



Kingsway Group

SW Kingsway Capital Holdings Limited

滙富金融控股有限公司\*

Incorporated in Bermuda with limited liability

Stock Code: 188

商界展關懷

caringcompany<sup>2006/08</sup>

Awarded by The Hong Kong Council of Social Service  
香港社會服務聯會頒發

# Moving Ahead Driving Results

# 2007/08

Interim Report

\*For identification purpose only

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# Corporate Information

## General Information

### CHAIRMAN

Jonathan Koon Shum Choi

### EXECUTIVE DIRECTORS

Mary Yuk Sin Lam (*Deputy Chairman*)

William Wai Leung Wu (*Chief Executive Officer*)

Michael Koon Ming Choi

### NON-EXECUTIVE DIRECTORS

Rebecca Yuk Fung Lau

Lee G. Lam

### INDEPENDENT NON-EXECUTIVE DIRECTORS

Robert Tsai To Sze

Stanley Kam Chuen Ko

Michael Wai Chung Wu

## Legal Advisers to the Company

*As to Hong Kong Law:*

Woo, Kwan, Lee & Lo  
27th Floor, Jardine House,  
One Connaught Place, Central,  
Hong Kong

Clifford Chance  
29th Floor, Jardine House,  
One Connaught Place, Central,  
Hong Kong

*As to Bermuda Law:*

Conyers Dill & Pearman  
2901 One Exchange Square,  
8 Connaught Place, Central, Hong Kong

## Auditors

KPMG  
8th Floor, Prince's Building,  
10 Chater Road, Central,  
Hong Kong

## Registered Office

Clarendon House,  
2 Church Street, Hamilton HM 11, Bermuda

## Head Office and Principal Place of Business

5th Floor, Hutchison House,  
10 Harcourt Road, Central,  
Hong Kong

## Company Secretary

Vincent Wai Shun Lai

## Authorised Representatives

William Wai Leung Wu

Vincent Wai Shun Lai

## Bermuda Principal Share Registrar and Transfer Office

Butterfield Fund Services (Bermuda) Limited  
Rosebank Centre,  
11 Bermudiana Road,  
Pembroke, Bermuda

## Hong Kong Branch Share Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited  
Room 1712-1716, 17th Floor,  
Hopewell Centre, 183 Queen's Road East,  
Hong Kong

## Principal Bankers

Standard Chartered Bank (Hong Kong) Limited  
The Hongkong and Shanghai Banking Corporation Limited  
Bank of China (Hong Kong) Limited

## Composition of Board Committees

### AUDIT COMMITTEE

Robert Tsai To Sze (*Chairman*)  
Stanley Kam Chuen Ko  
Michael Wai Chung Wu  
Rebecca Yuk Fung Lau

### NOMINATION COMMITTEE

Stanley Kam Chuen Ko (*Chairman*)  
Jonathan Koon Shum Choi  
Mary Yuk Sin Lam

### COMPENSATION COMMITTEE

Stanley Kam Chuen Ko (*Chairman*)  
Jonathan Koon Shum Choi  
Mary Yuk Sin Lam  
Robert Tsai To Sze  
Michael Wai Chung Wu

### CORPORATE GOVERNANCE COMMITTEE

Michael Wai Chung Wu (*Chairman*)  
Rebecca Yuk Fung Lau  
Stanley Kam Chuen Ko

The Board of Directors of SW Kingsway Capital Holdings Limited (the "Company") is pleased to present the interim report and unaudited condensed financial statements of the Company and its subsidiaries (the "Group") for the six months ended 31 December 2007. The condensed financial statements have not been audited, but have been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). KPMG's independent review report to the Board of Directors of the Company is included on page 28. The interim report has been reviewed by the Company's Audit Committee.

## Consolidated Income Statement

For the six months ended 31 December 2007 – unaudited (Expressed in Hong Kong dollars)

	Note	Six months ended 31 December	
		2007	2006
<b>Continuing operations:</b>			
<b>Turnover</b>			
Net (loss)/gain on disposal of financial assets at fair value		\$ (2,651,520)	\$ 17,253,353
through profit or loss and remeasurement to fair value		71,605,391	33,992,102
Commission and fee income		23,890,892	14,567,890
Interest and dividend income			
		\$ 92,844,763	\$ 65,813,345
<b>Other income</b>		<b>1,947,996</b>	<b>2,285,995</b>
		\$ 94,792,759	\$ 68,099,340
<b>Valuation gains on investment properties</b>	3	\$ –	\$ 4,538,858
<b>Gain on disposal of subsidiaries</b>	8	–	1,763,253
<b>Operating expenses</b>			
Commission expenses		(16,992,493)	(5,004,554)
General and administrative expenses		(55,832,187)	(48,595,908)
Reversal of revaluation loss on building held for own use		–	548,409
Finance costs		(10,942,786)	(8,835,700)
		\$ 11,025,293	\$ 12,513,698
Share of profits/(losses) of associates	3	8,202,597	(616,364)
Share of profits/(losses) of jointly controlled entities	3	32,757,437	(719,183)
		\$ 51,985,327	\$ 11,178,151
<b>Profit before taxation</b>	4	\$ 51,985,327	\$ 11,178,151
Income tax	5	(8,729,435)	(2,015,713)
		\$ 43,255,892	\$ 9,162,438
<b>Profit for the period from continuing operations</b>			
<b>Discontinued operations:</b>			
<b>Profit for the period from discontinued operations</b>	2,3	–	1,232,449
		\$ 43,255,892	\$ 10,394,887
<b>Profit for the period</b>			
<b>Attributable to:</b>			
Equity shareholders of the Company		\$ 27,389,020	\$ 13,438,870
Minority interests		15,866,872	(3,043,983)
		\$ 43,255,892	\$ 10,394,887
<b>Profit for the period</b>			
<b>Interim dividend</b>	6(a)	\$ 11,368,784	\$ 10,719,139
<b>Basic earnings per share</b>			
From continuing and discontinued operations	7	0.84 cent	0.41 cent
From continuing operations		0.84 cent	0.37 cent
From discontinued operations		– cent	0.04 cent
<b>Diluted earnings per share</b>			
		N/A	N/A

The notes on pages 6 to 18 form part of these condensed interim financial statements.

# Consolidated Balance Sheet

At 31 December 2007 – unaudited (Expressed in Hong Kong dollars)

	Note	31 December 2007	30 June 2007
<b>Non-current assets</b>			
Other properties and equipment		\$ 28,095,136	\$ 24,017,665
Intangible assets		2,331,141	2,731,141
Interests in associates		58,433,641	50,740,533
Interests in jointly controlled entities		148,608,184	114,328,811
Other financial assets		8,715,024	9,029,110
		<b>\$ 246,183,126</b>	<b>\$ 200,847,260</b>
<b>Current assets</b>			
Financial assets at fair value through profit or loss	9	\$ 471,455,386	\$ 597,971,875
Accounts, loans and other receivables	10	238,334,965	1,180,216,096
Amounts due from related companies		17,804	17,804
Tax prepaid		–	3,395,834
Cash and cash equivalents	11	136,846,018	88,075,637
		<b>\$ 846,654,173</b>	<b>\$ 1,869,677,246</b>
<b>Current liabilities</b>			
Financial liabilities at fair value through profit or loss		\$ –	\$ 83,700,000
Accruals, accounts and other payables	12	191,020,930	256,107,940
Bank loans	13	602,732	792,555,840
Obligations under finance leases	14	473,367	447,136
Current taxation		42,596,983	37,963,105
		<b>\$ 234,694,012</b>	<b>\$ 1,170,774,021</b>
<b>Net current assets</b>		<b>\$ 611,960,161</b>	<b>\$ 698,903,225</b>
<b>Total assets less current liabilities</b>		<b>\$ 858,143,287</b>	<b>\$ 899,750,485</b>
<b>Non-current liabilities</b>			
Non-current bank loans	13	\$ 5,183,483	\$ 5,505,570
Non-current obligations under finance leases	14	1,504,429	1,747,857
Deferred tax liabilities		495,149	515,955
		<b>\$ 7,183,061</b>	<b>\$ 7,769,382</b>
<b>NET ASSETS</b>		<b>\$ 850,960,226</b>	<b>\$ 891,981,103</b>
<b>CAPITAL AND RESERVES</b>			
Share capital	15	\$ 324,822,391	\$ 324,822,391
Reserves		492,281,197	483,668,946
		<b>\$ 817,103,588</b>	<b>\$ 808,491,337</b>
<b>Minority interests</b>		<b>33,856,638</b>	<b>83,489,766</b>
<b>TOTAL EQUITY</b>		<b>\$ 850,960,226</b>	<b>\$ 891,981,103</b>

The notes on pages 6 to 18 form part of these condensed interim financial statements.

# Condensed Consolidated Cash Flow Statement

For the six months ended 31 December 2007 – unaudited (Expressed in Hong Kong dollars)

	Six months ended 31 December	
	2007	2006
<b>Continuing operations:</b>		
Net cash generated from/(used in) operating activities	\$ 929,610,812	\$ (70,688,723)
Net cash (used in)/generated from investing activities	(110,472)	85,830,364
Net cash used in financing activities	(880,729,959)	(23,677,413)
<b>Net cash inflow/(outflow) from continuing operations</b>	<b>\$ 48,770,381</b>	<b>\$ (8,535,772)</b>
<b>Net cash inflow from discontinued operations</b>	<b>–</b>	<b>939,060</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>\$ 48,770,381</b>	<b>\$ (7,596,712)</b>
<b>Cash and cash equivalents at 1 July 2007/2006</b>	<b>88,075,637</b>	<b>141,604,670</b>
<b>Cash and cash equivalents at 31 December 2007/2006</b>	<b>\$ 136,846,018</b>	<b>\$ 134,007,958</b>
Cash and cash equivalents at 31 December 2007/2006		
– Included in continuing operations	\$ 136,846,018	\$ 127,033,410
– Included in assets of disposal group classified as held for sale	–	6,974,548

The notes on pages 6 to 18 form part of these condensed interim financial statements.

# Consolidated Statement of Changes in Equity

For the six months ended 31 December 2007 – unaudited (Expressed in Hong Kong dollars)

	2007	2006
<b>Total equity at 1 July 2007/2006</b>	<b>\$ 891,981,103</b>	\$ 686,716,771
<b>Net income recognised directly in equity:</b>		
Exchange differences on translation of financial statements of overseas subsidiaries	\$ (542,608)	\$ (177,505)
Share of reserve of associates	(9,489)	–
Surplus on revaluation of buildings held for own use	4,512,895	858,875
Net income for the period recognised directly in equity	\$ 3,960,798	\$ 681,370
Net profit for the period	43,255,892	10,394,887
<b>Total recognised income and expense for the period</b>	<b>\$ 47,216,690</b>	\$ 11,076,257
Attributable to:		
Equity shareholders of the Company	\$ 31,349,818	\$ 14,120,240
Minority interests	15,866,872	(3,043,983)
	\$ 47,216,690	\$ 11,076,257
<b>Dividends paid to:</b>		
Equity shareholders of the Company	\$ (22,737,567)	\$ (21,763,100)
Minority interests	(50,500,000)	–
	\$ (73,237,567)	\$ (21,763,100)
<b>Movements in equity arising from capital transactions:</b>		
Equity settled share-based transactions	\$ –	\$ 4,373
Eliminated on disposal of a subsidiary	–	(40)
Return of capital to minority interests	(15,000,000)	–
	\$ (15,000,000)	\$ 4,333
<b>Total equity at 31 December 2007/2006</b>	<b>\$ 850,960,226</b>	\$ 676,034,261

The notes on pages 6 to 18 form part of these condensed interim financial statements.

# Notes to Condensed Interim Financial Statements

(Expressed in Hong Kong dollars)

## 1 Basis of preparation

The unaudited condensed consolidated interim financial statements (“Interim Financial Statements”) are prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (“HKAS”) 34, “Interim Financial Reporting”, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

The Interim Financial Statements are prepared on a basis consistent with the accounting policies adopted in the 2007 annual financial statements.

## 2 Discontinued operations

In December 2006, the Group announced that it was in negotiations with independent third parties in respect of a possible disposal of the Group’s assets. On 10 January 2007, Kingsway Asset Management Limited (“KAM”), a wholly-owned subsidiary of the Company, entered into a memorandum of understanding with a third party buyer to dispose of its entire shareholding interest in Kingsway Fund Management Limited (“KFM”). KFM was a subsidiary principally engaging in the wealth management business. The disposal was completed and the Group’s wealth management business segment was discontinued on 31 March 2007, when control of KFM was passed.

The assets and liabilities of the wealth management business segment have been classified as held for sales and carried at their carrying amounts since their carrying amounts were recovered principally through a sales transaction rather than through a continuing use in accordance with HKFRS 5 “Non-current assets held for sales and discontinued operations” issued by the HKICPA. The results, cash flows and the segment information in respect of the wealth management business segment have been presented as discontinued operations.

An analysis of the results and cash flow statement of the wealth management business segment are set out below:

	Six months ended 31 December	
	2007	2006
<b>Discontinued operations:</b>		
Revenues	\$ –	\$ 6,872,822
Expenses	–	(5,640,373)
Profit before taxation from discontinued operations	\$ –	\$ 1,232,449
Income tax	–	–
Profit for the period from discontinued operations	\$ –	\$ 1,232,449
<b>Discontinued operations:</b>		
Net cash inflow from discontinued operations	\$ –	\$ 939,060



### 3 Segment information

#### (a) BY BUSINESS SEGMENTS

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

Investment in securities	:	Investment in securities for treasury and liquidity management
Structured investment	:	Investment in structured deals including listed and unlisted equity, debt securities and investment properties
Brokerage	:	Provision of stock and futures brokerage services, margin and other financing, and other related services
Corporate finance and capital markets	:	Provision of financial advisory services to corporate clients in connection with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and acting as underwriting and placing agent in the equity capital market
Asset management	:	Provision of real estate services, asset management and related advisory services to private equity funds and private clients
Wealth management	:	Provision of wealth management services to authorised unit trust and Mandatory Provident Funds (discontinued on 31 March 2007)

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

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

The Group has renamed its business segments "Merchant banking" and "Investment banking" adopted in the 2007 annual financial statements to "Structured investment" and "Corporate finance and capital markets" respectively in this interim financial report. There is no impact in the recognition and presentation of the amounts included in these business segments for both the current and prior periods arising from these changes of descriptions. The directors consider that these changes result in a more appropriate presentation of segment information in this interim financial report.

# Notes to Condensed Interim Financial Statements

(Expressed in Hong Kong dollars)

## 3 Segment information (Continued)

### (A) BY BUSINESS SEGMENTS (CONTINUED)

	Six months ended 31 December 2007									
	Continuing operations							Discontinued operations	Eliminations	Consolidated
	Investment in securities	Structured investment	Brokerage	Corporate finance and capital markets	Asset management	Others	Total			
Turnover	\$(37,336,629)	\$ 33,270,900	\$ 67,487,697	\$ 24,232,531	\$ 3,885,411	\$ 1,304,853	\$ 92,844,763	\$ -	\$ -	\$ 92,844,763
Inter-segment revenue	27,164	231,869	3,929,832	-	1,792,625	14,495,505	20,476,995	-	-	20,476,995
Other income	-	245,123	564,456	53,202	-	1,085,215	1,947,996	-	-	1,947,996
	<u>\$(37,309,465)</u>	<u>\$ 33,747,892</u>	<u>\$ 71,981,985</u>	<u>\$ 24,285,733</u>	<u>\$ 5,678,036</u>	<u>\$ 16,885,573</u>	<u>\$ 115,269,754</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 115,269,754</u>
Eliminations							(20,476,995)	-	-	(20,476,995)
Total revenue							<u>\$ 94,792,759</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 94,792,759</u>
Segment results	<u>\$(45,282,411)</u>	<u>\$ 31,647,023</u>	<u>\$ 13,837,680</u>	<u>\$ 12,274,823</u>	<u>\$ 966,595</u>	<u>\$(2,418,417)</u>	<u>\$ 11,025,293</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,025,293</u>
Share of profits/(losses) of associates	\$ -	\$ 5,977,884	\$ 2,736,651	\$ -	\$(511,938)	\$ -	8,202,597	-	-	8,202,597
Share of profits of jointly controlled entities	-	32,757,437	-	-	-	-	32,757,437	-	-	32,757,437
Profit before taxation							<u>\$ 51,985,327</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 51,985,327</u>

  

	Six months ended 31 December 2006									
	Continuing operations							Discontinued operations	Eliminations	Consolidated
	Investment in securities	Structured investment	Brokerage	Corporate finance and capital markets	Asset management	Others	Total			
Turnover	\$ 20,327,825	\$(860,209)	\$ 25,818,887	\$ 15,322,527	\$ 2,500,785	\$ 2,703,530	\$ 65,813,345	\$ 1,405,815	\$(1,437,885)	\$ 65,781,275
Inter-segment revenue	10,489	-	757,092	-	1,296,649	5,802,235	7,866,465	5,465,954	-	13,332,419
Other income	(8,306)	(7,890)	1,188,553	50,703	2,950	1,059,985	2,285,995	1,053	(512,550)	1,774,498
	<u>\$ 20,330,008</u>	<u>\$(868,099)</u>	<u>\$ 27,764,532</u>	<u>\$ 15,373,230</u>	<u>\$ 3,800,384</u>	<u>\$ 9,565,750</u>	<u>\$ 75,965,805</u>	<u>\$ 6,872,822</u>	<u>\$(1,950,435)</u>	<u>\$ 80,888,192</u>
Eliminations							(7,866,465)	(5,465,954)	-	(13,332,419)
Total revenue							<u>\$ 68,099,340</u>	<u>\$ 1,406,868</u>	<u>\$(1,950,435)</u>	<u>\$ 67,555,773</u>
Segment results	<u>\$ 9,144,228</u>	<u>\$ 1,544,458</u>	<u>\$ 320,575</u>	<u>\$ 9,532,820</u>	<u>\$(87,071)</u>	<u>\$(7,941,312)</u>	<u>\$ 12,513,698</u>	<u>\$ 1,232,449</u>	<u>\$ -</u>	<u>\$ 13,746,147</u>
Share of (losses)/profits of associates	\$ -	\$(587,178)	\$ 312,451	\$ -	\$(341,637)	\$ -	(616,364)	-	-	(616,364)
Share of losses of jointly controlled entities	-	(719,183)	-	-	-	-	(719,183)	-	-	(719,183)
Profit before taxation							<u>\$ 11,178,151</u>	<u>\$ 1,232,449</u>	<u>\$ -</u>	<u>\$ 12,410,600</u>

### 3 Segment information (Continued)

#### (B) BY GEOGRAPHICAL SEGMENTS

The following table provides an analysis of the Group's turnover of continuing operations by geographical markets:

	Six months ended 31 December	
	2007	2006
Hong Kong	\$ 72,637,226	\$ 67,680,766
The People's Republic of China (the "PRC")	2,782,799	412,312
Japan	2,322,350	(15,288,441)
Canada and Australia	14,970,212	6,581,222
Other markets	132,176	6,427,486
	<b>\$ 92,844,763</b>	<b>\$ 65,813,345</b>

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

### 4 Profit before taxation

#### PROFIT BEFORE TAXATION IS ARRIVED AT AFTER CREDITING/(CHARGING):

	Six months ended 31 December	
	2007	2006
Net (loss)/gain on disposal of financial assets at fair value through profit or loss and remeasurement to fair value		
– equity securities	\$ 6,449,485	\$ 31,158,065
– debt securities	2,322,350	(14,133,521)
– derivatives and others	(11,423,355)	228,809
Dividends from listed equity securities	1,719,626	3,453,120
Interest income from		
– bank deposits	5,204,036	2,419,181
– others	16,967,230	8,695,589
Reversal of impairment losses for doubtful debts (net)	–	1,037,037
Net exchange gain	883,255	136,756
Staff costs	\$ (35,781,732)	\$ (25,009,102)
Operating charges – land and buildings	(4,182,336)	(4,142,409)
Depreciation	(1,521,510)	(1,481,004)
Interest on		
– bank loans and overdrafts	(10,810,825)	(6,831,484)
– others	(131,961)	(2,004,215)
Impairment losses for doubtful debts (net)	(46,666)	–
Net loss on disposal of equipment	–	(3,427)

# Notes to Condensed Interim Financial Statements

(Expressed in Hong Kong dollars)

## 5 Income tax

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

	Six months ended 31 December	
	2007	2006
<b>Current tax – Provision for Hong Kong Profits Tax</b>		
– Tax for the period	\$ 8,750,241	\$ 1,485,996
– Under provision in prior periods	–	400,000
	\$ 8,750,241	\$ 1,885,996
<b>Deferred taxation</b>		
Origination and reversal of temporary differences	(20,806)	129,717
Taxation charge	\$ 8,729,435	\$ 2,015,713

The Group has not recognised deferred tax assets in respect of cumulative tax losses of approximately \$214 million (30 June 2007: \$153 million) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses do not expire under current tax regulation.

## 6 Dividends

### (A) DIVIDENDS PAYABLE TO EQUITY SHAREHOLDERS OF THE COMPANY ATTRIBUTABLE TO THE INTERIM PERIOD

	Six months ended 31 December	
	2007	2006
Interim dividend payable of 0.35 cent per share (2006: 0.33 cent per share)	\$ 11,368,784	\$ 10,719,139

At a meeting held on 13 February 2008, the directors declared an interim dividend of 0.35 cent per share, totalling \$11,368,784 (note 16) based on the number of shares in issue at 13 February 2008. This dividend is not reflected as a dividend payable in these Interim Financial Statements.

### (B) FINAL DIVIDEND ATTRIBUTABLE TO THE FINANCIAL YEAR ENDED 30 JUNE 2007

At a meeting held on 18 September 2007, the directors proposed a final dividend of 0.7 cent per share for the year ended 30 June 2007, totalling \$22,737,567 (note 16) based on the number of shares in issue at 18 September 2007. On 7 November 2007, the final dividend was paid to shareholders and has been reflected as an appropriation of retained profits in the current period.

## 7 Earnings per share

### (A) BASIC EARNINGS PER SHARE

#### FROM CONTINUING AND DISCONTINUED OPERATIONS

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of \$27,389,020 (2006: \$13,438,870) and on 3,248,223,906 (2006: 3,248,223,906) ordinary shares in issue during the period.

#### FROM CONTINUING OPERATIONS

	Six months ended 31 December	
	2007	2006
Earnings for the period attributable to equity shareholders of the Company	\$ 27,389,020	\$ 13,438,870
Less: Earnings for the period from discontinued operations	–	(1,232,449)
	<b>\$ 27,389,020</b>	<b>\$ 12,206,421</b>

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

#### FROM DISCONTINUED OPERATIONS

At 31 December 2006, the basic earnings per share for discontinued operations was 0.04 cent which was calculated based on the profit for the period from discontinued operations of \$1,232,449. The denominators used were the same as those detailed above for basic earnings per share from continuing and discontinued operations.

### (B) DILUTED EARNINGS PER SHARE

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

## 8 Disposal of subsidiaries

In the prior period, the Group sold a 50% shareholding interest in a wholly-owned subsidiary, Total Express Investment Limited ("Total Express"), to an independent third party, resulting in a gain on disposal of \$1,763,253. Total Express is the intermediate holding company of Overseas Billion Limited, Well Talent Limited and Luxury Development Limited which jointly held the entire interest in the investment properties in the PRC.

# Notes to Condensed Interim Financial Statements

(Expressed in Hong Kong dollars)

## 9 Financial assets at fair value through profit or loss

	31 December 2007	30 June 2007
Listed equity securities, at fair value		
– in Hong Kong	\$ 419,361,598	\$ 540,582,386
– outside Hong Kong	15,465,455	11,660,151
	<b>\$ 434,827,053</b>	<b>\$ 552,242,537</b>
Unlisted investments, at fair value		
– debt securities	\$ 34,397,115	\$ 32,074,765
– derivative instruments	2,231,218	13,654,573
	<b>\$ 36,628,333</b>	<b>\$ 45,729,338</b>
	<b>\$ 471,455,386</b>	<b>\$ 597,971,875</b>
The carrying amounts of the above financial assets are classified as follows:		
Held for trading	\$ 434,827,053	\$ 552,242,537
Designated as fair value through profit or loss on initial recognition	36,628,333	45,729,338
	<b>\$ 471,455,386</b>	<b>\$ 597,971,875</b>

## 10 Accounts, loans and other receivables

	Note	31 December 2007	30 June 2007
<b>Accounts and loans receivables</b>			
Amounts due from brokers and clearing houses	(a)	\$ 68,082,568	\$ 38,311,585
Amounts due from margin clients	(b)	44,247,043	63,933,609
Amounts due from cash clients	(c)	119,990,938	1,035,377,691
Loans receivable	(d)	4,512,379	18,929,066
Others	(e)	8,275,885	3,296,802
		<b>\$ 245,108,813</b>	<b>\$ 1,159,848,753</b>
Less: Impairment losses		<b>(8,768,898)</b>	<b>(8,835,208)</b>
		<b>\$ 236,339,915</b>	<b>\$ 1,151,013,545</b>
Prepayments, deposits and other receivables		1,995,050	29,202,551
		<b>\$ 238,334,965</b>	<b>\$ 1,180,216,096</b>

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

	31 December 2007	30 June 2007
Current and within 1 month	\$ 231,979,552	\$ 1,149,709,675
More than 1 month and within 3 months	2,069,829	1,240,135
More than 3 months	2,290,534	63,735
	<b>\$ 236,339,915</b>	<b>\$ 1,151,013,545</b>

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

Notes:

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

The Group maintains clients' monies arising from the ordinary course of business of dealing in options and futures contracts in trust with HKFE Clearing Corporation Limited ("HKFECC"). At 31 December 2007, the Group held \$13,199,607 (30 June 2007: \$7,396,416) with HKFECC in trust for clients which was not dealt with in these Interim Financial Statements.

- (b) Margin clients of the brokerage division are required to pledge securities collateral to the Group in order to obtain the credit facilities for securities trading. The amount of credit facilities granted to them is determined by the discounted value of securities accepted by the Group. At 31 December 2007, the total market value of securities pledged as collateral in respect of the loans to margin clients was approximately \$438 million (30 June 2007: \$648 million). The amounts due from margin clients are repayable on demand and bear interest at commercial rates.
- (c) There are no credit facilities granted to cash clients of the brokerage division. They are required to settle their securities trading balances on the settlement day determined under the relevant market practices or exchange rules.
- (d) The credit terms for loans granted by the Group's brokerage division are set by management with reference to the financial background and the value and nature of collaterals pledged by the borrower. At 30 June 2007, the total market value of securities pledged as collateral in respect of the loans to clients was approximately \$2 million.
- (e) The balance included an amount of \$3,724 (30 June 2007: \$241,040) receivable from an associate arising from normal business transactions.

## 11 Cash and cash equivalents

The Group maintains segregated clients' accounts with licensed banks to hold clients' monies arising from normal business transactions in connection with the Group's brokerage and asset management activities. As at 31 December 2007, segregated clients' accounts not otherwise dealt with in these Interim Financial Statements amounted to \$243,953,133 (30 June 2007: \$434,125,148).

## 12 Accruals, accounts and other payables

	<b>31 December 2007</b>	30 June 2007
<b>Accounts payable (current and within 1 month)</b>		
Amounts due to brokers and clearing houses	\$ 11,619,515	\$ 90,915,014
Clients' accounts payable (net of bank and clearing house balances in segregated client's accounts)	155,208,990	88,095,787
Others	3,448,305	7,755,735
	<b>\$ 170,276,810</b>	<b>\$ 186,766,536</b>
Other creditors and accruals	20,744,120	69,341,404
	<b>\$ 191,020,930</b>	<b>\$ 256,107,940</b>

# Notes to Condensed Interim Financial Statements

(Expressed in Hong Kong dollars)

## 13 Bank loans

	31 December 2007	30 June 2007
Unsecured bank loans	\$ –	\$ 792,000,000
Secured bank loans (Note)	5,786,215	6,061,410
	<b>\$ 5,786,215</b>	<b>\$ 798,061,410</b>
The bank loans are repayable as follows:		
Within 1 year or on demand	\$ 602,732	\$ 792,555,840
More than 1 year but not exceeding 2 years	645,136	599,096
More than 2 years but not exceeding 5 years	2,215,783	2,091,987
After 5 years	2,322,564	2,814,487
	<b>\$ 5,786,215</b>	<b>\$ 798,061,410</b>
Less: Amount due after 1 year shown under non-current liabilities	(5,183,483)	(5,505,570)
	<b>\$ 602,732</b>	<b>\$ 792,555,840</b>

Note: As at 31 December 2007, the Group's buildings held for own use with a carrying value of \$20,414,707 (30 June 2007: \$15,754,180) were pledged as security for certain bank loans. \$5,786,215 was outstanding on these facilities as at 31 December 2007 (30 June 2007: \$6,061,410).

## 14 Obligations under finance leases

At 31 December 2007, the Group had obligations under finance leases repayable as follows:

	31 December 2007	
	Present value of the minimum lease payments	Total minimum lease payments
Within 1 year	\$ 473,367	\$ 675,600
After 1 year but within 2 years	\$ 530,536	\$ 675,600
After 2 years but within 5 years	973,893	1,069,700
	<b>\$ 1,504,429</b>	<b>\$ 1,745,300</b>
	<b>\$ 1,977,796</b>	<b>\$ 2,420,900</b>
Less: Total future interest expenses		(443,104)
Present value of lease obligations		<b>\$ 1,977,796</b>
	30 June 2007	
	Present value of the minimum lease payments	Total minimum lease payments
Within 1 year	\$ 447,136	\$ 675,600
After 1 year but within 2 years	\$ 501,137	\$ 675,600
After 2 years but within 5 years	1,246,720	1,407,500
	<b>\$ 1,747,857</b>	<b>\$ 2,083,100</b>
	<b>\$ 2,194,993</b>	<b>\$ 2,758,700</b>
Less: Total future interest expenses		(563,707)
Present value of lease obligations		<b>\$ 2,194,993</b>



## 15 Share capital

	No. of shares	Amount
<b>Authorised:</b>		
Ordinary shares of \$0.1 each	4,000,000,000	\$ 400,000,000
<b>Issued and fully paid:</b>		
At 30 June 2007 and 31 December 2007	3,248,223,906	\$ 324,822,391

Details of the share options outstanding as at 31 December 2007 are disclosed under the section "Share options" on page 23.

## 16 Retained profits

	31 December 2007	30 June 2007
2008 interim dividend (Note 6(a))	\$ 11,368,784	\$ –
2007 final dividend (Note 6(b))	–	22,737,567
Others	338,711,162	322,690,926
	<b>\$ 350,079,946</b>	<b>\$ 345,428,493</b>

## 17 Contingent liabilities

	Company	
	31 December 2007	30 June 2007
Guarantees for banking facilities of subsidiaries and jointly controlled entities	\$ 329,486,215	\$ 299,761,410
Other guarantees	13,000,000	–
	<b>\$ 342,486,215</b>	<b>\$ 299,761,410</b>

## 18 Commitments

### (A) CAPITAL COMMITMENTS

	31 December 2007	30 June 2007
Contracted but not provided for	\$ 1,082,769	\$ 1,016,912

# Notes to Condensed Interim Financial Statements

(Expressed in Hong Kong dollars)

## 18 Commitments (Continued)

### (B) COMMITMENTS UNDER OPERATING LEASES

#### As lessee

As at 31 December 2007, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Land and buildings	
	31 December 2007	30 June 2007
Not later than 1 year	\$ 8,469,841	\$ 8,649,543
Later than 1 year and not later than 5 years	28,218,750	32,347,840
	<b>\$ 36,688,591</b>	<b>\$ 40,997,383</b>

## 19 Material related party transactions

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

		Six months ended 31 December	
	Note	2007	2006
Brokerage commission earned on securities and futures dealing	(a)	\$ 3,515,965	\$ 1,168,295
Common office expenses recharged	(b)	376,400	377,610
Consultancy and management fee received	(c)	2,188,958	1,016,275
Interest income	(d)	757,198	80,384

Notes:

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

## 20 Financial instruments

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

### (A) CREDIT RISK

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

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

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

### (B) LIQUIDITY RISK

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

### (C) MARKET RISK

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

# Notes to Condensed Interim Financial Statements

(Expressed in Hong Kong dollars)

## 20 Financial instruments (Continued)

### (D) FOREIGN EXCHANGE RISK

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

### (E) INTEREST RATE RISK

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

## 21 Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting period ending 30 June 2008

Up to the date of issue of these Interim Financial Statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the accounting period ending 30 June 2008 and which have not been adopted in these Interim Financial Statements.

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

	<b>Effective for accounting periods beginning on or after</b>
– HKFRS 8, Operating Segments	1 January 2009
– HKAS 23 (revised), Borrowing Costs	1 January 2009

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

# Management Discussion and Analysis

## The Market

2007 was a record year for the Hong Kong financial market. However, the second half of the calendar year was dominated by high volatility unseen during the last few years. The market sentiment was affected by the US sub-prime issues and the timing of the implementation of the new policy to allow PRC individual investors to invest in the Hong Kong securities market. In addition, the US Federal Reserve started the interest rate reduction cycle in August in reaction to the deterioration in the macro economic environment in the US. Nevertheless, China still enjoys double digit expansion and is implementing various measures to slow down its rapid economic growth. Hong Kong is in the midst of all these changes and the financial market has become very sensitive to these developments.

The Hang Seng Index closed at 27,813 at the end of December 2007, compared with 21,773 at the end of June 2007 and 19,965 at the end of 2006. Turnover reached record high and funds raised from primary markets were also at peak levels. Average monthly turnover on the Main Board during the six months ended 31 December 2007 was over HK\$2,401 billion, as compared to HK\$1,183 billion for the first half of 2007. Funds raised from IPOs on the Main Board in the second half of 2007 amounted to HK\$191 billion.

## Financial Highlights

The profit for the six months ended 31 December 2007 (the "Period") was HK\$43 million, as compared to HK\$10 million for the same period in the last fiscal year. Profit attributable to shareholders for the Period was HK\$27 million, as compared to HK\$13 million for the same period of the last fiscal year. Commission and fee income from the Client Services Group increased from HK\$34 million to HK\$72 million. This was due to the increase in brokerage turnover and income from our clients resulting from the bull run in the Hong Kong market. In addition, income from corporate finance and capital markets increased as a result of the increase in transactions completed. Interest income and related finance costs increased as a result of a very active IPO financing market. The increase in general and administrative costs was mainly due to higher discretionary staff costs in line with the good performance of the Client Services Group.

## Brokerage

Total revenue of the division was HK\$72.0 million during the period under review, representing a 159% increase over the same period last year.

The division benefited from the bull run in the Hong Kong market. The commission and interest income increased due to the large number of IPOs and the resultant increase in market activities. The institutional sales team was successful in diversifying its client portfolio which has resulted in higher trading volume. The division is working continuously to update its services delivery standard through better hardware and software to fend off the competition from banks and other services providers.

Kingsway ranked in the top three in the category of Best Broker in Hong Kong by the Asiamoney Brokers Poll announced in November 2007. Kingsway has enjoyed this honour for the last three consecutive years.

## Corporate Finance and Capital Markets

Total revenue of the division was HK\$24.3 million, representing a 58% increase over the same period last year.

The market continued to focus on big cap companies. However, the division was able to secure more advisory work and also benefited from the secondary placings done for a few small cap companies. The division is working on a number of projects, including IPOs, which should boost income from corporate finance and capital markets in 2008.

## Asset Management

The division contributed revenues of HK\$5.7 million, representing a 49% increase over the same period last year.

Sinochem Kingsway Capital Inc., a private equity fund co-sponsored with Sinochem Group is looking for suitable investment opportunities. Kingsway SBF Investment Company Limited, another private equity fund co-sponsored with Softbank AM Corporation, disposed of some listed shares investments and temporarily returned surplus capital to the shareholders. Further fund raising will be arranged if there are new investment opportunities.

## Investment in Securities and Structured Investment

These divisions had negative turnover of HK\$3.6 million. This is compared with a turnover of HK\$19.5 million for the same period last year.

The first fiscal half year was characterised by high volatility. With substantial gains recorded in the fiscal year ended June 2007, one of the objectives of the investment managers was to increase the liquidity of the portfolio. This will help the Group to quickly adjust its investment strategy to accommodate new opportunities. Despite the market adjustments at end of 2007 and the beginning of 2008, investment managers were confident in the underlying fundamentals of the Greater China region and the Group remains fully invested.

The investment properties held by the jointly controlled entities are now being marketed to the expatriate communities in Beijing. With the Olympics approaching, the Group plans to organise more publicity events in order to boost occupancy rates.

## Outlook

The Federal Reserve in the US reduced the interest rate by 1.25% within 10 days at the end of January 2008. The huge losses reported by major US and European banks left investors wondering whether this was the beginning or the end of the sub-prime crisis. We expect the market to remain volatile in the coming year. We believe that with our strengthened services dealing capability, Kingsway will be able to partner and grow with our valued clients in good or bad times.

## Liquidity and Financial Resources

Total assets as at end of December 2007 were HK\$1,093 million, of which approximately 77% was current in nature. Net current assets were HK\$612 million which accounted for approximately 72% of the net assets of the Group as at end of December 2007.

The Group generally finances its operations from internal resources. Total borrowings of approximately HK\$8 million at the end of December 2007 comprised of mortgage loans secured by the Company's office premises in Beijing and Shenzhen of approximately HK\$6 million and finance lease obligations for office equipment of approximately HK\$2 million. They were mainly denominated in HK\$ or US\$ to match the future cash flows of our business operations. The Group's properties with a carrying value of HK\$20.4 million were pledged as security against bank loans granted to the Group. At the period end, the Group's gearing ratio, calculated as a percentage of bank borrowings over shareholders' fund, was approximately 1%.

## Foreign Exchange Exposure

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

## Risk Disclosure

The Group's business, financial conditions and results of operations may be affected by risks and uncertainties pertaining to the Group's business. The factors set out below are those that the Company believes could result in the Group's financial condition or results of operations differing materially from expected or historical results. Please refer to the note "Financial instruments" on page 17 for a more detailed discussion of specific risks. There may be other risks in addition to those mentioned in the Interim Report that are unknown to the Group or which may not be material now but could become material in the future.

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

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

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

## **Risk Management Policies and Procedures**

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

## **Employees**

As at 31 December 2007, the number of full time employees of the Group was 139 (30 June 2007: 129). 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 2007.

## **Interim Dividend**

The Board of Directors has declared an interim dividend of 0.35 HK cent per ordinary share for the six months ended 31 December 2007 (six months ended 31 December 2006: 0.33 HK cent). The dividend will be payable on or about Thursday, 13 March 2008 to shareholders whose names appear on the Register of Members at the close of business on Monday, 3 March 2008.

## **Closure of Register of Members**

The Register of Members of the Company will be closed from Thursday, 28 February 2008 to Monday, 3 March 2008, both days inclusive, during which period no transfers of shares will be registered. To determine entitlement to the interim dividend, all completed transfers forms 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 4:00p.m. on Wednesday, 27 February 2008.



## Share options

As at 31 December 2007, 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	Range of exercise periods	Exercise price per share HK\$	At 1 July 2007 and 31 December 2007
<b>Director: (Note)</b>			
11 March 2004	24 September 2004 to 23 March 2008	0.43	7,000,000
<b>Employees:</b>			
11 March 2004	1 October 2004 to 31 March 2008	0.43	1,000,000
<b>Total</b>			<b>8,000,000</b>

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

Note: For more details of options granted to individual directors, please refer to 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" as set out below.

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

### (i) INTEREST IN LONG POSITIONS OF ORDINARY SHARES OF THE COMPANY

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

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

\*\* Dr Jonathan Koon Shum Choi and Ms Mary Yuk Sin Lam are deemed to be interested in 2,411,661,327 ordinary shares by virtue of the SFO. Such interest in shares is also set out under the section "Substantial shareholders' interests and short positions in the shares and underlying shares of the Company" shown on page 26.

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

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

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

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

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

#### Notes:

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

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

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

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

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

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

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

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

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

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

Name of director	Exercise period	Exercise price per share	At 1 July 2007 and 31 December 2007
Mr William Wai Leung Wu	24 September 2004 to 23 March 2008	\$ 0.43	7,000,000

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

Pursuant to a share option plan operated by Kingsway International, certain directors had been granted options to subscribe for the shares of Kingsway International. There were no options outstanding as at 31 December 2007 and no options were granted to 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 2007, none of the directors and chief executive had any interests or short positions in the shares of the Company and its associated corporations as defined in the SFO, and none of the directors and chief executive or their spouses or children under 18 years of age had been granted any rights to subscribe for the shares of the Company, or had exercised any such rights during the 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 2007, the register of substantial shareholders maintained under Section 336 of the SFO shows that the Company had been notified of the following substantial shareholders' interests, being 5% or more of the Company's issued share capital. These interests represent long positions in the shares of the Company.

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

Note:

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

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

## Purchase, sale or redemption of shares

During the six months ended 31 December 2007, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares.

## The Code on Corporate Governance Practices

The Company has applied the principles and has complied with the code provisions of the Code on Corporate Governance Practices (“CG Code”) as set out in Appendix 14 of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) for the six months ended 31 December 2007.

## Securities Transactions by Directors

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

## 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 financial statements for the six months ended 31 December 2007. Terms of reference of the Audit Committee are available on request to shareholders of the Company.

On behalf of the Board

**William, Wai Leung Wu**

*Chief Executive Officer*

Hong Kong, 13 February 2008



## TO THE BOARD OF DIRECTORS OF

### SW Kingsway Capital Holdings Limited

*(Incorporated in Bermuda with limited liability)*

## Introduction

We have reviewed the interim financial report set out on pages 6 to 18 which comprises the consolidated balance sheet of SW Kingsway Capital Holdings Limited as of 31 December 2007 and the related consolidated income statement, and consolidated statement of changes in equity and condensed consolidated cash flow statement for the six month period then ended and explanatory notes. The Rules governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report 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 report.

## Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of interim financial information performed by the independent auditor of the entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters than might be identified in an audit. Accordingly we do not express an audit opinion.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 31 December 2007 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim financial reporting".

### **KPMG**

*Certified Public Accountants*

8th Floor, Prince's Building

10 Chater Road

Central, Hong Kong

13 February 2008

# Directory of Licensed Subsidiaries and Affiliates

## Licensed Subsidiaries of SW Kingsway Capital Holdings Limited

### **Kingsway Financial Services Group Limited**

Licensed Corporation of the Securities and Futures  
Commission

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

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

Options Trading Exchange Participant of SEHK  
SEOCH Direct Clearing Participant

Lead Underwriter and Securities Broker licence for  
B-Shares of Shenzhen and Shanghai Stock Exchanges  
granted by the China Securities Regulatory Commission  
B-Shares Special Seat Holder of Shenzhen Stock Exchange  
B-Shares Tangible Trading Seat Holder of Shanghai Stock  
Exchange

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

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

### **Kingsway Capital Limited**

Licensed Corporation of the Securities and Futures  
Commission

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

### **Kingsway SW Asset Management Limited**

Licensed Corporation of the Securities and Futures  
Commission

### **Kingsway SW Finance Limited**

Money Lender registered with the HKSAR Government

### **Kingsway SBF Investment Management Company Limited**

Licensed Corporation of the Securities and Futures  
Commission

## Affiliated & Overseas Offices

### **Australia**

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

### **Canada**

- Kingsway Capital of Canada Inc.  
Suite 1200, 8 King Street East, Toronto,  
Ontario, Canada M5C 1B5

### **China**

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

## Ultimate Holding Company

### **Kingsway International Holdings Limited**

A listed company on the Toronto Stock Exchange



*KingswayGroup*

**SW Kingsway Capital Holdings Limited**

**滙富金融控股有限公司\***

5th Floor, Hutchison House,

10 Harcourt Road, Central, Hong Kong

Tel : (852) 2877 1830 Fax : (852) 2869 8867

Email: [pr@kingswaygroup.com](mailto:pr@kingswaygroup.com)

[www.kingswaygroup.com](http://www.kingswaygroup.com)