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SW KINGSWAY CAPITAL HOLDINGS LIMITED

滙富金融控股有限公司

*(Incorporated in Bermuda with limited liability)*

INTERIM REPORT · 2004/2005

## Principal Subsidiaries of SW KINGSWAY CAPITAL HOLDINGS LIMITED

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**Kingsway Financial Services Group Limited**  
(formerly known as Kingsway SW Securities Limited)  
Exchange Participant of The Stock Exchange of Hong Kong  
Licensed Corporation of the Securities and Futures  
Commission  
Broker Participant of Hong Kong Securities Clearing  
Company Limited  
Lead Underwriter and Securities Broker licences 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 E-Services Limited**  
Exchange Participant of The Stock Exchange of Hong Kong  
Licensed Corporation of the Securities and Futures  
Commission  
Broker Participant of Hong Kong Securities Clearing  
Company Limited

**Kingsway SW Futures Limited**  
Exchange Participant of Hong Kong Futures Exchange  
Licensed Corporation of the Securities and Futures  
Commission  
Participant of HKFE Clearing Corporation Limited

**Kingsway Capital Limited**  
Licensed Corporation of the Securities and Futures  
Commission  
GEM Sponsor of The Stock Exchange of Hong Kong

**Kingsway SW Asset Management Limited**  
Licensed Corporation of the Securities and Futures  
Commission

**Kingsway Fund Management Limited**  
Corporate Intermediary registered with the Mandatory  
Provident Fund Authority  
Licensed Corporation of the Securities and Futures  
Commission

**Kingsway SW Finance Limited**  
Money Lender registered with the HKSAR Government

## Affiliated & Overseas Offices

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### 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 Limited -  
Beijing Office
- Beijing Kingsway Financial Consultancy Limited  
Room 708, Office Tower,  
Beijing Capital Times Square,  
88 West Chang'an Avenue, Beijing, 100031, PRC
- Kingsway Financial Services Group Limited -  
Shanghai Office
- Shanghai Kingsway Financial Consultants Limited\*  
Room 3303, Office Tower, Jinmao Tower,  
88 Century Avenue,  
Pudong, Shanghai, 200121, PRC

## Ultimate Holding Company

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Kingsway International Holdings Limited  
A listed company on the Toronto Stock Exchange

### Head Office :

5/F, Hutchison House,  
10 Harcourt Road,  
Central, Hong Kong  
Tel : (852) 2877 1830  
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Website : <http://www.kingswaygroup.com>  
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The Board of Directors of SW Kingsway Capital Holdings Limited (the “Company”) is pleased to present the interim report and unaudited condensed accounts of the Company and its subsidiaries (the “Group”) for the six months ended 31 December 2004 together with comparative figures for the corresponding period last year as follows:

## Condensed consolidated profit and loss account

for the six months ended 31 December 2004

(Expressed in Hong Kong dollars)

	Note	Unaudited Six months ended 31 December	
		2004 \$	2003 \$
<b>Turnover</b>	2		
Trading gain on investments		<b>60,061,167</b>	122,578,524
Commission and fee income		<b>31,179,041</b>	36,478,258
Interest and dividend income		<b>5,544,577</b>	10,064,306
		<b>96,784,785</b>	169,121,088
<b>Other revenue</b>	2	<b>8,418,349</b>	247,885
		<b>105,203,134</b>	169,368,973
<b>Operating expenses</b>			
Commission expenses		<b>(7,514,305)</b>	(5,358,623)
General and administrative expenses		<b>(48,409,395)</b>	(46,137,327)
Impairment losses of long term investments		—	(10,000,000)
		<b>49,279,434</b>	107,873,023
<b>Profit from operations</b>		<b>49,279,434</b>	107,873,023
Finance costs		<b>(412,413)</b>	(1,223,564)
		<b>48,867,021</b>	106,649,459
Share of results of associates	2	<b>3,181,321</b>	634,830
Share of results of a jointly controlled entity	2	<b>(72,000)</b>	—
<b>Profit from ordinary activities before taxation</b>	3	<b>51,976,342</b>	107,284,289
Income tax	4	<b>8,641,234</b>	(1,949,260)
<b>Profit from ordinary activities after taxation</b>		<b>60,617,576</b>	105,335,029
Minority interests		<b>70,110</b>	—
<b>Profit attributable to shareholders</b>		<b>60,687,686</b>	105,335,029
<b>Interim dividend</b>	5(a)	<b>10,719,139</b>	10,324,005
<b>Earnings per share</b>	6		
Basic		<b>1.87 cents</b>	3.4 cents
Diluted		<b>1.86 cents</b>	3.3 cents

The notes on pages 5 to 13 form part of these condensed interim accounts.



# Condensed consolidated balance sheet

as at 31 December 2004

(Expressed in Hong Kong dollars)

		<b>Unaudited 31 December 2004 \$</b>	Audited 30 June 2004 \$
	<i>Note</i>		
<b>Non-current assets</b>			
Intangible assets		<b>2,158,089</b>	2,349,743
Fixed assets		<b>5,570,983</b>	18,392,325
Other assets		<b>5,802,021</b>	5,137,578
Interests in associates		<b>39,563,896</b>	36,807,900
Interests in jointly controlled entity		—	72,000
Long term investments		<b>1,794,100</b>	1,794,100
		<b>54,889,089</b>	64,553,646
<b>Current assets</b>			
Cash and cash equivalents	7	<b>177,499,649</b>	126,088,238
Marketable securities	8	<b>372,256,475</b>	325,554,229
Other investments	9	<b>71,699,940</b>	12,100,000
Accounts, loans and other receivables	10	<b>121,429,449</b>	153,248,701
Amounts due from related companies		<b>17,852</b>	18,279
		<b>742,903,365</b>	617,009,447
<b>Current liabilities</b>			
Short term bank loans and overdrafts	11	<b>55,566,201</b>	10,917,065
Accounts payable and accruals	12	<b>73,010,693</b>	33,963,388
Taxation		<b>17,859,499</b>	27,159,674
		<b>146,436,393</b>	72,040,127
<b>Net current assets</b>		<b>596,466,972</b>	544,969,320
<b>Total assets less current liabilities</b>		<b>651,356,061</b>	609,522,966
<b>Non-current liability</b>			
Deferred taxation		<b>391,130</b>	391,130
<b>Minority interests</b>		<b>34,491,938</b>	34,415,048
<b>NET ASSETS</b>		<b>616,472,993</b>	574,716,788
<b>CAPITAL AND RESERVES</b>			
<b>Share capital</b>	13	<b>324,822,391</b>	323,619,291
<b>Reserves</b>		<b>291,650,602</b>	251,097,497
		<b>616,472,993</b>	574,716,788

The notes on pages 5 to 13 form part of these condensed interim accounts.

# Condensed consolidated cash flow statement

for the six months ended 31 December 2004

(Expressed in Hong Kong dollars)

	Unaudited	
	Six months ended 31 December	
	2004	2003
	\$	\$
<b>Net cash from operating activities</b>	<b>23,897,278</b>	47,139,891
<b>Net cash from/(used in) investing activities</b>	<b>1,646,635</b>	(2,037,218)
<b>Net cash used in financing activities</b>	<b>(18,781,638)</b>	(9,759,393)
<b>Increase in cash and cash equivalents</b>	<b>6,762,275</b>	35,343,280
<b>Cash and cash equivalents at 1 July</b>	<b>115,171,173</b>	13,480,192
<b>Cash and cash equivalents at 31 December</b>	<b>121,933,448</b>	48,823,472
<b>Analysis of balances of cash and cash equivalents:</b>		
Bank balances and cash	<b>177,499,649</b>	48,823,472
Less: Short term bank loans and overdrafts	<b>(55,566,201)</b>	—
	<b>121,933,448</b>	48,823,472

The notes on pages 5 to 13 form part of these condensed interim accounts.

# Condensed consolidated statement of changes in equity

for the six months ended 31 December 2004

(Expressed in Hong Kong dollars)

		Share capital	Share premium	Special reserve	Unaudited Capital reserve on consolidation	Exchange reserve	Retained profits (Note 14)	Total
	Note	\$	\$	\$	\$	\$	\$	\$
At 1 July 2004		323,619,291	30,185,828	39,800,000	63,391,540	(17,116)	117,737,245	574,716,788
Exercise of share options	13	1,203,100	1,625,332	—	—	—	—	2,828,432
Exchange differences on translation of accounts of overseas subsidiaries		—	—	—	—	(2,843)	—	(2,843)
Profit attributable to shareholders		—	—	—	—	—	60,687,686	60,687,686
2004 final dividend paid	5(b)	—	—	—	—	—	(21,757,070)	(21,757,070)
<b>At 31 December 2004</b>		<b>324,822,391</b>	<b>31,811,160</b>	<b>39,800,000</b>	<b>63,391,540</b>	<b>(19,959)</b>	<b>156,667,861</b>	<b>616,472,993</b>
At 1 July 2003		312,584,633	361,776	39,800,000	62,644,511	(3,129)	56,953,137	472,340,928
Exercise of share options		237,000	326,721	—	—	—	—	563,721
Exchange differences on translation of accounts of overseas subsidiaries		—	—	—	—	(2,150)	—	(2,150)
Reserve released upon disposal of a subsidiary		—	—	—	(27,348)	—	—	(27,348)
Profit attributable to shareholders		—	—	—	—	—	105,335,029	105,335,029
2003 final dividend paid		—	—	—	—	—	(10,323,114)	(10,323,114)
<b>At 31 December 2003</b>		<b>312,821,633</b>	<b>688,497</b>	<b>39,800,000</b>	<b>62,617,163</b>	<b>(5,279)</b>	<b>151,965,052</b>	<b>567,887,066</b>

The notes on pages 5 to 13 form part of these condensed interim accounts.

# Notes to condensed interim accounts

(Expressed in Hong Kong dollars)

## 1 Basis of preparation

These unaudited condensed consolidated interim accounts (“interim accounts”) are prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) No. 25, “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). These interim accounts should be read in conjunction with the annual accounts for the year ended 30 June 2004 (“last audited accounts”).

The accounting policies and methods of computation used in the preparation of these interim accounts are consistent with those used in the last audited accounts, except that the Group has changed the identification of segments for disclosure of segment information and prior period segment information has been restated for comparative purposes. The directors consider that these changes result in a more appropriate presentation of events and transactions in the interim accounts.

## 2 Segment information

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 and debt securities
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
Private equity	:	Provision of asset management and related advisory services to private equity funds and private clients
Wealth management	:	Provision of wealth management services to authorised unit trusts, Mandatory Provident Funds (“MPF”) and private clients

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.

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

# Notes to condensed interim accounts

(Expressed in Hong Kong dollars)

## 2 Segment information (continued)

	Six months ended 31 December 2004							Consolidated
	Investment in securities	Merchant banking	Brokerage	Investment banking	Private equity	Wealth management	Others	
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Revenues</b>								
Turnover	38,086,409	25,321,625	19,471,246	10,641,519	492,429	994,493	1,777,064	96,784,785
Inter-segment revenues	960	—	2,509,338	300,000	—	9,421,518	3,822,600	16,054,416
Other revenue	—	4,112,269	—	—	—	—	4,306,080	8,418,349
	<b>38,087,369</b>	<b>29,433,894</b>	<b>21,980,584</b>	<b>10,941,519</b>	<b>492,429</b>	<b>10,416,011</b>	<b>9,905,744</b>	<b>121,257,550</b>
Eliminations								(16,054,416)
Total revenues								<b>105,203,134</b>
<b>Segment results</b>	<b>20,969,964</b>	<b>25,985,656</b>	<b>2,516,489</b>	<b>(362,665)</b>	<b>(619,477)</b>	<b>6,172,084</b>	<b>(5,795,030)</b>	<b>48,867,021</b>
Share of results of associates	—	3,195,670	(75,192)	—	60,843	—	—	3,181,321
Share of results of a jointly controlled entity	—	—	—	—	—	—	(72,000)	(72,000)
Profit before taxation								<b>51,976,342</b>
<b>Six months ended 31 December 2003</b>								
	Investment in securities	Merchant banking	Brokerage	Investment banking	Private equity	Wealth management	Others	Consolidated
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Revenues</b>								
Turnover	63,314,353	62,790,174	21,796,407	19,094,083	819,048	752,988	554,035	169,121,088
Inter-segment revenues	283	—	887,521	3,100,000	265,000	14,489,664	3,024,120	21,766,588
Other revenue	—	—	—	—	—	—	247,885	247,885
	<b>63,314,636</b>	<b>62,790,174</b>	<b>22,683,928</b>	<b>22,194,083</b>	<b>1,084,048</b>	<b>15,242,652</b>	<b>3,826,040</b>	<b>191,135,561</b>
Eliminations								(21,766,588)
Total revenues								<b>169,368,973</b>
<b>Segment results</b>	<b>34,761,670</b>	<b>57,629,761</b>	<b>3,627,139</b>	<b>7,174,911</b>	<b>32,893</b>	<b>11,354,136</b>	<b>(7,931,051)</b>	<b>106,649,459</b>
Share of results of associates	—	455,861	461,512	—	(282,543)	—	—	634,830
Profit before taxation								<b>107,284,289</b>



# Notes to condensed interim accounts

(Expressed in Hong Kong dollars)

## 3 Profit from ordinary activities before taxation

Profit from ordinary activities before taxation is stated after crediting/(charging) the following:

	<b>Six months ended 31 December</b>	
	<b>2004</b>	2003
	<b>\$</b>	<b>\$</b>
Net gain on investment in marketable securities	<b>51,359,200</b>	115,829,784
Net gain on other investments	<b>8,701,967</b>	6,748,740
Dividend income from		
— listed securities	<b>1,584,931</b>	1,957,944
— unlisted securities	—	1,170,000
Rental income from land and buildings	<b>226,080</b>	222,842
Interest income from unlisted debt securities	<b>320,822</b>	241,815
Profit on disposal of an investment property	<b>4,000,000</b>	—
Net gain on disposal of fixed assets	<b>80,000</b>	—
Net exchange gain	<b>4,112,269</b>	—
	<b>(34,526,646)</b>	(30,166,579)
Staff costs	<b>(1,135,106)</b>	(1,175,766)
Operating leases — land and buildings	<b>(1,574,223)</b>	(1,536,536)
Depreciation of owned fixed assets	<b>(191,654)</b>	(533,829)
Amortisation of intangible assets		
Interest expenses on		
— bank loans and overdrafts	<b>(412,413)</b>	(711,364)
— others	—	(512,200)
Net loss on disposal of fixed assets	—	(403,250)
Net exchange loss	—	(5,456)

## 4 Income tax

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profits for the period. Overseas taxation is charged at the appropriate current rates of taxation ruling in the relevant countries. The amount of taxation charged to the consolidated profit and loss account represents:

	<b>Six months ended 31 December</b>	
	<b>2004</b>	2003
	<b>\$</b>	<b>\$</b>
Current tax:		
— Hong Kong profits tax	—	2,000,000
— (Over)/underprovision in prior periods	<b>(9,066,559)</b>	210,909
	<b>(9,066,559)</b>	2,210,909
Deferred taxation	—	(261,649)
Share of taxation attributable to associates	<b>425,325</b>	—
	<b>(8,641,234)</b>	1,949,260

The Group has not recognised deferred tax assets in respect of tax losses of \$219 million (30 June 2004: \$208 million). The tax losses do not expire under current tax regulation.

# Notes to condensed interim accounts

(Expressed in Hong Kong dollars)

## 5 Dividends

### (a) Dividends attributable to the interim period

	Six months ended 31 December	
	2004	2003
	\$	\$
Interim dividend of 0.33 cents (2003: 0.33 cents) per ordinary share	<b>10,719,139</b>	10,324,005

At a meeting held on 8 February 2005, the directors declared an interim dividend of 0.33 cents per ordinary share, totalling \$10,719,139 (*note 14*) based on the number of shares in issue at 8 February 2005. This dividend is not reflected as a dividend payable in these interim accounts.

### (b) Final dividend attributable to the financial year ended 30 June 2004

At a meeting held on 21 September 2004, the directors proposed a final dividend of 0.67 cents per ordinary shares for the year ended 30 June 2004, totalling \$21,694,894 (*note 14*) based on the number of shares in issue at 21 September 2004. On 10 December 2004, a final dividend of \$21,757,070 was paid to shareholders and has been reflected as an appropriation of retained profits in the current period.

## 6 Earnings per share

The calculations of basic and diluted earnings per share are based on the Group's profit attributable to shareholders of \$60,687,686 (2003: \$105,335,029) for the interim period.

The basic earnings per share is calculated based on the weighted average of 3,242,106,989 (2003: 3,127,457,994) ordinary shares in issue during the period.

The diluted earnings per share for the current period is calculated based on 3,266,470,651 (2003: 3,175,746,774) ordinary shares which is the weighted average number of ordinary shares in issue during the period plus the weighted average number of 24,363,662 (2003: 48,288,780) ordinary shares deemed to be issued at no consideration if all outstanding options had been exercised.

## 7 Cash and cash equivalents

The Group maintains segregated clients' trust 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 31 December 2004, trust accounts not otherwise dealt with in these interim accounts amounted to \$139,975,390 (30 June 2004: \$155,259,734).

## 8 Marketable securities

Included in this balance is an amount of \$13,698,700 (30 June 2004: \$7,950,614) of equity securities listed outside Hong Kong placed with an escrow agent as a deposit for a potential investment, details of which are disclosed in note 15(b) on the accounts.

# Notes to condensed interim accounts

(Expressed in Hong Kong dollars)

## 9 Other investments

Included in this balance is an amount of \$7,240,000 (30 June 2004: \$2,100,000) of unlisted warrants placed with an escrow agent as a deposit for a potential investment, details of which are disclosed in note 15(b) on the accounts.

## 10 Accounts, loans and other receivables

		<b>31 December 2004</b>	30 June 2004
	<i>Note</i>	<b>\$</b>	<b>\$</b>
Accounts and loans receivable, net of provisions:			
Amounts due from brokers and clearing houses	(a)	<b>492,302</b>	5,953,450
Amounts due from margin clients	(b)	<b>58,019,244</b>	91,259,685
Amounts due from cash clients	(c)	<b>25,777,917</b>	3,776,459
Loan receivables	(d)	<b>2,881,902</b>	5,256,420
Others		<b>4,627,879</b>	4,883,767
		<b>91,799,244</b>	111,129,781
Prepayments, deposits and other receivables	(e)	<b>29,630,205</b>	42,118,920
		<b>121,429,449</b>	153,248,701

The ageing analysis of accounts and loans receivable is as follows:

	<b>31 December 2004</b>	30 June 2004
	<b>\$</b>	<b>\$</b>
Current and within one month	<b>91,142,738</b>	108,082,434
More than one month and less than three months	<b>326,442</b>	395,689
More than three months	<b>330,064</b>	2,651,658
	<b>91,799,244</b>	111,129,781

Notes:

- (a) Amounts due from brokers and clearing houses are required to be settled on the settlement day 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 31 December 2004, the Group held \$2,684,088 (30 June 2004: \$2,781,419) with HKFECC in trust for clients which was not dealt with in these accounts.

- (b) Margin clients of the stock 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 stock brokerage division. They are required to settle their securities trading balances on the settlement day under the relevant market practices or exchange rules.

# Notes to condensed interim accounts

(Expressed in Hong Kong dollars)

## 10 Accounts, loans and other receivables (continued)

Notes: (continued)

- (d) The credit terms for loans granted by the Group's financing division are set by management with reference to the financial background and the value and nature of collateral pledged by the borrowers.
- (e) Included in this balance is an amount of \$8,849,955 (30 June 2004: \$35,838,862) placed with an escrow agent as a deposit for a potential investment, details of which are disclosed in note 15(b) on the accounts.

Included in this balance is an amount of \$13,600,000 (30 June 2004: \$Nil) which represents the remaining sales proceeds receivable from a third party in relation to the disposal of the Group's investment property with a carrying value of \$12,000,000 as at 30 June 2004. The total consideration of the sales was \$16,000,000.

## 11 Short term bank loans and overdrafts

	<b>31 December 2004</b>	30 June 2004
	\$	\$
Unsecured bank overdraft	—	319,997
Secured bank overdraft (Note (a))	<b>5,566,201</b>	5,597,068
Unsecured bank loan	<b>15,000,000</b>	5,000,000
Secured bank loan (Note (b))	<b>35,000,000</b>	—
	<b>55,566,201</b>	10,917,065

Notes:

- (a) As at 30 June 2004, the Group's investment property with a carrying value of \$12,000,000 has been pledged as security for the Group's bank overdraft facilities. Such investment property was disposed of to a third party on 22 December 2004 and its legal title will be transferred to the purchaser on the date of completion in May 2005.
- (b) Certain banking facilities of the Group were secured by securities collateral from the Group's margin clients and the Group's marketable securities with market value of \$203,468,488 (30 June 2004: \$246,040,824) and \$12,544,000 (30 June 2004: \$15,370,000) respectively.

## 12 Accounts payable and accruals

	<b>31 December 2004</b>	30 June 2004
	\$	\$
<i>Accounts payable within one month:</i>		
Amounts due to brokers and clearing houses	<b>19,488,667</b>	59,670
Clients' accounts payable (net of bank and clearing house balances in trust accounts)	<b>38,709,281</b>	17,079,578
Others	<b>4,134,387</b>	5,418,071
	<b>62,332,335</b>	22,557,319
Other creditors and accruals	<b>10,678,358</b>	11,406,069
	<b>73,010,693</b>	33,963,388

# Notes to condensed interim accounts

(Expressed in Hong Kong dollars)

## 13 Share capital

	<b>Ordinary shares of \$0.1 each</b>	
	<b>No. of shares</b>	<b>Amount</b>
		<b>\$</b>
<b>Authorised:</b>		
At 1 July 2003, 30 June 2004 and 31 December 2004	4,000,000,000	400,000,000
<b>Issued and fully paid:</b>		
At 1 July 2003	3,125,846,327	312,584,633
Exercise of share options	7,715,000	771,500
Share issue	102,631,579	10,263,158
At 30 June 2004 and 1 July 2004	3,236,192,906	323,619,291
Exercise of share options	12,031,000	1,203,100
At 31 December 2004	3,248,223,906	324,822,391

During the six months ended 31 December 2004, an aggregate of 12,031,000 share options were exercised to subscribe for 12,031,000 ordinary shares of the Company. The total cash proceeds received by the Company was \$2,828,432. Details of the share options outstanding as at 31 December 2004 are disclosed under the section "Share options" on page 18.

## 14 Retained profits

	<b>31 December 2004</b>	30 June 2004
	<b>\$</b>	<b>\$</b>
2005 interim dividend (Note 5(a))	<b>10,719,139</b>	—
2004 proposed final dividend (Note 5(b))	—	21,694,894
Others	<b>145,948,722</b>	96,042,351
	<b>156,667,861</b>	117,737,245

## 15 Commitments

### (a) Commitments under operating leases

#### (i) As lessee

As at 31 December 2004, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	<b>Land and buildings</b>		<b>Office equipment</b>	
	<b>31 December 2004</b>	30 June 2004	<b>31 December 2004</b>	30 June 2004
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Not later than 1 year	<b>3,345,081</b>	3,646,676	<b>441,600</b>	441,600
Later than 1 year and not later than 5 years	<b>1,500,000</b>	3,064,761	<b>1,398,400</b>	1,619,200
	<b>4,845,081</b>	6,711,437	<b>1,840,000</b>	2,060,800

# Notes to condensed interim accounts

(Expressed in Hong Kong dollars)

## 15 Commitments (continued)

### (a) Commitments under operating leases (continued)

#### (ii) As lessor

As at 31 December 2004, the Group had future minimum lease payments receivable under non-cancellable operating leases as follows:

	Land and buildings	
	31 December 2004 \$	30 June 2004 \$
Not later than 1 year	<b>146,000</b>	321,200

### (b) Other commitments

- (i) The Group has entered into agreements with a company for subscription to its shares and warrants. The subscription is conditional on the company being successfully listed on the Toronto Stock Exchange on or before 29 December 2004 and fulfilling other conditions as set out in the agreements. The deadline can be extended to 29 April 2005 if certain conditions are met. The consideration for subscription comprised listed shares and unlisted warrants of a company listed on the Toronto Stock Exchange and cash. The consideration shares, warrants and cash were held by third party lawyers as escrow agents until the conditions for subscription are fully satisfied.

In December 2004, the company proposed to revise the terms of the agreement and extend the completion deadline. Instead of seeking a direct listing, the company will enter into a scheme of arrangement to exchange shares with another company listed on the TSX Ventures Exchange in Canada. The scheme of arrangement is subject to the approval of the shareholders of the other company and a number of conditions. Investors were offered an option to withdraw their commitments. The Group has decided to withdraw part of the commitment and the cash deposit balance has been reduced accordingly.

- (ii) During the year ended 30 June 2004, the Group entered into an agreement with a PRC property developer for purchase of office premises located in Beijing, PRC. At 31 December 2004, the Group has a commitment to pay the remaining balance of \$5.5 million representing 60% of the total purchase consideration.

During the six months ended 31 December 2004, the Group has entered into another agreement with a PRC property developer for purchase of office premises located in Shenzhen, PRC. At 31 December 2004, the Group has a commitment to pay the remaining balance of \$1.6 million representing 60% of the total purchase consideration.

- (iii) During the year ended 30 June 2004, the Group has entered into an agreement with Shanxi Securities Company Limited and China Gaoxin Investment Group Corporation to establish a fund management business in the PRC market. Pursuant to the agreement, an application has been submitted to China Securities Regulatory Commission to set up a joint venture fund management company ("JV Company") based in Shanghai. As at 31 December 2004 and 30 June 2004, the Group has a commitment to inject an equivalent of RMB33 million for a 33% equity interest in the JV Company.



# Notes to condensed interim accounts

(Expressed in Hong Kong dollars)

## 16 Related party and connected party transactions

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

	Note	Six months ended 31 December	
		2004 \$	2003 \$
Brokerage commission earned on securities dealing	(a)	<b>1,133,677</b>	216,093
Common office expenses recharged	(b)	<b>129,180</b>	131,492
Consultancy and management fee received	(c)	<b>492,000</b>	744,000

Notes:

- (a) Brokerage commission was received from fellow subsidiaries, the Group's directors and their associates in the ordinary course of the Group's business of dealing in securities. Commission rates are set at the same level as those normally offered to third party clients.
- (b) Amounts represent recharge of office overheads and rental expenses to the ultimate holding company, fellow subsidiaries 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 fee were received from 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.

## 17 Recently issued accounting standards

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the interim accounts for the period ended 31 December 2004.

# Management discussion and analysis

## The Market

Concerns over rising interest rates and conflicting economic data in the United States, the price of crude oil and other natural resources, as well as the anxiety brought about by the macroeconomic austerity measures introduced to adjust the overheated economy in the People's Republic of China (PRC) continued to affect the market during the six month interim period ended 31 December 2004 (the "Period"). The markets were sluggish during the Period's onset; however, investor sentiment and market activity improved gradually, picking up pace in the last quarter. The Initial Public Offerings ("IPOs") were generally well received in the last three months of 2004, a trend that is expected to continue with more large scale IPOs anticipated for 2005. The market reacted positively to the increasing number of listed companies involved in various businesses in Macau, which led to increased turnover despite higher volatility. The regulators have reassured investors that market activities would be conducted in accordance with the relevant rules and regulations and that any non-compliance would be followed by appropriate enforcement actions.

The Hang Seng Index closed at 14,230 for 2004, compared with an end of June figure of 12,286 and an end of 2003 figure of 12,576. Average monthly turnover on the Main Board during the Period was HK\$319 billion. In a press conference in December, the Stock Exchange of Hong Kong announced that the cumulative turnover in the calendar 2004 year had surpassed the historical high last recorded in 1997. In addition, the total market capitalization was also at an all time high in December 2004. However, the primary market was less active than in the comparative periods, although it did gain pace in the last quarter. Funds raised from Main Board listings in the six month period ended December 2004 totaled HK\$39.5 billion, which compares with HK\$50.4 billion in the previous interim period and HK\$53.6 billion recorded for the second half of the 2004 fiscal year. For the GEM Board, total funds raised from new listings was only HK\$0.4 billion in the interim period.

## Financial Highlights

The Board is pleased to announce that profit attributable to shareholders for the Period was approximately HK\$61 million. This compares with a profit of HK\$105 million in the six months ended 31 December 2003, during which time Hong Kong was experiencing the peak of its strong post SARS recovery. Many stocks registered substantial appreciation in values alongside a heavy flow of capital market activities in the wake of what had been a long SARS induced drought. Although the market remained strong in 2004, against the relatively high valuations and market activity that characterized the comparable year-over-year period, holding gains generated from the Group's investment portfolio — inextricably linked to the performance of the Hong Kong stock markets — were inevitably lower.

The Group is in the process of refocusing its operations in order to establish a broader revenue base, which will support our transition from a Hong Kong based investment bank to a Greater China focused mid-market financial services organization. In order to stabilize our earnings and better serve our clients, as outlined in our 2004 annual report, we have reorganized our resources to support the development of our fee generating businesses and improve our ability to capitalize on cross selling opportunities among divisions (and in some instances within divisions) in the future.

The Group has made some minor adjustments to the realignment described in our 2004 annual report after further consideration. We are pleased to announce that the current interim results are analyzed according to new segmental classifications. There are now two business groups: The Clients Services Group and the Proprietary Investment Group. The Client Services Group is further divided into four major divisions, including Brokerage, Investment Banking, Private Equity and Wealth Management. Similarly, the Proprietary Investment Group is sub-divided into Merchant Banking and Investment in Securities. The China operations will also be realigned to support the Client Services Group. Management firmly believes that this realignment will enhance our ability to provide clients with innovative and timely products and services.

# Management discussion and analysis

## Brokerage

This division is intently focused on providing its clients with quality execution services. The Institutional Sales team was very successful in soliciting new business from institutional clients. The Retail Sales team was also able to maintain stable business amidst very keen competition in the market after the removal of minimum brokerage. The Group has commenced a project to upgrade its computer trading platform to further improve our capability to serve quality clients.

The division contributed HK\$2.5 million in profits to the Group's results. Interest income from loans dropped as a result of the reallocation of resources to other business activities; however, this was compensated by higher commission income from our brokerage business. As direct costs stemming from the latter activities are higher than those of our lending business, a marginal fall in net income was experienced.

## Investment Banking

This segment, which encompasses the Equity Capital Market and Corporate Finance teams, contributed HK\$10.9 million in revenue and losses of HK\$0.4 million to segment results of the Group this Period. In comparison with the same period last year, the lower income was due to the poor receptivity for placement deals this Period, which was the result of a fairly high degree of market uncertainty. With less placement deals in the pipeline than usual, the team was able to focus much of its efforts into the IPO market. XinYi Glass, one of our IPO clients, was listed on 3 February 2005, and is expected to bring improved fee income in the third fiscal quarter. The size of the offering before exercising over allotment options is about HK\$750 million.

The XinYi Glass transaction represents a major milestone for the Group as it is the Group's largest deal by far to date. It is also evidence of our ability to execute a key element of our growth strategy: To service larger capitalized mid-market clients.

Two more IPO clients have submitted listing applications to The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). In addition, the team is working on four other IPO projects.

## Wealth Management

The division contributed HK\$6.2 million in profits to the Group during the Period. Assets under management for MPF increased by 49% when comparing the end of December position to that of the end of June.

For the period under review, Kingsway Hong Kong SAR Fund achieved a return of approximately 21% and was the Best Performing Fund among the 327 MPF authorised in Hong Kong. In addition, Kingsway Hong Kong SAR Fund was also ranked 3rd for the cumulative performance since inception amongst the 287 MPF launched at the introduction of the Mandatory Provident Funds Schemes Ordinance in December 2000. Kingsway Middle Kingdom Fund was ranked the 3rd Best Performing Fund in the Hong Kong Equity category (over 5 years) in 2004. [Source: S&P Micropal]

# Management discussion and analysis

## Private Equity

The division contributed a loss of HK\$0.6 million to the Group's results. The higher loss was due to an increase in staff costs during the Period in preparation for the launch of additional private equity funds, which is expected to generate steadier fee based income for the Group and also serve as a deal origination channel for our Investment Banking division and vice versa. The Group expects to benefit from the following three sponsored funds during the 2005 calendar year:

- Private Equity Gold Fund focused on the developing gold/precious industry in China's newly opened mining sector. The fund is expected to launch in 2005.
- Kingsway SBF Investment, co-sponsored by the Softbank Investment Corporation, which is being structured to invest in pre-IPO China based securities. The fund, which invested in XinYi Glass at the end of the 2004 calendar year, is expected to produce good results.
- Sinochem Kingsway Capital Inc made a major investment in a formerly state owned steel plant in China.

The management fee income will increase upon the funds' successful launch and/or investment. The Group also provides seed investment in these funds through its Merchant Banking division and is positioned to share in the potential capital gain.

## Investment in Securities and Merchant Banking

These divisions contributed a total gain of HK\$50 million to the Group's earnings this Period. The segment was divided in two in 2004/05 to reflect the performance of two different functions. The Investment in Securities segment summarizes the Group's treasury performance, that is, the return from short term investments financed by surplus funds. The Merchant Banking segment reflects the performance of specially structured transactions, including block structured trades and investments in third party private equity and venture capital funds in which the Group has made capital contributions.

## Outlook

The market retreated in January 2005 and, unfortunately, it appears that the year ahead will be very challenging. The Group has prepared itself to meet increased competition and volatility in the financial market and subject to any unforeseen major market corrections, we are confident in our ability to perform well in the second half of our current fiscal year ending 30 June 2005.

As previously detailed, the IPO of XinYi Glass was a very important milestone for the Group. The Investment Banking team will continue to pursue similar quality, large capitalized mid-market clients. With a number of sizable corporations in the PRC planning to list in Hong Kong in 2005, we expect the capital markets to be very active in coming months. We are well positioned and have every intention to capitalize on as many of these opportunities as possible.

## Re-Designation of Director

Mr. Michael Wai Chung Wu, Executive Director of the Company, was re-designated as a Non-Executive Director with effect from 1 January 2005.

# Management discussion and analysis

## Liquidity and Financial Resources

Total assets as at 31 December 2004 were HK\$798 million, of which approximately 93% was current in nature. Net current assets were HK\$596 million and accounted for approximately 97% of the net assets of the Group as at the end of December 2004.

The Group generally finances its operations from internal resources. The Group has drawn approximately HK\$56 million of credit facilities. The funding was mainly used for financing the business of the Group. All of the borrowings at the end of December 2004 were short term in nature and were denominated in Hong Kong dollars to match the funding requirements of our business operations. The net cash position remained strong at HK\$122 million at the end of December. The Group's gearing ratio, calculated as a percentage of bank borrowings over shareholders' funds, was approximately 9% at the end of December.

The Group's marketable securities with a carrying value of HK\$13 million were pledged as security against bank overdrafts and short term loan facilities granted to the Group.

## Foreign Exchange Exposure

The Group's assets are mainly in Hong Kong and most of the monetary assets and liabilities of the Group are denominated in Hong Kong dollars. The Group also has monetary assets denominated in Canadian dollars. Other than assets denominated in Canadian dollars, the Group does not have exposure to material fluctuation in exchange rates.

## Employees

As at 31 December 2004, the number of full time employees of the Group was 124 (30 June 2004: 139). There have been no significant changes in the employment, training or development policies of the Group since the publication of the annual report for the year ended 30 June 2004.

## Interim Dividend

The directors have declared an interim dividend of 0.33 HK cents (2003: 0.33 HK cents) per ordinary share for the six months ended 31 December 2004. The dividend will be payable on Thursday, 10 March 2005 to shareholders whose names appear on the Register of Members at the close of business on Friday, 4 March 2005.

## Closure of Register of Members

The Register of Members of the Company will be closed from Wednesday, 2 March 2005 to Friday, 4 March 2005, both days inclusive, during which period 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 Branch Share Registrars, Computershare Hong Kong Investor Services Limited (at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong), for registration not later than 4 p.m. on Tuesday, 1 March 2005.

## Share options

As at 31 December 2004, the directors and employees of the Group had the following interests under the share option scheme (the "Scheme") approved by the shareholders of the Company on 23 August 2000:

Date of share options granted	Exercise period	Exercise price per share HK\$	At 1 July 2004	Transfer	Exercised during the period (Note (2))	Lapsed during the period	At 31 December 2004
<b>Directors: (Note (1))</b>							
28 September 2000	29 March 2001 to 28 February 2005	0.2333	121,500,000	2,400,000	(2,400,000)	(121,500,000)	—
22 June 2001	22 December 2001 to 21 June 2005	0.3433	—	1,500,000	—	—	1,500,000
31 August 2001	1 March 2002 to 31 August 2005	0.3233	19,500,000	(17,100,000)	—	—	2,400,000
20 December 2002	2 December 2003 to 1 June 2007	0.3833	30,000,000	—	—	—	30,000,000
4 April 2003	5 October 2003 to 4 April 2007	0.363	—	24,000,000	—	—	24,000,000
<b>Employees:</b>							
28 September 2000	28 March 2001 to 27 March 2005	0.2333	14,135,000	(2,400,000)	(9,391,000)	(2,344,000)	—
22 June 2001	22 December 2001 to 21 December 2005	0.3433	1,500,000	(1,500,000)	—	—	—
31 August 2001	1 March 2002 to 28 February 2006	0.3233	5,400,000	17,100,000	(240,000)	(450,000)	21,810,000
20 December 2002	2 October 2003 to 1 April 2007	0.3833	3,000,000	—	—	—	3,000,000
4 April 2003	5 October 2003 to 4 April 2007	0.363	24,000,000	(24,000,000)	—	—	—
11 March 2004	24 September 2004 to 7 April 2008	0.43	30,200,000	—	—	(3,260,000)	26,940,000
			<b>Total</b>	<b>—</b>	<b>(12,031,000)</b>	<b>(127,554,000)</b>	<b>109,650,000</b>

There were no options granted or cancelled in accordance with the terms of the Scheme during the period.



## Share options (continued)

### Notes:

- (1) 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 21.
- (2) The weighted average closing price of the shares immediately before the dates of exercise of these options was HK\$0.3471 each.
- (3) Value of options

The directors consider that the disclosure of the estimated value of options granted pursuant to the Scheme is not appropriate due to the uncertainty and subjectivity involved in modeling and pricing these options.

## 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 31 December 2004, 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*
Mr. Jonathan Koon Shum Choi **	Corporate	2,410,271,327	74.2%
Mr. William Ka Chung Lam **	Corporate	2,410,271,327	74.2%
Mr. William Ka Chung Lam	Family	7,500,000	0.2%
Ms. Rebecca Yuk Fung Lau	Personal	4,200,000	0.13%
Mr. Michael Wai Chung Wu	Personal	2,514,000	0.1%
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.

\*\* Mr. Jonathan Koon Shum Choi and Mr. William Ka Chung Lam are deemed to be interested in 2,410,271,327 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 22.

**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**

<b>Name of director</b>	<b>Personal interest</b>	<b>Family interest</b>	<b>Corporate interest</b>	<b>Other interest</b>	<b>Total number of common shares*</b>	<b>% of total issued shares*</b>
Mr. Jonathan Koon Shum Choi**	10,101,596	—	26,828,055 (Note (1))	—	36,929,651	46.4%
Mr. William Ka Chung Lam**	9,226,750	9,790,507 (Note (2))	—	12,915,060 (Note (3))	31,932,317	40.1%
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, Mr. Jonathan Koon Shum Choi and Mr. William Ka Chung 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. Mr. 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. Mr. 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) These shares are held by Ms. Mary Yuk Sin Lam who is the spouse of Mr. William Ka Chung Lam.

(3) 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 Mr. William Ka Chung Lam and his two children as the beneficiaries.

The remaining 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. Ms. Mary Yuk Sin Lam is the spouse of Mr. William Ka Chung Lam who is a trustee of The Mary Lam Family Trust.

**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**

<b>Name of director</b>	<b>Type of interest</b>	<b>Number of ordinary shares</b>	<b>% of total issued shares</b>
Mr. William Ka Chung Lam	Personal	59,620	4.6%
Mr. William Ka Chung Lam	Family	28,518	2.2%
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:

<b>Name of director</b>	<b>Exercise period</b>	<b>Exercise price per share HK\$</b>	<b>At 1 July 2004</b>	<b>Exercised during the period</b>	<b>Lapsed during the period</b>	<b>At 31 December 2004</b>
Mr. Jonathan Koon Shum Choi	9 April 2001 to 8 October 2004	0.2333	45,000,000	—	(45,000,000)	—
Mr. William Ka Chung Lam	29 March 2001 to 28 September 2004	0.2333	45,000,000	—	(45,000,000)	—
Ms. Mary Yuk Sin Lam*	29 March 2001 to 28 September 2004	0.2333	15,000,000	—	(15,000,000)	—
	1 March 2002 to 31 August 2005	0.3233	18,000,000	—	—	18,000,000
Mr. Michael Koon Ming Choi	4 April 2001 to 3 October 2004	0.2333	16,500,000	—	(16,500,000)	—
	1 March 2002 to 31 August 2005	0.3233	1,500,000	—	—	1,500,000
Mr. Michael Wai Chung Wu	2 December 2003 to 1 June 2007	0.3833	30,000,000	—	—	30,000,000
Ms. Rebecca Yuk Fung Lau	31 August 2001 to 28 February 2005	0.2333	2,400,000	(2,400,000)	—	—
	22 December 2001 to 21 June 2005	0.3433	1,500,000	—	—	1,500,000
	1 March 2002 to 31 August 2005	0.3233	900,000	—	—	900,000
	5 October 2003 to 4 April 2007	0.363	24,000,000	—	—	24,000,000

\* Ms. Mary Yuk Sin Lam is the spouse of Mr. William Ka Chung Lam.

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

**(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 as follows:

<b>Name of director</b>	<b>Exercise price per share C\$</b>	<b>Exercise period</b>	<b>At 1 July 2004 and 31 December 2004</b>
Mr. William Ka Chung Lam	1.92	4 March 2002 to 1 March 2005	500,000
Ms. Rebecca Yuk Fung Lau	2.6	14 January 2002 to 14 January 2005	125,000

There were no options granted to or exercised by the directors during the period.

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.

Save as disclosed above, as at 31 December 2004, 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 period.

Save as disclosed above, at no time during the period was the Company or any of its holding companies, subsidiaries and fellow subsidiaries a party to any arrangements 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 31 December 2004, 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 represents long positions in the shares of the Company.

<b>Name of shareholders</b>	<b>Country of incorporation</b>	<b>Number of ordinary shares in the Company</b>		<b>Note</b>	<b>% of total issued shares</b>
		<b>Direct interest</b>	<b>Deemed interest</b>		
World Developments Limited	British Virgin Islands	2,410,271,327	—	(a)	74.2%
Innovation Assets Limited	British Virgin Islands	—	2,410,271,327	(a)	74.2%
Kingsway International Holdings Limited	Bermuda	—	2,410,271,327	(a)	74.2%
Ms. Mary Yuk Sin Lam	N/A	25,500,000	2,410,271,327	(a) & (b)	75%

## **Substantial shareholders' interests and short positions in the shares and underlying shares of the Company (continued)**

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. Mr. Jonathan Koon Shum Choi beneficially owns or has control of approximately 46.4% of the issued share capital of Kingsway International and therefore is deemed (by virtue of the SFO) to be interested in these 2,410,271,327 shares. Mr. William Ka Chung Lam and his spouse, Ms. Mary Yuk Sin Lam, beneficially own or have control of approximately 40.1% on a combined basis of the issued share capital of Kingsway International and therefore are deemed (by virtue of the SFO) to be interested in these 2,410,271,327 shares.
- (b) The direct interest held by Ms. Mary Yuk Sin Lam includes 7,500,000 shares and options to subscribe for 18,000,000 shares, details related to options are disclosed in the section "Directors' and chief executive's interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation" shown on page 21.

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

## **Purchase, sale or redemption of the Company's listed securities**

During the six months ended 31 December 2004, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## **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 31 December 2004, in compliance with the Code of Best Practice set out by the Stock Exchange in Appendix 14 of the Listing Rules, except that some of the 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**

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the review of the interim report and the unaudited condensed accounts for the six months ended 31 December 2004.

On behalf of the Board

**William Ka Chung Lam**  
Chief Executive Officer  
Hong Kong, 8 February 2005

# Independent review report to the Board of Directors of SW Kingsway Capital Holdings Limited

## Introduction

We have been instructed by the Company to review the interim accounts set out on pages 1 to 13.

## Respective responsibilities of directors and auditors

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim accounts to be in compliance with the relevant provisions thereof and Statement of Standard Accounting Practice 25 “Interim financial reporting” issued by the Hong Kong Institute of Certified Public Accountants. The interim accounts is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim accounts and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this accounts.

## Review work performed

We conducted our review in accordance with Statement of Auditing Standards 700 “Engagements to review interim financial reports” issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim accounts and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim accounts.

## Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim accounts for the six months ended 31 December 2004.

## **KPMG**

*Certified Public Accountants*  
Hong Kong, 8 February 2005



