October 2003 to 4 April 2007	0.363	24,000,000	-	-	24,000,000	(24,000,000)	-
11 March 2004	24 September 2004 to 23 March 2008	0.43	-	7,000,000	-	7,000,000	-	7,000,000
Employees:								
31 August 2001	1 March 2002 to 28 February 2006	0.3233	21,810,000	-	(21,810,000)	-	-	-
20 December 2002	2 October 2003 to 1 April 2007	0.3833	3,000,000	(3,000,000)	-	-	-	-
11 March 2004	24 September 2004 to 7 April 2008	0.43	24,740,000	(7,000,000)	(13,740,000)	4,000,000	(3,000,000)	1,000,000
Total			75,950,000	-	(37,950,000)	38,000,000	(30,000,000)	8,000,000

Note: During the year ended 30 June 2006, certain employees of the Group were appointed as directors of the Company. Consequently, those options held by these employees were transferred to options held by directors upon their appointments.

30 Equity settled share-based transactions (Continued)

(ii) TERMS OF UNEXPIRED AND UNEXERCISED SHARE OPTIONS AT BALANCE SHEET DATE (Continued)

There were no options granted, exercised or cancelled in accordance with the terms of the Scheme during the year. The exercise period for share options granted on a particular date varies for each individual. The range of exercise periods disclosed above indicates the timeframe during which the exercise periods for share options granted on a particular date can fall.

(iii) FAIR VALUE OF SHARE OPTIONS AND ASSUMPTIONS

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on a Black-Scholes model. The contractual life of the option is used as an input into this model. The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

Fair value of share options and assumptions

	2007 and 2006	
Fair value at measurement date	\$	0.02
Share price	\$	0.36
Exercise price	\$	0.39
Expected volatility		13.58%
Option life		3.5 years
Expected dividends		2.26%
Risk-free interest rate		2.35%

Notes to the Financial Statements

For the year ended 30 June 2007 (Expressed in Hong Kong dollars)

31 Reserves

THE GROUP

	Attributable to equity shareholders of the Company									
	Share premium (Note (a))	Special reserve (Note (b))	Capital	Equity	Exchange reserve (Note (e))	Revaluation reserve (Note (f))	Retained profits (Note (g))	Total	Minority interests	Total
			reserve on consolidation (Note (c))	compensation reserve (Note (d))						
At 1 July 2006	\$ 31,811,160	\$ 39,800,000	\$ 63,391,540	\$ 87,483	\$ (271,980)	\$ 1,649,257	\$ 170,295,935	\$ 306,763,395	\$ 55,130,985	\$ 361,894,380
Exchange differences on translation of financial statements of overseas subsidiaries	-	-	-	-	(486,313)	-	-	(486,313)	-	(486,313)
Share of reserve of associates	-	-	-	-	(5,912)	-	-	(5,912)	-	(5,912)
Equity settled share-based transactions	-	-	-	1,932	-	-	-	1,932	-	1,932
Surplus on revaluation	-	-	-	-	-	2,341,101	-	2,341,101	-	2,341,101
Elimination on disposal of a subsidiary	-	-	-	-	-	-	-	-	(40)	(40)
Transfer between reserves	-	-	-	(77,815)	-	-	77,815	-	-	-
Profit attributable to equity shareholders	-	-	-	-	-	-	207,536,982	207,536,982	28,358,821	235,895,803
Dividends paid										
- 2006, final	-	-	-	-	-	-	(21,763,100)	(21,763,100)	-	(21,763,100)
- 2007, interim	-	-	-	-	-	-	(10,719,139)	(10,719,139)	-	(10,719,139)
At 30 June 2007	\$ 31,811,160	\$ 39,800,000	\$ 63,391,540	\$ 11,600	\$ (764,205)	\$ 3,990,358	\$ 345,428,493	\$ 483,668,946	\$ 83,489,766	\$ 567,158,712
Attributable to:										
- the Company and its subsidiaries	\$ 31,811,160	\$ 39,800,000	\$ 63,391,540	\$ 11,600	\$ (763,544)	\$ 3,990,358	\$ 331,125,730	\$ 469,366,844	\$ -	\$ 469,366,844
- associates	-	-	-	-	(661)	-	14,242,331	14,241,670	-	14,241,670
- jointly controlled entities	-	-	-	-	-	-	60,432	60,432	-	60,432
At 30 June 2007	\$ 31,811,160	\$ 39,800,000	\$ 63,391,540	\$ 11,600	\$ (764,205)	\$ 3,990,358	\$ 345,428,493	\$ 483,668,946	\$ -	\$ 483,668,946

Notes to the Financial Statements

For the year ended 30 June 2007 (Expressed in Hong Kong dollars)

31 Reserves (Continued)

THE GROUP

	Attributable to equity shareholders of the Company									
	Share	Special	Capital	Equity	Exchange	Revaluation	Retained	Total	Minority	Total
	premium	reserve	reserve on	compensation	reserve	reserve	profits			
(Note (a))	(Note (b))	consolidation	reserve	(Note (d))	(Note (e))	(Note (f))	(Note (g))			
At 1 July 2005	\$ 31,811,160	\$ 39,800,000	\$ 63,391,540	\$ 54,676	\$ 1,253	\$ 784,848	\$ 183,440,096	\$ 319,283,573	\$ 42,023,493	\$ 361,307,066
Exchange differences on translation of financial statements of overseas subsidiaries	-	-	-	-	(278,484)	-	-	(278,484)	-	(278,484)
Share of reserve of associates	-	-	-	-	5,251	-	-	5,251	-	5,251
Equity settled share-based transactions	-	-	-	32,807	-	-	-	32,807	-	32,807
Surplus on revaluation	-	-	-	-	-	864,409	-	864,409	-	864,409
Profit attributable to equity shareholders	-	-	-	-	-	-	19,338,078	19,338,078	13,107,492	32,445,570
Dividends paid										
- 2005, final	-	-	-	-	-	-	(21,763,100)	(21,763,100)	-	(21,763,100)
- 2006, interim	-	-	-	-	-	-	(10,719,139)	(10,719,139)	-	(10,719,139)
At 30 June 2006	\$ 31,811,160	\$ 39,800,000	\$ 63,391,540	\$ 87,483	\$ (271,980)	\$ 1,649,257	\$ 170,295,935	\$ 306,763,395	\$ 55,130,985	\$ 361,894,380
Attributable to:										
- the Company and its subsidiaries	\$ 31,811,160	\$ 39,800,000	\$ 63,391,540	\$ 87,483	\$ (277,231)	\$ 1,649,257	\$ 164,239,187	\$ 300,701,396	\$ -	\$ 300,701,396
- associates	-	-	-	-	5,251	-	6,356,748	6,361,999	-	6,361,999
- a jointly controlled entity	-	-	-	-	-	-	(300,000)	(300,000)	-	(300,000)
At 30 June 2006	\$ 31,811,160	\$ 39,800,000	\$ 63,391,540	\$ 87,483	\$ (271,980)	\$ 1,649,257	\$ 170,295,935	\$ 306,763,395	\$ -	\$ 306,763,395

Notes to the Financial Statements

For the year ended 30 June 2007 (Expressed in Hong Kong dollars)

31 Reserves (Continued)

THE COMPANY

	Contributed surplus (Note (h))	Share premium (Note (a))	Equity compensation reserve (Note (d))	Retained profits (Note (g))	Total
At 1 July 2005	\$ 199,229,696	\$ 31,811,160	\$ 54,676	\$ 32,212,207	\$ 263,307,739
Equity settled share-based transactions	–	–	32,807	–	32,807
Profit for the year	–	–	–	106,466,472	106,466,472
Dividends paid					
– 2005, final	–	–	–	(21,763,100)	(21,763,100)
– 2006, interim	–	–	–	(10,719,139)	(10,719,139)
At 30 June 2006	\$ 199,229,696	\$ 31,811,160	\$ 87,483	\$ 106,196,440	\$ 337,324,779
At 1 July 2006	\$ 199,229,696	\$ 31,811,160	\$ 87,483	\$ 106,196,440	\$ 337,324,779
Equity settled share-based transactions	–	–	1,932	–	1,932
Transfer between reserves	–	–	(77,815)	77,815	–
Profit for the year	–	–	–	49,368,060	49,368,060
Dividends paid					
– 2006, final	–	–	–	(21,763,100)	(21,763,100)
– 2007, interim	–	–	–	(10,719,139)	(10,719,139)
At 30 June 2007	\$ 199,229,696	\$ 31,811,160	\$ 11,600	\$ 123,160,076	\$ 354,212,532

Notes to the Financial Statements

For the year ended 30 June 2007 (Expressed in Hong Kong dollars)

31 Reserves (Continued)

Notes:

- (a) The application of share premium account is governed by Section 40 of the Companies Act 1981 of Bermuda.
- (b) The special reserve of the Group represents the difference between the aggregate of the nominal value and the share premium of the shares of SW Kingsway Capital Group Limited at the date of acquisition by the Company and the nominal value of the shares of the Company issued for the acquisition at the time of the Reorganisation on 10 August 2000.
- (c) The capital reserve on consolidation of the Group represents negative goodwill arising from acquisitions prior to 1 July 2001.
- (d) The equity compensation reserve represents the fair value of the actual or estimated number of unexercised share options granted to employees of the Company recognised in accordance with the accounting policy adopted for share based payments.
- (e) The exchange reserve has been set up and will be dealt with in accordance with the accounting policies adopted for foreign currency translation.
- (f) The revaluation reserve was set up to deal with the surplus or deficit arising from the revaluation of buildings held for own use.
- (g) Retained profits represent:

	Group		Company	
	2007	2006	2007	2006
2007 proposed final dividend	\$ 22,737,567	\$ –	\$ 22,737,567	\$ –
2006 proposed final dividend	–	21,763,100	–	21,763,100
Others	322,690,926	148,532,835	100,422,509	84,433,340
	\$ 345,428,493	\$ 170,295,935	\$ 123,160,076	\$ 106,196,440

- (h) The contributed surplus of the Company represents the difference of \$271,022,350 between the fair value of the shares of the subsidiary acquired pursuant to the Reorganisation on 10 August 2000 over the nominal value of the Company's shares issued in exchange, net of \$39,712,470 which was capitalised as a result of the bonus issue and dividend paid amounting to \$32,080,184 in prior year.

Under the Companies Act 1981 of Bermuda, a company may make distributions to its shareholders out of contributed surplus in accordance with section 54 thereof.

Notes to the Financial Statements

For the year ended 30 June 2007 (Expressed in Hong Kong dollars)

32 Contingent liabilities

	Company	
	2007	2006
Guarantees for banking facilities to subsidiaries and jointly controlled entities	\$ 299,761,410	\$ 881,536,503

33 Commitments

(a) CAPITAL COMMITMENTS

	Group	
	2007	2006
Contracted but not provided for	\$ 1,016,912	\$ 1,260,131

(b) COMMITMENTS UNDER OPERATING LEASES

(i) As lessee

As at 30 June 2007, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Land and buildings		Office equipment	
	2007	2006	2007	2006
Not later than 1 year	\$ 8,649,543	\$ 6,366,791	\$ -	\$ 441,600
Later than 1 year and not later than 5 years	32,347,840	32,250,000	-	736,000
Over 5 years	-	8,062,500	-	-
	\$ 40,997,383	\$ 46,679,291	\$ -	\$ 1,177,600

Operating leases relate to land and buildings with lease terms of between 1 to 5 years. The Group does not have an option to purchase the leased assets at the expiry of the leased period.

33 Commitments (Continued)

(b) COMMITMENTS UNDER OPERATING LEASES (Continued)

(ii) As lessor

As at 30 June 2007, the Group had future minimum lease payments receivable under non-cancellable operating lease as follows:

	2007	2006
Not later than 1 year	\$ –	\$ 11,700

34 Related party and connected party transactions

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following material related party and connected party transactions.

(a) KEY MANAGEMENT PERSONNEL REMUNERATION

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in note 8(a) and certain of the highest paid employees as disclosed in note 8(b), is as follows:

	2007	2006
Fees	\$ 2,016,667	\$ 720,000
Salaries, commissions and other allowance	12,704,183	19,363,417
Bonuses	34,289,414	12,267,534
Retirement scheme contributions	515,000	438,000
	\$ 49,525,264	\$ 32,788,951

Total remuneration is included in "staff costs" (see note 5(b)).

34 Related party and connected party transactions (Continued)

(b) OTHERS

The following is a summary of significant related party and connected party (as defined in the Listing Rules) transactions which were carried out in the normal course of the Group's business:

	Note	2007	2006
Brokerage commission earned on securities and futures dealing	(a)	\$ 4,654,592	\$ 4,412,219
Common office expenses recharged	(b)	768,375	180,208
Consultancy and management fees received	(c)	3,402,331	1,747,091
Secretarial fee earned	(d)	185,254	136,623
Margin loan interest earned	(e)	55,446	26,039
Interest income	(f)	691,052	–
Management fee paid	(g)	–	(30,000)

Notes:

- (a) Brokerage commission was received from fellow subsidiaries, associates, minority shareholders of non-wholly owned subsidiary, the Group's directors and their associates in the ordinary course of the Group's business of dealing in securities and futures. Commission rates are set at the same level as those normally offered to third party clients or the applicable staff rate if the clients are directors or employees of the Group.
- (b) Amounts represent office overheads and rental expenses recharged to a fellow subsidiary and an associated company. The allocation of office overheads and rental expenses is primarily based on the percentage of floor area occupied by each company.
- (c) Consultancy and management fees were received from a fellow subsidiary, jointly controlled entities and an associated company for the provision of management and administrative services. The fees mainly comprised a fixed monthly charge as agreed between the parties involved.
- (d) Secretarial fee was received from associated companies, fellow subsidiaries and associated companies of two of the Group's directors for corporate secretarial services provided. The fee was charged at rates similar to those normally charged to third party clients.
- (e) Margin loan interest was received from fellow subsidiaries, the Group's directors and their associates in the ordinary course of the Group's margin financing business. Interest rates are set at the same level as those normally offered to third party clients or the applicable staff rate if the clients are directors or employees of the Group.
- (f) Interest income was received from jointly controlled entities for the loans advanced. Interest rates are set at the same level as those normally offered to third party clients.
- (g) Management fee was paid to fellow subsidiaries for the provision of management and administrative services at a rate mutually agreed between the parties involved.

Notes to the Financial Statements

For the year ended 30 June 2007 (Expressed in Hong Kong dollars)

35 Particulars of significant subsidiaries

The following is a list of the significant subsidiaries as at 30 June 2007:

Name	Place of incorporation/ operations	Issued and fully paid share capital	Principal activities	% of ordinary shares held by the company	
				Directly	Indirectly
Ambient Developments Limited	British Virgin Islands	Ordinary shares US\$1	Securities investments	–	100%
Bill Lam & Associates Limited *	Hong Kong	Ordinary shares \$20	Provision of corporate services	–	100%
Billion On Development Limited *	Hong Kong	Ordinary shares \$10,000	Property holding	–	100%
Kingsway Asset Management Group Limited	British Virgin Islands	Ordinary share US\$1	Investment Company	–	100%
Festival Developments Limited	British Virgin Islands	Ordinary share US\$1	Investment holding	100%	–
Goalfirst Investments Limited	British Virgin Islands	Ordinary share US\$1	Securities investment	–	100%
Kingsway Capital Limited	Hong Kong	Ordinary shares \$10,779,002	Provision of financial advisory services	–	100%
Kingsway China Investments Limited *	Hong Kong/ People's Republic of China	Ordinary shares \$2	Investment holding	–	100%
Kingsway Financial Services Group Limited	Hong Kong	Ordinary shares \$300,000,000	Securities and futures brokerage	–	100%
Kingsway Gold Bullion Limited *	Hong Kong	Ordinary share \$6,000,000	Gold Bullion brokerage	–	100%

Notes to the Financial Statements

For the year ended 30 June 2007 (Expressed in Hong Kong dollars)

35 Particulars of significant subsidiaries (Continued)

Name	Place of incorporation/ operations	Issued and fully paid share capital	Principal activities	% of ordinary shares held by the company	
				Directly	Indirectly
Kingsway Group Services Limited	Hong Kong	Ordinary share \$100,000	Provision of management services	–	100%
Kingsway Insurance Services Limited *	Hong Kong	Ordinary share \$1	Provision of insurance services	–	100%
Kingsway Lion Spur Technology Limited	British Virgin Islands/ Hong Kong	Ordinary share US\$1	Securities investment	–	100%
Kingsway Real Estate Services Limited	Hong Kong	Ordinary share \$1	Provision of real estate service	–	100%
Kingsway SBF Investment Company Limited	British Virgin Islands	Ordinary shares US\$10,000	Securities investment	–	51%
Kingsway SBF Investment Management Company Limited	British Virgin Islands/ Hong Kong	Ordinary share US\$3,100	Provision of investment advisory services	–	51%
Kingsway SW Asset Management Limited	British Virgin Islands/ Hong Kong	Ordinary shares US\$375,000	Provision of investment advisory services	–	100%
Kingsway SW Finance Limited *	Hong Kong	Ordinary shares \$50,000	Provision of loan services and financing	–	100%
Kingsway SW Futures Limited *	Hong Kong	Ordinary shares \$8,000,000	Futures investment	–	100%
SW Kingsway Capital Group Limited	British Virgin Islands	Ordinary shares US\$38,750,000	Investment holding	100%	–

* Companies not audited by KPMG. The aggregate total assets of these subsidiaries contributed to approximately 4% of the Group's total assets.

Notes to the Financial Statements

For the year ended 30 June 2007 (Expressed in Hong Kong dollars)

36 Disposal of subsidiaries

On 27 October 2007, the Group sold a 50% shareholding interest in a wholly-owned subsidiary, Total Express Investment Limited ("Total Express"), to an independent third party. Total Express is the intermediate holding company of Overseas Billion Limited, Well Talent Limited and Luxury Development which jointly held the entire interest in the investment properties in the PRC. As a result of the disposal, Total Express and its subsidiaries were reclassified as jointly controlled entities of the Group.

As explained in note 7, on 31 March 2007, the Group discontinued its wealth management business segment at the time of disposal of KFM.

The net assets of Total Express and its subsidiaries and KFM at the date of disposal were as follows:

	2007
Net assets disposed of:	
Investment properties	\$ 284,896,348
Other properties and equipment	1,380
Accounts, loans and other receivables	63,936,404
Cash and cash equivalents	7,710,802
Accruals, accounts and other payables	(169,042,749)
Bank loans	(109,629,018)
Deferred tax liabilities	(4,065,629)
	\$ 73,807,538
Gain on disposal	10,763,253
Consideration for disposal of subsidiaries	(68,682,401)
	\$ 15,888,390
Satisfied by:	
Cash	\$ 34,526,951
Transfer of debt	34,155,450
	\$ 68,682,401
Net cash inflow arising on disposal:	
Cash consideration	\$ 34,526,951
Cash and cash equivalents disposed of	(7,710,802)
	\$ 26,816,149

37 Financial instruments

The Group's activities expose it to a variety of financial risks: credit risk, liquidity risk, market risk and interest rate risk. These risks are limited by the Group's financial management policies and practices described below.

(a) CREDIT RISK

Credit risk arises from a number of areas. These include the possibility that a counter-party in a transaction may default during the settlement process. It also arises from lending, settlement, treasury, market making, proprietary trading, and other activities undertaken by the Group.

The Group's Finance and Credit Committees are responsible for establishing the credit approval and monitoring procedures, which are in accordance with sound business practices, the requirements and provisions of the relevant ordinances, and where applicable, the codes or guidelines issued by the Securities and Futures Commission.

Day-to-day credit management is performed by the Operations department with reference to the aforementioned criteria including creditworthiness, collateral pledged, and risk concentration of the counterparties. The Finance Committee and Credit Committee are responsible for review of guidelines on credit limits on a regular basis and approval of specific loans or advances if the amount exceeds our pre-set guideline.

(b) LIQUIDITY RISK

The Group manages its liquidity position to ensure the Group maintains a prudent and adequate liquidity ratio, in strict accordance with statutory requirements. This is achieved by the management, comprising the Chief Financial Officer and relevant senior managers monitoring the liquidity position of the Group on a daily basis to ensure the availability of sufficient liquid funds to meet all obligations and compliance with the statutory requirements such as the Hong Kong Securities and Futures (Financial Resources) Rules applying to various licensed subsidiaries.

(c) MARKET RISK

Proprietary trading activities across the Group are subject to limits approved by management. The Board has set up the Investment Monitoring Committee ("IMC") for the purposes of independently monitoring the positions of its proprietary trading activities involving equities and derivatives. In addition to the IMC, the Group's exposures are closely monitored by the Finance department and senior management on a daily basis and are measured on a "mark-to-market" basis. The Group's various proprietary trading activities are reported monthly to senior management for review.

37 Financial instruments (Continued)

(d) FOREIGN EXCHANGE RISK

Foreign exchange risk is the risk to earnings or capital arising from movements of foreign exchange rates. The Group's foreign exchange risk primarily arises from currency exposures originating from its proprietary investments. Foreign exchange risk is monitored by the Finance department and senior management on a daily basis. Monetary assets are measured daily on a "mark-to-market" basis. Non-current assets are revalued regularly using the market exchange rates. Overall positions are reported monthly to senior management for review. Principal brokerage and lending operations are carried out in local currency to obviate foreign exchange risk. Accordingly, the Group has no significant exposure to foreign exchange fluctuations on accounts and loan receivables.

(e) INTEREST RATE RISK

Interest rate risk primarily results from timing differences in the re-pricing of interest bearing assets, liabilities and commitments. The Group's interest rate risk exposure arises mainly from margin financing and other lending activities undertaken. The Group has the legal capacity to quickly recall such loans or re-price its loans to an appropriate level. Interest rates paid by the Group are managed by the Finance department with the aim of maximising the spread of interest consistent with liquidity and funding obligations.

38 Critical accounting judgements

In preparing these financial statements, management is required to exercise significant judgements in the selection and application of accounting principles, including making estimates and assumptions. The following is a review of the more significant accounting policies that are impacted by judgments and for which different amounts may be reported under a different set of conditions or using different assumptions.

(a) FAIR VALUE ON FINANCIAL ASSETS

For financial assets held at fair value through profit or loss, the fair value is principally based on their quoted market prices at the balance sheet date. Judgment is required when determining whether the quoted market price can reflect the fair value of the financial assets. In the prior year, the Group had adjusted the bid price of a financial asset after noting that the investee company had financial problems and accounting irregularities.

(b) IMPAIRMENT ALLOWANCES ON LOANS AND RECEIVABLES

The Group periodically reviews its loan portfolios to assess whether impairment allowances exist. In determining whether impairment allowances should be recorded in the income statement, the Group has individually evaluated each loan account for impairment after taking into account the value of each client account's underlying collateral and the latest financial position of those borrowers in default of settlement.

39 Parent and ultimate holding company

At 30 June 2007, the directors consider the parent of the Group to be World Developments Limited, which is incorporated in the British Virgin Islands. This entity does not produce financial statements available for public use. The directors consider the ultimate holding company of the Group to be Kingsway International Holdings Limited, which is incorporated in Bermuda and listed on the Toronto Stock Exchange.

40 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 30 June 2007

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 30 June 2007 and which have not been adopted in these financial statements.

Of these developments, the following relate to matters that may be relevant to the Group's operations and financial statements:

	Effective for accounting periods beginning on or after
– HK (IFRIC) – Int 10, Interim financial reporting and impairment	1 November 2006
– HKFRS 7, Financial instruments: disclosures	1 July 2007
– Amendment to HKAS 1, Presentation of financial statements: capital disclosures	1 July 2007

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application.

Five Year Financial Summary

(Expressed in Hong Kong dollars)

	2003	2004	2005	2006	2007
	'000	'000	'000	'000	'000
				(restated)	
Results					
Turnover	\$ (120,076)	\$ 198,461	\$ 189,261	\$ 152,278	\$ 412,077
Profit/(loss) attributable to equity shareholders	\$ (275,796)	\$ 81,432	\$ 84,574	\$ 19,338	\$ 207,537
Basic earnings/(loss) per share (cents)	(8.8)	2.6	2.6	0.6	6.4
Assets and liabilities					
Total assets	\$ 650,908	\$ 681,563	\$ 1,261,664	\$ 933,242	\$ 2,070,524
Total liabilities	\$ (178,567)	\$ (106,846)	\$ (595,156)	\$ (246,526)	\$ (1,178,543)
Net assets attributable to equity shareholders of the Company	\$ 472,341	\$ 574,717	\$ 630,479	\$ 631,586	\$ 808,491

The comparative figures of 2003 and 2004 have not been restated to conform to the changes of accounting policies adopted in 2005 as a result of the adoption of new/revised Hong Kong Financial Reporting Standards.

The comparative figures of 2005 have been restated in 2006 to conform to the changes of accounting policies adopted in 2006.

Directory of Licensed Subsidiaries and Affiliates

Licensed Subsidiaries of SW Kingsway Capital Holdings Limited

Kingsway Financial Services Group Limited

Licensed Corporation of the Securities and Futures
Commission

Exchange Participant of The Stock Exchange of Hong Kong
Broker Participant of Hong Kong Securities Clearing
Company Limited

Exchange Participant of Hong Kong Futures Exchange
Participant of HKFE Clearing Corporation Limited

Options Trading Exchange Participant of SEHK

SEOCH Direct Clearing Participant

Lead Underwriter and Securities Broker licence for
B-Shares of Shenzhen and Shanghai Stock Exchanges
granted by the China Securities Regulatory Commission

B-Shares Special Seat Holder of Shenzhen Stock
Exchange

B-Shares Tangible Trading Seat Holder of Shanghai Stock
Exchange

B-Shares Special Clearing Participant of China Securities
Depository and Clearing Corporation Limited –
Shenzhen Branch

B-Shares Clearing Participant of China Securities
Depository and Clearing Corporation Limited –
Shanghai Branch

Kingsway Capital Limited

Licensed Corporation of the Securities and Futures
Commission

Main Board and GEM Board Sponsor of The Stock
Exchange of Hong Kong

Kingsway SW Asset Management Limited

Licensed Corporation of the Securities and Futures
Commission

Kingsway SW Finance Limited

Money Lender registered with the HKSAR Government

Kingsway SBF Investment Management

Company Limited

Licensed Corporation of the Securities and Futures
Commission

Affiliated & Overseas Offices

Australia

- Kingsway Capital Group Limited
Level 12, 32 Martin Place, Sydney,
New South Wales 2000, Australia

Canada

- Kingsway Capital of Canada Inc.
Suite 1400, 8 King Street East, Toronto, Ontario,
Canada M5C 1B5

China

- Kingsway Financial Services Group Ltd. – Beijing
Representative Office
- Beijing Kingsway Financial Consultancy Limited
Rm 801, Building A, Beijing Fortune Plaza,
No. 7 Dongsanhuan Zhong Road, Chaoyang
District, Beijing, 100020, PRC
- Shanghai Kingsway Financial Consultants Limited
Room 3303, Officer Tower, Jinmao Tower,
88 Century Avenue, Pudong, Shanghai 200121,
PRC
- Shenzhen Kingsway Financial Consultants Limited
701, Tower A, Aerospace Skyscraper,
4019 Shennan Road, Futian District,
Shenzhen, 518048, PRC

Ultimate Holding Company

Kingsway International Holdings Limited

A listed company on the Toronto Stock Exchange

Corporate Information

General Information

CHAIRMAN

Jonathan Koon Shum Choi

EXECUTIVE DIRECTORS

Mary Yuk Sin Lam (*Deputy Chairman*)

William Wai Leung Wu (*Chief Executive Officer*)

Michael Koon Ming Choi

NON-EXECUTIVE DIRECTORS

Rebecca Yuk Fung Lau

Lee G. Lam

INDEPENDENT NON-EXECUTIVE DIRECTORS

Robert Tsai To Sze

Stanley Kam Chuen Ko

Michael Wai Chung Wu

Legal Advisers to the Company

As to Hong Kong Law:

Woo, Kwan, Lee & Lo

27th Floor, Jardine House,

One Connaught Place, Central,

Hong Kong

Clifford Chance

29th Floor, Jardine House,

One Connaught Place, Central,

Hong Kong

As to Bermuda Law:

Conyers Dill & Pearman

2901 One Exchange Square,

8 Connaught Place, Central,

Hong Kong

Auditors

KPMG

8th Floor, Prince's Building,

10 Chater Road,

Central,

Hong Kong

Registered Office

Clarendon House,

2 Church Street,

Hamilton HM 11,

Bermuda

Head Office and Principal Place of Business

5th Floor, Hutchison House,

10 Harcourt Road,

Central,

Hong Kong

Company Secretary

Vincent Wai Shun Lai

Authorised Representatives

William Wai Leung Wu

Vincent Wai Shun Lai

Bermuda Principal Share Registrar and Transfer Office

Butterfield Fund Services (Bermuda) Limited

Rosebank Centre,

11 Bermudiana Road,

Pembroke, Bermuda

Hong Kong Branch Share Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited

Room 1712-1716, 17th Floor,

Hopewell Centre, 183 Queen's Road East,

Hong Kong

Principal Bankers

Standard Chartered Bank (Hong Kong) Ltd.

The Hongkong and Shanghai Banking Corporation Limited

Bank of China (Hong Kong) Limited

Composition of Board Committees

AUDIT COMMITTEE

Robert Tsai To Sze (*Chairman*)

Stanley Kam Chuen Ko

Michael Wai Chung Wu

NOMINATION COMMITTEE

Stanley Kam Chuen Ko (*Chairman*)

Jonathan Koon Shum Choi

Mary Yuk Sin Lam

COMPENSATION COMMITTEE

Stanley Kam Chuen Ko (*Chairman*)

Jonathan Koon Shum Choi

Mary Yuk Sin Lam

Robert Tsai To Sze

Michael Wai Chung Wu

CORPORATE GOVERNANCE COMMITTEE

Michael Wai Chung Wu (*Chairman*)

Rebecca Yuk Fung Lau

Stanley Kam Chuen Ko



KingswayGroup

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