



SW KINGSWAY CAPITAL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

INTERIM REPORT 2000 / 2001

PRINCIPAL SUBSIDIARIES OF SW KINGSWAY CAPITAL HOLDINGS LIMITED

Kingsway SW Securities Limited

Securities Dealer and Exchange Participant of The Stock Exchange of Hong Kong

Kingsway E-Services Limited

Securities Dealer and Exchange Participant of The Stock Exchange of Hong Kong

Kingsway Brokerage Limited

Securities Dealer registered with the Securities and Futures Commission of Hong Kong

Kingsway SW Futures Limited

Commodities Dealer and Exchange Participant of Hong Kong Futures Exchange

Kingsway Capital Limited

Investment Advisor registered with the Securities and Futures Commission of Hong Kong

Kingsway Asia Capital Limited

Investment Advisor registered with the Securities and Futures Commission of Hong Kong

Kingsway SW Asset Management Limited

Investment Advisor registered with the Securities and Futures Commission of Hong Kong

Kingsway SW Fund Management Limited

Securities Dealer registered with the Securities and Futures Commission of Hong Kong

Kingsway Financial Network Limited

Securities Dealer registered with the Securities and Futures Commission of Hong Kong

AFFILIATED & OVERSEAS OFFICES

Australia

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

Canada

- Kingsway Capital of Canada Limited
Suite 801, 8 King Street East, Toronto, Ontario, Canada M5C 1B5

China

- Kingsway SW Securities Limited - Beijing Office
Room 708, Tower Office, Beijing Capital Times Square, 88 Xi Chang An Street, Beijing, P.R.C. 100031

ULTIMATE HOLDING COMPANY

Kingsway International Holdings Limited

A listed company on Canadian Venture Exchange

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The above lists are not intended to be exhaustive. Please do not hesitate to contact us should you require further information.

The directors are pleased to present the Group's Interim Report and Unaudited Condensed Accounts for the six months ended 31st December 2000 together with comparative figures for the corresponding period last year.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 31st December 2000

		Six months ended 31/12/2000 Unaudited HK\$	Proforma Six months ended 31/12/1999 Unaudited HK\$
	<i>Note</i>		
TURNOVER	2	107,518,164	120,564,905
OTHER INCOME		1,032,823	—
OPERATING EXPENSES			
Commission expenses		(16,467,851)	(10,355,765)
General and administrative expenses		(27,434,816)	(11,576,854)
OPERATING PROFIT		64,648,320	98,632,286
Finance costs		(286,037)	(228,048)
PROFIT BEFORE TAXATION	3	64,362,283	98,404,238
Taxation	4	(6,347,784)	(15,496,635)
PROFIT AFTER TAXATION	2	58,014,499	82,907,603
Minority interests		270,075	—
PROFIT ATTRIBUTABLE TO SHAREHOLDERS			
Dividends	5	(10,250,000)	—
PROFIT FOR THE PERIOD RETAINED		48,034,574	82,907,603
Earnings per share	6		
Basic		HK\$0.06	HK\$0.11



CONDENSED CONSOLIDATED BALANCE SHEET

As at 31st December 2000

		31/12/2000	Proforma 30/06/2000
		Unaudited	Audited
	Note	HK\$	HK\$
NON-CURRENT ASSETS			
Fixed assets		22,457,085	21,973,697
Other assets		18,246,636	13,450,436
Long term investments	7	14,423,730	763,730
		<u>55,127,451</u>	<u>36,187,863</u>
CURRENT ASSETS			
Bank balances and cash		163,868,758	30,832,534
Marketable securities		211,039,595	103,597,958
Other investments		—	21,136,925
Accounts receivable	8	209,547,964	150,826,582
Amounts due from related companies		42,523	91,157
Amounts due from ultimate holding company		—	34,236
		<u>584,498,840</u>	<u>306,519,392</u>
CURRENT LIABILITIES			
Accounts payable	10	9,537,827	36,081,383
Taxation		37,634,823	32,413,551
Bank overdrafts		149,275	—
Amounts due to minority shareholders		1,157,516	—
Proposed interim dividend		10,250,000	—
		<u>58,729,441</u>	<u>68,494,934</u>
NET CURRENT ASSETS		<u>525,769,399</u>	<u>238,024,458</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>580,896,850</u>	<u>274,212,321</u>
Financed by:			
SHARE CAPITAL	11	102,500,000	200,000
RESERVES	12	475,220,286	271,222,350
SHAREHOLDERS' FUNDS		577,720,286	271,422,350
NON-CURRENT LIABILITIES			
Deferred taxation		652,779	652,779
Minority interests		2,523,785	2,137,192
		<u>580,896,850</u>	<u>274,212,321</u>



CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 31st December 2000

	Six months ended 31/12/2000 Unaudited HK\$
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(120,308,081)
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	(286,037)
TAX PAID	(1,126,512)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(9,161,967)
NET CASH OUTFLOW BEFORE FINANCING	(130,882,597)
NET CASH INFLOW FROM FINANCING	263,769,546
INCREASE IN CASH AND CASH EQUIVALENTS	132,886,949
Cash and cash equivalents at 1st July, proforma	<u>30,832,534</u>
Cash and cash equivalents at 31st December	<u>163,719,483</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS	
Bank balances and cash	163,868,758
Bank overdrafts	<u>(149,275)</u>
	<u>163,719,483</u>

CONDENSED CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

For the six months ended 31st December 2000

	Six months ended 31/12/2000 Unaudited HK\$	Proforma Six months ended 31/12/1999 Unaudited HK\$
TOTAL RECOGNISED GAINS AND LOSSES		
— PROFIT FOR THE PERIOD	58,284,574	82,907,603
GOODWILL ELIMINATED DIRECTLY AGAINST RESERVES	<u>(156,588)</u>	<u>(179,357)</u>
	<u>58,127,986</u>	<u>82,728,246</u>

NOTES TO CONDENSED INTERIM ACCOUNTS

1. Basis of preparation

These unaudited condensed consolidated interim accounts (“Interim Accounts”) are prepared in accordance with the requirements of Appendix 16 of the Listing Rules of The Stock Exchange of Hong Kong Limited, and Hong Kong Statement of Standard Accounting Practice (“SSAP”) No. 25, “Interim Financial Reporting”, issued by the Hong Kong Society of Accountants, except that comparative figures for cash flow statement have not been prepared as the Group has taken advantage of the transitional provisions set out in the Listing Rules.

The accounting policies and methods of computation used in the preparation of these Interim Accounts are consistent with those used in the audited proforma accounts for the year ended 30th June 2000 (“Last Audited Accounts”), except that clients’ trust accounts are no longer recognised in the consolidated financial statements for the Group. The effect of the change on the comparative balance sheet is that the caption “Bank balances and cash — trust accounts” appeared in the Last Audited Accounts was removed completely from this period’s presentation and its carrying value of \$139,557,869 was set off against “Clients’ accounts payable”. The corresponding effect on the comparative profit and loss account is that interest expenses of \$1,878,702 were set off against interest income included in the turnover figure. Changes have also been made to the general presentation of the interim accounts. In the profit and loss accounts, sub-headings “consultancy fee expenses”, “other operating expenses” included in the Last Audited Accounts are now grouped and incorporated as part of the “general and administrative expenses”.

In the preparation of these Interim Accounts, the Group has, for the first time, adopted SSAP No.14, “Leases” which prescribes the accounting policies and disclosure requirements in relation to operating leases. The Group has not early adopted SSAP No.26, “Segment Reporting” in the preparation of these interim accounts.

The basis used in the preparation of the Last Audited Accounts had taken into account of the Group’s reorganisation completed on 10th August 2000 and subsequent listing of the shares of the Company on 15th September 2000. Details of the basis of preparation are set out in note 1 to the Last Audited Accounts.

2. Segment information

The Group is principally engaged in investment in securities, securities brokerage, provision of financial advisory services, margin and other financing, asset management and other securities related financial services.

An analysis of the Group’s turnover and contribution to profit for the period by principal activities is as follows:

	Turnover 6 months ended		Contribution to profit 6 months ended	
	31/12/2000 HK\$	Proforma 31/12/1999 HK\$	31/12/2000 HK\$	Proforma 31/12/1999 HK\$
Principal activities:				
Stockbroking and underwriting	51,375,311	27,935,335	12,849,166	11,130,901
Investment in securities	18,675,758	80,156,649	18,656,321	80,029,225
Corporate finance	16,699,514	3,122,536	10,004,639	525,149
Margin and other financing (Note)	7,366,785	3,282,034	12,337,210	3,215,283
Asset management and others	13,400,796	6,068,351	10,514,947	3,503,680
	<u>107,518,164</u>	<u>120,564,905</u>	<u>64,362,283</u>	98,404,238
Taxation			<u>(6,347,784)</u>	<u>(15,496,635)</u>
Profit after tax			<u>58,014,499</u>	<u>82,907,603</u>

No geographical analysis is provided as less than 10% of the consolidated turnover and less than 10% of the consolidated trading results of the Group are attributable to markets outside Hong Kong.

Note: Included in contribution to profit in respect of margin and other financing is a write-back of provision for doubtful debts of HK\$5,000,000 as referred to in note 3 of these interim accounts.

3. Profit before taxation

Profit before taxation is stated after crediting and charging the following:

	6 months ended	
	31/12/2000 HK\$	Proforma 31/12/1999 HK\$
Crediting		
Dividend income from listed securities	950,290	1,750,217
Net gain on disposal of fixed assets	2,575	—
Net gain on sale of other investments	7,730,373	—
Net realised and unrealised gain on marketable securities	10,945,384	80,156,649
Write-back of provision for doubtful debts	5,000,000	—
	20,055,176	6,574,844
Charging		
Amortisation of HKEC Trading Rights	316,800	—
Depreciation	1,309,254	372,599
Interest expenses on bank overdrafts	286,037	228,048
Net loss on sale of long term investment	47,900	—
Net loss on write-off of fixed assets	—	493,679
Operating leases - land and buildings	2,378,934	540,074
Staff costs	20,055,176	6,574,844

4. Taxation

Hong Kong profits tax has been provided at the rate of 16% (Proforma 1999: 16%) on the estimated assessable profit for the period. The amount of taxation charged to the consolidated profit and loss account represents:

	6 months ended	
	31/12/2000 HK\$	Proforma 31/12/1999 HK\$
Hong Kong profits tax	6,366,000	14,351,240
(Over)/under provisions in prior periods	(18,216)	1,145,395
	6,347,784	15,496,635

5. Dividends

	6 months ended	
	31/12/2000 HK\$	Proforma 31/12/1999 HK\$
Interim, proposed, of HK\$0.01 (Proforma 1999: HK\$Nil) per ordinary share	10,250,000	—

6. Earnings per share

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of HK\$58,284,574 (Proforma 1999: HK\$82,907,603) and the weighted average of 910,416,667 (Proforma 1999: 750,000,000) ordinary shares in issue during the period. In determining the weighted average number of shares, 750,000,000 shares issued pursuant to the reorganisation and the capitalisation, as mentioned in note 1(a) to the Last Audited Accounts, were assumed to be in issue throughout both periods.

There is no diluted earnings per share for both the current and prior periods as the share options to acquire ordinary shares of the Company are exercisable between 28th March 2001 and 27th March 2005.

7. Long term investments

	31/12/2000 HK\$	Proforma 30/06/2000 HK\$
Club debentures, at cost	694,000	694,000
Listed securities, at cost	13,660,000	—
Unlisted equity shares, at cost	13,532	13,532
Canadian Venture Exchange international associateship, at cost	56,198	56,198
	<u>14,423,730</u>	<u>763,730</u>
Market value of listed securities	<u>11,528,500</u>	<u>—</u>

(a) During the six months ended 31st December 2000, certain marketable securities, that were previously included in the current assets were subsequently identified to be strategically held on a long-term basis. Accordingly, they were transferred at their fair values on the date of transfer to long term investments.

8. Accounts receivable

	31/12/2000 HK\$	Proforma 30/06/2000 HK\$
Trade receivable		
Amounts due from brokers and clearing house	6,065,952	27,580,665
Clients' accounts receivable, net of provisions	78,108,711	88,239,474
Loans receivable, net of provisions	41,554,394	18,803,148
Other debtors	72,376,607	8,974,850
	<u>198,105,664</u>	<u>143,598,137</u>
Prepayments	<u>11,442,300</u>	<u>7,228,445</u>
	<u>209,547,964</u>	<u>150,826,582</u>

Ageing analysis for trade receivable is detailed as follows:

	31/12/2000 HK\$	Proforma 30/06/2000 HK\$
Within one month	180,844,916	139,154,082
More than one month and less than three months	922,224	1,087,467
More than three months	16,338,524	3,356,588
	<u>198,105,664</u>	<u>143,598,137</u>

9. Trust accounts

The Group maintains clients' trust accounts with a licensed bank to hold clients' deposits arising from normal business transactions. At 31st December 2000, trust accounts not otherwise dealt with in these accounts amounted to HK\$122,616,313 (Proforma 30th June 2000: HK\$139,557,869).

10. Accounts payable

	31/12/2000 HK\$	Proforma 30/06/2000 HK\$
Amounts due to brokers and clearing house within one month	—	2,134,975
Clients' accounts payable (net of bank balances and cash in trust accounts) within one month	71,467	21,526,623
Other creditors and accruals	9,466,360	12,419,785
	<u>9,537,827</u>	<u>36,081,383</u>

11. Share capital

Authorised

	Ordinary shares of HK\$0.1 each	
	No. of shares	HK\$
At 1st July 2000	1,000,000	100,000
— Increase in authorised ordinary share capital pursuant to resolution passed on 10th August 2000	1,999,000,000	199,900,000
At 31st December 2000	<u>2,000,000,000</u>	<u>200,000,000</u>

Issued

	Ordinary shares of HK\$0.1 each	
	No. of shares	HK\$
At 1st July 2000, Proforma	2,000,000	200,000
— Capitalisation issue pursuant to resolution passed on 23rd August 2000	748,000,000	74,800,000
— Public issue on 15th September 2000	275,000,000	27,500,000
At 31st December 2000	<u>1,025,000,000</u>	<u>102,500,000</u>

12. Reserves

	Contributed surplus HK\$	Share premium HK\$	Capital reserves on consolidation HK\$	Retained profits HK\$	Total HK\$
Balance at 1st July 2000,					
Proforma	9,800,000	30,000,000	63,212,183	168,210,167	271,222,350
Profit for the period	—	—	—	58,284,574	58,284,574
Dividends	—	—	—	(10,250,000)	(10,250,000)
Capitalisation issue	—	(74,800,000)	—	—	(74,800,000)
Premium arising on public issue	—	247,500,000	—	—	247,500,000
Listing expenses	—	(16,580,050)	—	—	(16,580,050)
Goodwill on acquisition of a subsidiary	—	—	(156,588)	—	(156,588)
	<u>9,800,000</u>	<u>186,119,950</u>	<u>63,055,595</u>	<u>216,244,741</u>	<u>475,220,286</u>
Balance at 31st December 2000	<u>9,800,000</u>	<u>186,119,950</u>	<u>63,055,595</u>	<u>216,244,741</u>	<u>475,220,286</u>

13. Commitments

(a) Commitments under operating leases

At 31st December 2000, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	31/12/2000 HK\$	Proforma 30/06/2000 HK\$
Land and buildings		
Within one year	4,320,368	4,374,818
In the second to fifth year inclusive	19,523,456	18,183,640
After the fifth year	2,625,000	5,250,000
	<u>26,468,824</u>	<u>27,808,458</u>

Lease terms for business properties held by the Group under non-cancellable operating leases range from two to six years. Longer leases usually contain escalation clauses allowing rent reviews after the lapse of certain initial periods to reflect market rentals.

The sublease agreement exists between the ultimate holding company and a group company will expire on 30th June 2006. The future minimum sublease payments that are expected to be received under the non-cancellable sublease at 31st December 2000 amount to HK\$8,917,500 (Proforma 30th June 2000: HK\$9,225,000). During the current period, HK\$768,750 (Proforma 1999: HK\$ Nil) was recognised as income in the profit and loss account in respect of sublease.

(b) Capital commitment for fixed assets

	31/12/2000 HK\$	Proforma 30/06/2000 HK\$
Contracted but not provided for	<u>175,000</u>	<u>175,000</u>

14. Related party transactions

Significant related party transactions, which were carried out in the normal course of the Group's business are as follows:

	Note	6 months ended	
		31/12/2000 HK\$	Proforma 31/12/1999 HK\$
Transactions with directors and their associates:			
Brokerage commissions on securities dealing	(a)	124,456	44,026
Financial advisory fees	(b)	—	2,500,000
		124,456	2,544,026
Transactions with the ultimate holding and its related companies:			
Advisory fees and commissions earned	(c)	400,069	553,088
Common office expenses reimbursed	(d)	1,788,167	—
Purchase consideration for acquiring a subsidiary	(e)	—	16,386,598
		2,188,236	16,939,686

- (a) Brokerage commissions arose in the ordinary course of business of dealing in securities. Commission rates are set at the same as those normally offered to our clients.
- (b) A subsidiary received financial advisory fees from a director of the Group and companies which are beneficially owned by a director of the Group and his associates. The fees are charged at a rate mutually agreed between the parties involved.
- (c) The advisory fees and commissions represent fee earned from the provision of management services and on securities dealing. The fee is generally calculated based on time costs incurred and/or a rate mutually agreed between the parties involved.
- (d) A subsidiary received reimbursement of office overheads and rental expenses from the ultimate holding company and its related companies during the period. The allocation of general office expenses is based on the percentage of floor area occupied and the allocation of rental expenses is based on the contracted rates and the percentage of floor area occupied.
- (e) A subsidiary, Billion On Development Limited was acquired from a related company, Kingsway Securities Holdings Limited at a total consideration of HK\$16,386,598 during the period ended 31st December 1999. The excess of the purchase consideration over net asset value on the date of acquisition was HK\$179,357 which was debited to reserves.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Board is pleased to report that all business segments, with the exception of investment in securities, continued to show solid growth in the first half of the financial year 2000/2001. This is particularly satisfactory in view of the prevailing slow down in the growth rate of the Hong Kong's economy and activities in its equity capital markets. Excluding the performance of investment in securities, the core operations achieved a net profit margin of 51.4% against 45.5% for the corresponding period last year. The performance of the Group has improved despite a three-fold increase in staff costs. The large increase in staff costs highlighted the Group's commitment to invest in human resources and to improve customer services and compliance monitoring.

LIQUIDITY AND FINANCING RESOURCES

Following a successful initial public offering, the Company's share capital was enlarged by the issue of 275 million shares, for a total consideration of HK\$275 million. Details of the public offer were contained in the Company's prospectus and in our last published annual report and accounts for the year ended 30th June 2000. As a result of the public issue, the Group has an exceptionally strong liquidity position with no long-term borrowings. As at 31st December 2000, it has a reserve of cash and cash equivalents of HK\$163.7 million, marketable securities of HK\$211 million and accounts receivable of HK\$210 million (which consists of almost entirely of amounts due within one month). The strong financial position of the Group enhances its commercial flexibility and ensures counter-party confidence. The Group constantly reviews its capital position to ensure that it has the appropriate level of funds to finance opportunities arising from its businesses.

OPERATIONS REVIEW

Investment In Securities

The first half of the financial year witnessed a marked slow down in the equity capital market activities in Hong Kong. Market volatility intensified during this period. The Board believes a more conservative investment approach will need to be adopted during this ongoing period of volatility. Marking to market the value of our investments to our half year-end produced a gain of HK\$18.68 million, out of which HK\$7.73 million relates to the gain arising from the disposal of Hong Kong Exchanges & Clearing Limited's shares. At this stage, if the so-called "hard landing" in the US does not materialise, a rebound or increase in the value of our investments cannot be ruled out.

Stockbroking And Underwriting

Our strategy to increase the market share of our securities brokerage business proved successful. The division achieved an 84% growth rate in gross earnings in the period under review. Equity Capital Market, our underwriting and placement division contributed 43% of the operation's turnover. Despite a substantial increase in turnover, the operation only managed a 15% increase in net earnings due to increase in overheads needed to strengthen the operation's infrastructure in support of growth. In the midst of volatile market conditions, the Board continues to be cautious about its performance over the next six months.

Corporate Finance

Kingsway Capital Limited performed well in the period under review. Contributions from the operation increased by 435% compared to the corresponding period last year. A highlight of our performance was our involvement in the sponsorship of the very last initial public offering of the millennium year 2000 on the Growth Enterprise Market. To the extent that the operation's performance is dependent on the market sentiment of the fund raising arena, the Board is cautiously optimistic that the existing high level of transaction activity will continue in the second half. The division will continue to build revenue diversity and will seek to retain the high market share in the market in which it operates.

Asset Management

As previously reported, the Board considers it necessary and desirable to strengthen and capture a bigger market share for our fund management operation. To achieve this corporate objective, the Group entered into an agreement in January 2001 to acquire a 95% interest in Polaris Asset Management Limited (“Polaris”). The acquisition is subject to certain conditions to be fulfilled and is anticipated to be completed by the end of April 2001. The acquisition of Polaris has provided the Group with a more diversified mix of authorised funds, placing the Group in a better position to attract additional funds in the future. Established in Hong Kong in 1974, Polaris engages in the business of fund management and management of unit trusts. Polaris presently manages six authorised unit trusts investing in listed companies throughout Asia and is the sponsor and manager of a mandatory pension fund scheme. According to the performance figures published by Standard & Poor’s Fund Services, Polaris topped the league table in 2000 and ranked second over five years. It is registered as an investment advisor under the Securities Ordinance and a commodity trading adviser under the Commodities Trading Ordinance. Details of the acquisition were contained in a public announcement dated 17th January 2001.

MARKET ANALYSIS

As reported in our last Chairman’s Statement, there are a number of external factors that lead us to be cautious about the relative performance of the current financial year. During the second quarter of 2000, we witnessed the end of the worldwide euphoria for technology-related stocks, which resulted in major corrections in the local stock market. The ensuing rebound, which continued well into the third quarter, proved short-lived. In the fourth quarter, the continued global bearish sentiment towards technology-related stocks, the emergence of signs of a slow down in the US economy, uncertainties over the US general election and concerns over escalating oil prices led the Hong Kong stock market into another downturn.

FUTURE PROSPECTS

Strategic Outlook

The outlook for the second half of the fiscal year has deteriorated with a marked slowdown in the growth of the US economy. At this stage, monetary policy responses to date by the US authorities have been vigorous by historical standards. Although there are expectations that cuts in US interest rates will bring renewed growth, it is widely considered that volatility in global markets will continue to affect the local market in the immediate term. The performance of the Group will remain, by and large, sensitive to variations in economic and stock market conditions. A negative market sentiment could have an adverse effect on the Group’s performance for the second half of the year. However, the Board continues to believe in our proven strategies, namely, to build sustainable earnings in respect of all core areas of business including corporate finance, securities brokerage and asset management, whether through organic means or acquisition, and to maintain a conservative stance in our investment approach.

In the medium term, People’s Republic of China’s (“PRC”) impending accession to the World Trade Organisation (“WTO”) is expected to generate increased trading activities between PRC and the rest of the world. Our Group is actively looking into opportunities available in PRC. In March 2001, the Chinese Securities Regulatory Commission has granted the Group permission to open a representative office in PRC. It is our plan to open our first representative office in Beijing in April 2001. Subject to regulatory approval, further offices are expected to be set up in other major cities in PRC. Furthermore, we were granted a licence to be a principal B shares sponsor and underwriter on 29th December 2000.

In order to capture the tremendous opportunities in the PRC's entry into the WTO, the Group entered into a non-binding Memorandum of Understanding ("MOU") with Jiang Nan Finance Limited, a Hong Kong-based wholly-owned subsidiary of China Merchants Bank, on 29th December 2000, to form a strategic alliance for providing a wide range of financial services. Services to be provided will include, inter alia, financial advisory services, assistance on the preparation of the listing of securities in Hong Kong and overseas markets, venture capital, advisory services on mergers and acquisitions, and corporate and debt restructuring. Details of the MOU were contained in a public announcement dated 2nd January 2001.

In the months ahead, the Group will continue to closely monitor the opening up of capital markets in PRC, aiming for a multi-strategy and multi-market approach, which will fit into the overall business strategy of the Group on an integrated basis.

Online Trading and Retailing Operations

We are pleased to report that the Group has successfully launched, on 1st March 2001, its own electronic trading platform, via k88.com.hk, to enhance services offered to its clients. It is positioned as an alternative mode of trading to complement, rather than to replace, our traditional brokerage business. k88.com.hk is more than just another run-of-the-mill electronic trading vehicle. Fully stress-tested, it is a reliable platform that empowers users with information, intelligence and analytical tools to enable them to make informed investment decisions and to effectively manage their own portfolio. This means that market intelligence, expertise and know-how, that were previously only privy to a select few, are now available to all valued clients of the Kingsway Group. Our ultimate goal is to develop the system into a full-blown "Customer Relationship Management" system that is capable of anticipating user needs and providing tailored solutions to add to user satisfaction.

The Group's entry into the retail brokerage operations is spearheaded by the former head of compliance, Mr. Nelson Tang, who will head up Kingsway Brokerage Limited. As part of our marketing initiatives to promote internet brokerage services, Mr. Tang will drive the rolling out, in the second half of the financial year, of the installation of computer terminals in premises of our joint venture partners, with whom we have made business and marketing rights arrangements.

Looking forward, a global vision offering internet brokerage service and other financial services and products to our clients, remains a very important strategic direction for the Group. Whilst we shall continue to reach out to foster relationships with international strategic partners to achieve this end, we shall remain focused, however, on building a solid foundation and reinforcing our position in the local market.

Risk Management

Professionalism and conservatism continue to hold special places in the core of our corporate values. As such, we continue to believe that risk management should be amongst our core activities in order to protect the interests of all stakeholders and to adequately manage our professional and legal obligations. This is particularly important in consideration of the imminent passing of the Securities & Futures Composite Bill.

In January 2001, the Group announced the appointment of Mrs. Rebecca Lau as the new head of Legal and Compliance Division. The merger of Legal and Compliance Department to form the Legal and Compliance Division was to enable an integrated service of legal and compliance matters. The Group has instituted more robust risk management policies and stronger monitoring systems to ensure that our exposure to financial and operational risks are kept to a minimum level and are reasonably contained.

EMPLOYMENT, TRAINING AND DEVELOPMENT POLICIES

Total number of full-time employees as at 31st December 2000 is 123 (30th June 2000 : 108). Details in relation to staff costs are disclosed in note 3 to the interim accounts.

The decisions on remuneration policy and employee pay package are the responsibility of the Remuneration Committee. The Committee comprises of two executive directors and one independent non-executive director.

The Group is committed to staff training and development. Effective from April 2001, all professional staff registered with the Securities and Futures Commission will need to attend mandatory continuous professional training courses.

The Company operates an employee share option scheme. Under the scheme, the Board was given the authority to grant, at its discretion, share options to any full time employees of the Group, including any executive directors of any companies in the Group. Details connected with the scheme are set out in the last published annual report and accounts for the year ended 30th June 2000. On 28th September 2000, the Group invited all eligible employees of the Group to subscribe for share options. 96% of staff accepted the offer and 83.25 million options, with an exercise price of \$0.70 exercisable between 28th March 2001 and 27th March 2005, were granted as a result.

CHARGES ON GROUP ASSETS

The Group's interest in land and buildings in Hong Kong with a carrying value of HK\$13,472,100 (Proforma 30th June 2000: HK\$13,600,000) have been pledged as security for the Group's bank overdraft facilities.

INTERIM DIVIDEND

The Board has declared an interim dividend of HK\$0.01 per share (Proforma 1999: HK\$Nil) for the six months ended 31st December 2000. The interim dividend will be payable on Tuesday, 17th April 2001 to shareholders whose names appear on the Register of Members at the close of business on Friday, 6th April 2001.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed on Friday, 6th April 2001 on which no transfers of shares will be effected. To determine entitlement to the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Share Registrars, Central Registration Hong Kong Limited of 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:00 p.m. on Wednesday, 4th April 2001.

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

During the six months ended 31st December 2000, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

DIRECTORS' INTERESTS IN SHARES

The interests of the directors and their associates in the share capital of the Company and its associated corporations as recorded in the register maintained under Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") or as notified to the Company were as follows:

(i) Interest in ordinary shares of the Company

Name of Director	Type of interest	Number of ordinary shares in the Company
Mr. Jonathan Koon Shum Choi*	Corporate	750,000,000

* Mr. Jonathan Koon Shum Choi is deemed to be interested in these 750,000,000 ordinary shares (by virtue of the SDI Ordinance). Such interest in shares is also set out in "Substantial Shareholders" below.

(ii) Interest in common shares of US\$0.01 each of Kingsway International Holdings Limited ("Kingsway International")

Name of Director	Personal Interest	Family Interest	Corporate Interest	Other Interest	Total number of common shares (excluding options)
Mr. Jonathan Koon Shum Choi**	33,906,386 common shares	—	107,312,222 (Note 1)	—	141,218,608
Mr. William Ka Chung Lam**	32,085,000 common shares	—	25,355,981 (Note 2)	—	57,440,981
Mrs. Mary Yuk Sin Lam**	34,939,749 common shares	—	3,622,283 (Note 3)	—	38,562,032
Mr. Richard Yingneng Yin**	7,909,630 common shares	—	—	—	7,909,630
Mr. Michael Koon Ming Choi**	427,749 common shares	—	—	—	427,749

** By virtue of his/her respective interests in Kingsway International, the ultimate holding company of the Company, each of Mr. Jonathan Koon Shum Choi, Mr. William Ka Chung Lam, Mrs. Mary Yuk Sin Lam, Mr. Richard Yingneng Yin and Mr. Michael Koon Ming Choi is interested in the shares in, or debentures of the subsidiaries of Kingsway International under the SDI Ordinance.

Note 1: Of these, 51,000,000 common shares of Kingsway International are held by Sun Wah Capital Limited. Mr. Jonathan Koon Shum Choi was deemed to be interested in these shares by virtue of his interest in control or exercise of one third or more of the voting power at general meetings of Sun Wah Capital Limited.

Remaining 56,312,222 common shares of Kingsway International are held by Scarlet Red Limited. Mr. Jonathan Koon Shum Choi was deemed to be interested in these shares by virtue of his interest in control or exercise of one third or more of the voting power at general meetings of Scarlet Red Limited.

Note 2: 25,355,981 common shares of Kingsway International are held by Dynasty International Holdings Limited which is wholly owned by Global Fame Limited. Global Fame Limited is wholly owned by The WKC Lam Family Trust which is a discretionary trust and Mr. William Ka Chung Lam and his two children are objects of such discretionary trust.

Note 3: 3,622,283 common shares of Kingsway International are held by Canadian Pioneer Consultants Limited. Mrs. Mary Yuk Sin Lam was deemed to be interested in these shares by virtue of her interest in control or exercise of one third or more of the voting power at general meetings of Canadian Pioneer Consultants Limited.

(iii) Interest in options to acquire ordinary shares of the Company

A share option scheme was approved by the shareholders on 23rd August 2000 under which the board of directors may, at its discretion, grant to any full time employees of the Group, including any executive directors of any companies in the Group to subscribe for the Company's shares. Details of the share option scheme are set out in note 19 to the audited proforma accounts for the year ended 30th June 2000. Details of options granted to directors up to the date of this report are as follows:

Name of Director	Number of ordinary shares in the options	Date granted	Exercise period	Exercise price per share	Consideration paid
Mr. Jonathan Koon Shum Choi	15,000,000	28/9/2000	9/4/2001 - 8/10/2004	HK\$0.7	HK\$1
Mr. William Ka Chung Lam	15,000,000	28/9/2000	29/3/2001 - 28/9/2004	HK\$0.7	HK\$1
Mr. Richard Yingneng Yin	13,600,000	28/9/2000	29/3/2001 - 28/9/2004	HK\$0.7	HK\$1
Mrs. Mary Yuk Sin Lam	7,500,000	28/9/2000	29/3/2001 - 28/9/2004	HK\$0.7	HK\$1
Mr. Michael Koon Ming Choi	5,500,000	28/9/2000	4/4/2001 - 3/10/2004	HK\$0.7	HK\$1

(iv) Interest in options to acquire common shares of Kingsway International

Pursuant to a share option plan operated by the ultimate holding company, Kingsway International, certain directors had outstanding options as at 31st December 2000 to subscribe for the shares of Kingsway International as follows:

Name of Director	As at 30/06/2000	Granted on 27/12/2000	Exercised	As at 31/12/2000	Exercise period	Exercise price	Consideration paid
Mr. Jonathan Koon Shum Choi	7,000,000	—	500,000	6,500,000	8/7/1997 - 15/7/2002	C\$0.4	Nil
	—	8,000,000	—	8,000,000	27/12/2000 - 26/12/2003	C\$0.48	C\$1
Mr. William Ka Chung Lam	7,000,000	—	7,000,000	—	8/7/1997 - 15/7/2002	C\$0.4	Nil
	3,300,000	—	3,300,000	—	17/12/1999 - 13/10/2003	C\$0.2	Nil
	—	8,000,000	—	8,000,000	27/12/2000 - 26/12/2003	C\$0.48	C\$1
Mr. Richard Yingneng Yin	7,000,000	—	7,000,000	—	17/12/1999 - 13/10/2003	C\$0.2	Nil
	—	8,000,000	—	8,000,000	27/12/2000 - 26/12/2003	C\$0.48	C\$1
Mrs. Mary Yuk Sin Lam	100,000	—	—	100,000	8/7/1997 - 15/7/2002	C\$0.4	Nil
	3,500,000	—	3,500,000	—	17/12/1999 - 13/10/2003	C\$0.2	Nil
Mr. Michael Koon Ming Choi	1,000,000	—	—	1,000,000	17/12/1999 - 13/10/2003	C\$0.2	Nil
Mr. Douglas Ching Shan Hui	1,000,000	—	—	1,000,000	17/12/1999 - 13/10/2003	C\$0.2	Nil

Save as disclosed above, as at the date of this report, none of the directors and chief executive had any interests in the shares of the Company and its associated corporations as defined in the SDI Ordinance, and none of the directors and chief executive or their spouses or children under 18 years of age had any right to subscribe for the shares of the Company, or had exercised any such right during the period and up to date of the report.

Save as disclosed above, at no time during the period and up to the date of this report was the Company or any of its holding companies, subsidiaries and fellow subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at the date of this report, the register of substantial shareholders, other than a director or chief executive of the Company, maintained under section 16(1) of the SDI Ordinance, shows that the Company has been notified of the following interest, being 10% or more of the Company's issued share capital:

Name of shareholders	Number of ordinary shares in the company	
	Direct interest	Deemed interest
Mr. Jonathan Koon Shum Choi	—	750,000,000***
Kingsway International Holdings Limited (Bermuda)	—	750,000,000***
Innovation Assets Limited (BVI)	—	750,000,000***
World Developments Limited (BVI)	750,000,000***	—

*** 750,000,000 shares represent the same interest and are therefore duplicated amongst Mr. Jonathan Koon Shum Choi, Kingsway International, Innovation Assets Limited and World Developments Limited. World Developments Limited is a wholly owned subsidiary of Innovation Assets Limited (a wholly owned subsidiary of Kingsway International), the entire issued share capital of which is beneficially owned by Kingsway International. Mr. Jonathan Koon Shum Choi beneficially owns or has control over approximately 47.26% of the issued share capital of Kingsway International and was deemed (by virtue of the SDI ordinance) to be interested in the 750,000,000 shares.

Save as disclosed above, the Company has not been notified of any interests representing 10% or more of the issued share capital of the Company.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

None of the Directors is aware of information that would reasonably indicate that the Company is not, or was not, for any part of the accounting period for the six months ended 31st December 2000, in compliance with the Code of Best Practice set out by the Stock Exchange of Hong Kong Limited in Appendix 14 of the Listing Rules, except that non-executive directors of the Company were not appointed for a specific term but are subject to retirement by rotation according to the provisions of the Company's Bye-Laws.

AUDIT COMMITTEE

At the request of the Audit Committee of the Company, the Group's external auditors have carried out a review of the unaudited financial statements in accordance with the Statement of Auditing Standards SAS700 issued by the Hong Kong Society of Accountants. The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the unaudited interim financial statements.

On behalf of the Board
William, Ka Chung Lam
 Chief Executive Officer

Hong Kong, 19th March 2001