集團 滙富

KingswayGroup

SW Kingsway Capital Holdings Limited

滙 富 金 融 控 股 有 限 公 司 *

Incorporated in Bermuda with limited liability

Stock Code: 188

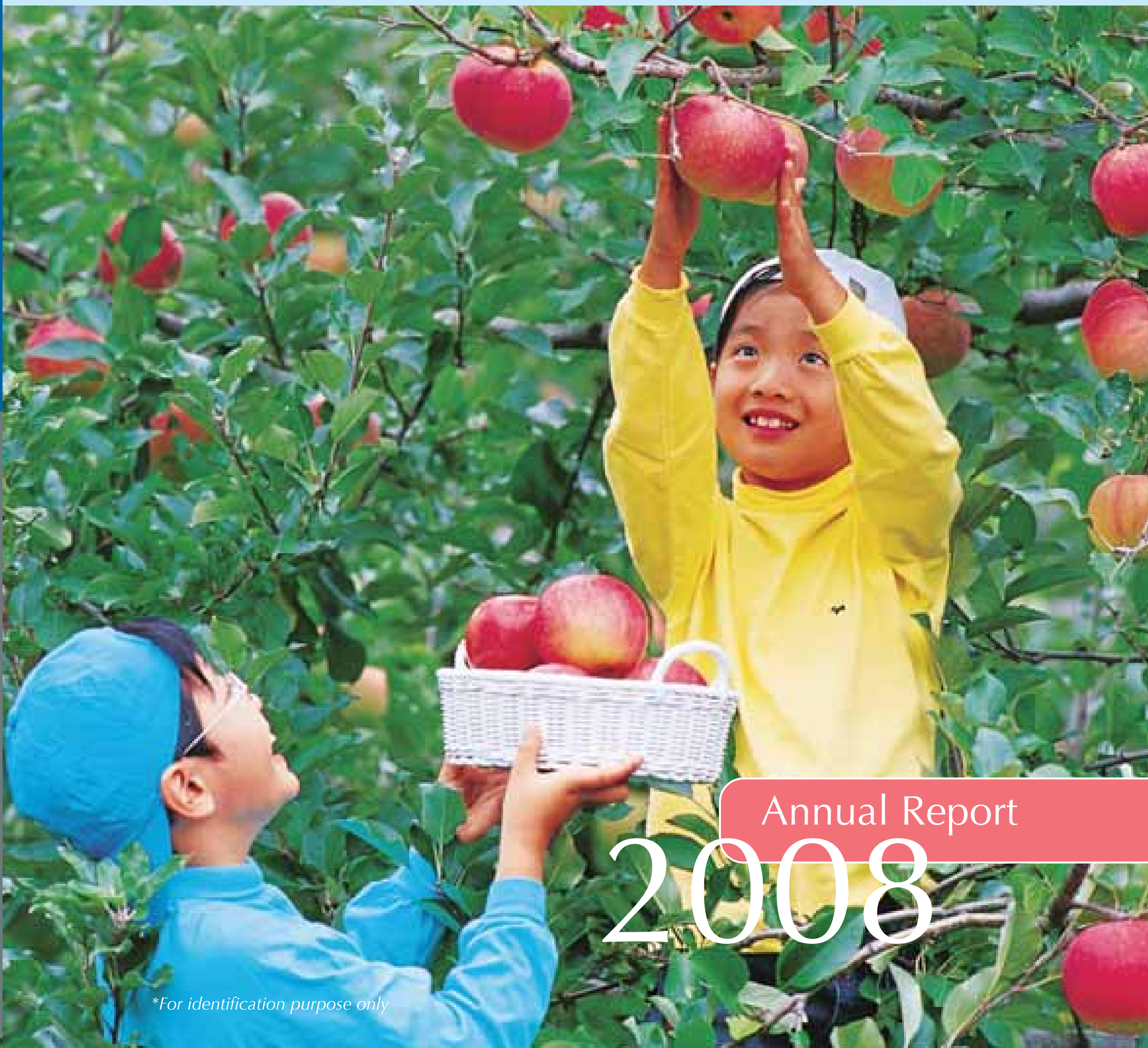
商界展關懷

caringcompany 2006/08

Awarded by The Hong Kong Council of Social Service

香港社會服務聯會頒發

Sharing a dream, Building a Future



Annual Report

2008

*For identification purpose only

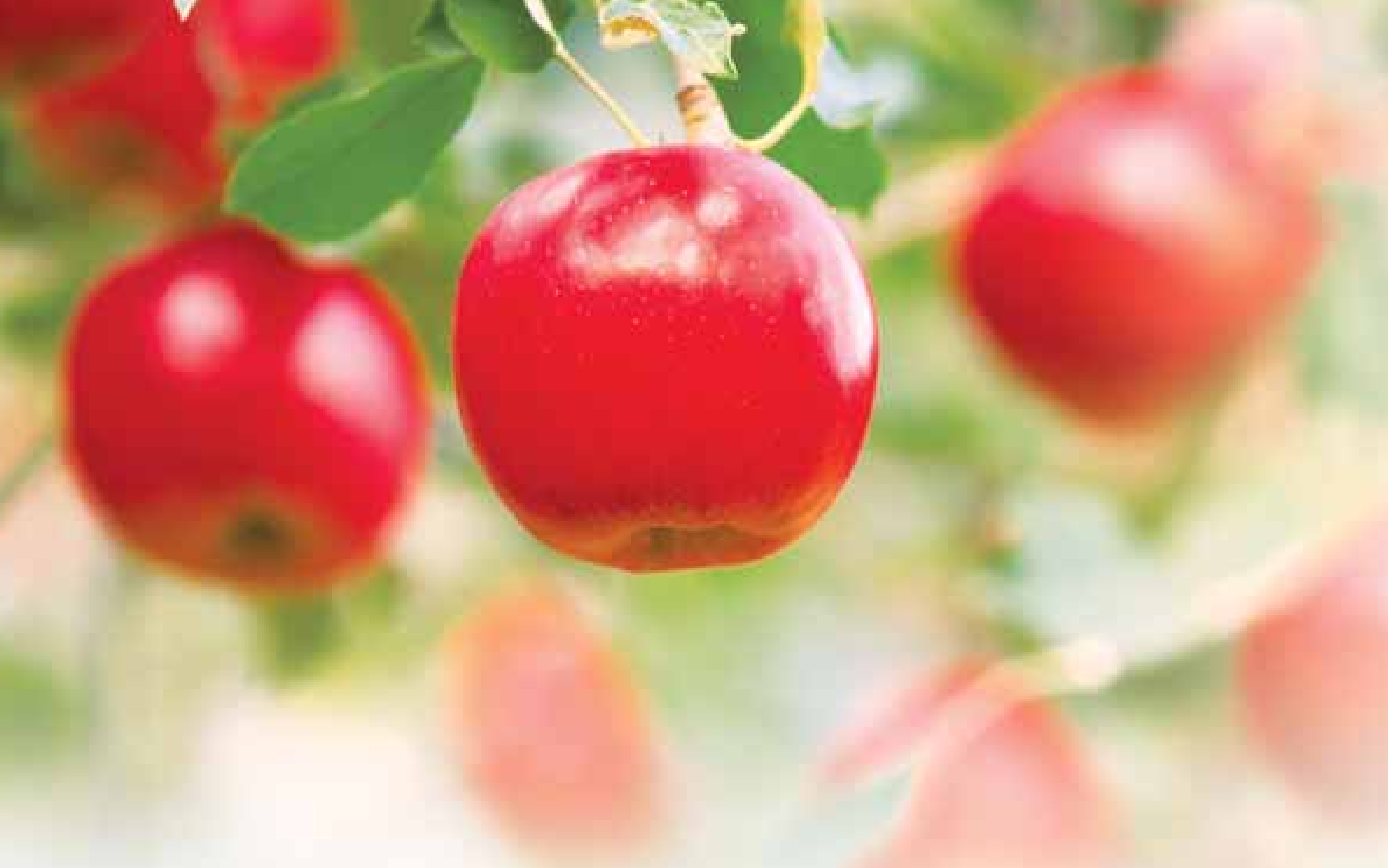
Well-anchored Service Platform

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

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

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

Use of words including “Kingsway”, “the Group”, or “We” in this Annual Report refer to SW Kingsway Capital Holdings Limited and its subsidiaries.



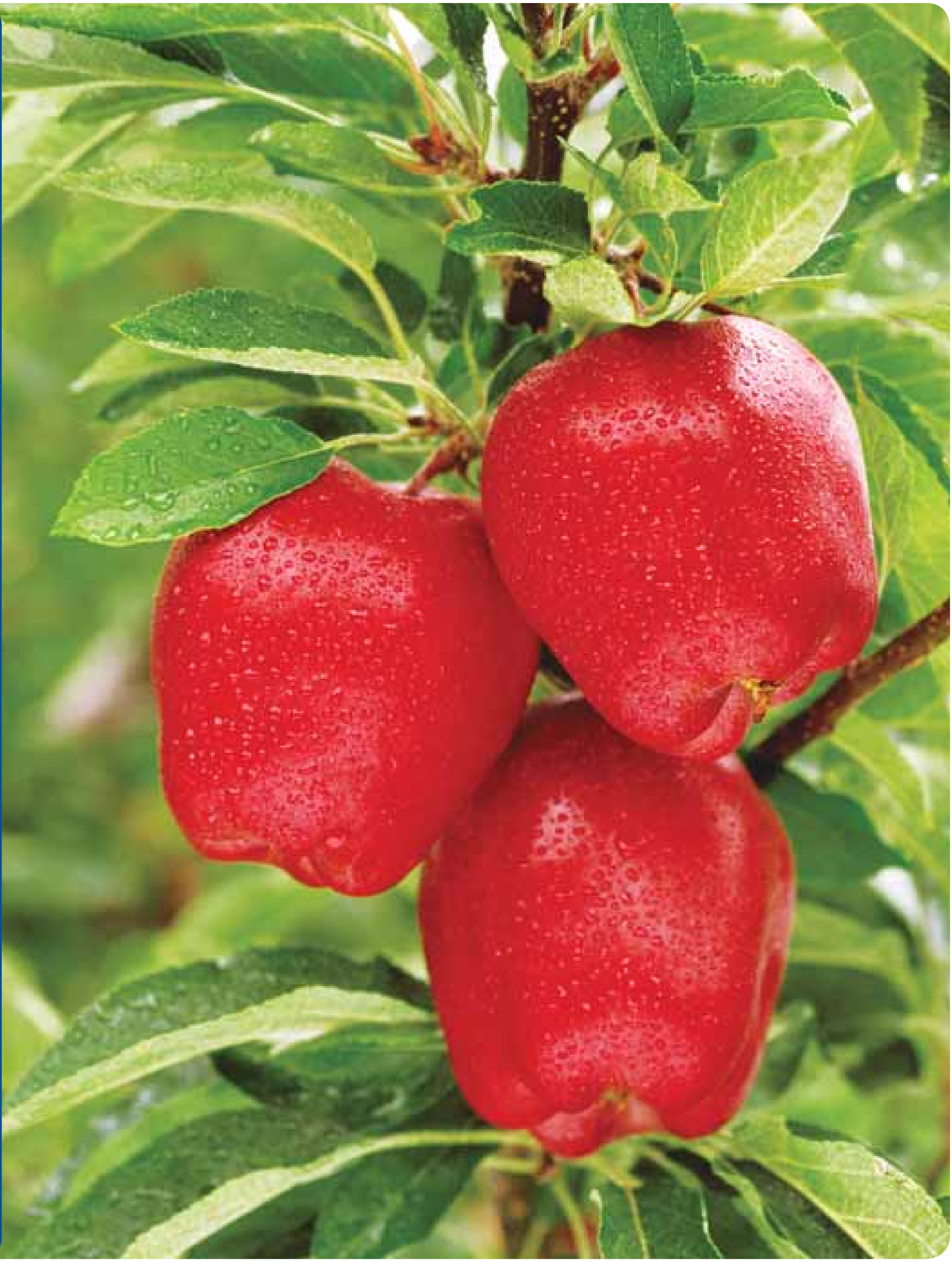
Kingsway is committed to the core values of integrity, teamwork, respect, responsibility and the pursuit of excellence.

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

CONTENTS

2 Chief Executive's Statement
5 Management Discussion and Analysis
8 Social Responsibility Report
11 Corporate Governance Report
20 Biographical Details of Directors and Senior Management
23 Report of the Directors
34 Independent Auditor's Report
35 Consolidated Income Statement
36 Consolidated Balance Sheet
37 Balance Sheet
38 Consolidated Statement of Changes in Equity
39 Consolidated Cash Flow Statement
41 Notes to the Financial Statements
95 Five Year Financial Summary
96 Directory of Licensed Subsidiaries and Affiliates

Chief Executive's Statement



Dear Friends and Shareholders,

On behalf of the Board of Directors, I am pleased to present the annual report of SW Kingsway Capital Holdings Limited for the financial year ended 30 June 2008 (the "Period").

Kingsway has faced an increasingly difficult and challenging business environment in 2008. The global sub-prime crisis coupled with growing inflationary concerns has had a significant negative impact on the Hong Kong financial services industry and capital markets sectors. The loss for the Group attributable to shareholders for the year ended 30 June 2008 was approximately HK$108 million. In terms of the bottom line, this was obviously a disappointing year for us. However, the losses that we incurred were almost exclusively generated from the substantial devaluation of our investment portfolio in the amount of approximately HK$140 million. The devaluation was due primarily to the declining Hong Kong capital market, which has been deteriorating since November 2007. During the Period, the Hang Seng Index fell over 30%, from a high of approximately 32,000 at end of October 2007 to 22,000 at the end of June 2008.

Despite these turbulent market conditions, Kingsway achieved strong performance from our Client Services Group, and continues to take important steps to position the Group for growth as we move forward into the next financial year. During the financial year under review, commission and fee revenue from the Client Services Group increased approximately 47%, reaching HK$139 million in 2007/2008. Kingsway continued to advance the mission we set forth last year: to be a leading local middle-market financial services provider.

Brokerage remained a cornerstone of Kingsway's business in 2007/08. Even taking into account the downturn during the second half of the Period (the average monthly turnover on the Main Board of the Stock Exchange of Hong Kong dropped almost 27%), the Brokerage division recorded revenues of HK$112 million for the year under review, a 37% increase over the same period last year. We continue to make improvements to our trading systems and IT infrastructure to remain competitive when market conditions improve. Steps have already been taken to change our futures and commodities trading platform and settlement system to be more robust and user-friendly.

With the expansion of the institutional sales team over the period, Kingsway has continued to accelerate the development of our institutional brokerage business outside Hong Kong. During the year under review, we have maintained a balanced, mixed client base with over two-thirds of our brokerage business from institutional clients. Our brokerage arrangement with SBI E*Trade, a leading provider of online brokerage trading services in Japan, has been very successful with an 83% increase in commission income compared with the same period last year.

On the retail brokerage front, we continue to add new products and capabilities to meet our clients' needs. We have broadened our product offering efforts and added gold bullion and stock options trading. We now have a more diversified revenue stream, covering a suite of investment methods and vehicles. In 2007, the Asiamoney Brokers Poll ranked our brokerage team in the top three in the category of Best Broker in Hong Kong, a distinction we have enjoyed for the last three years.

We are optimistic about our corporate finance and capital markets division, which proved to be another important driver for our growth, with underwriting, private placements and advisory services contributing HK$55 million to the Group's turnover, an increase of 18% over the same period last year. This result was extraordinary when you consider that funds raised in IPOs on the Main Board of the Stock Exchange of Hong Kong fell almost 74%, from a high of HK$191 billion for the six months ended 31 December 2007 to HK$50 billion for the six months ended 30 June 2008. Our team adapted to the negative IPO market by shifting its focus on more financial advisory and secondary placing transactions. For the period under review, our division completed seven secondary placing transactions, raising a total of almost HK$1 billion, including a HK$330 million placing in March 2008 for Tianjin Tianlian, a company which listed on the GEM Board, amid a very difficult market environment.

Our asset management business faced the same difficulties as our proprietary investment division: declining market sentiment. This, has led to a substantial devaluation of the investment portfolio which we manage. As a result, the division's revenue has dropped 71% from the same period last year. We will continue to look for and develop suitable investment opportunities for the private equity funds under our management.

2008 was a particularly devastating year for Asia. The global economic downturn was overshadowed by the earthquake that hit China's Sichuan Province on May 12. The earthquake killed an estimated 70,000 people, many of whom were children, and left 4.8 million citizens homeless. It is particularly during these difficult times that Kingsway believes good corporate citizens should do more to assist those in need. Being a good corporate citizen is an extension of our core values of integrity, respect and responsibility. I am proud to say that the Kingsway family came together and in just a few days raised over HK$80,000 for Sichuan earthquake relief. Additionally, for the second year running, Kingsway was ranked one of the top three corporate donors amongst the 95 organisations in Hong Kong that participated in the WorldVision Skip-a-Meal program, a program which helps fight worldwide hunger and poverty.

As we look ahead, the turmoil in the international credit markets created challenging conditions which cause us to have a cautious outlook for 2008/09. While we anticipate difficult markets, we enter the year in a stronger position, with improvements in the critical platforms in our brokerage business as well as meaningful progress in building our capital markets capabilities.

Looking ahead, we will continue to expand both our corporate finance and capital markets and brokerage businesses across Greater China and the Asia-Pacific region as well as in Europe. We will also be working to deepen the synergies among our services to maximise the results of our full-service platform.

Finally, I would like to thank the management team and the Board of Directors for their outstanding leadership and support, and every Kingsway staff member for the dedication and respect with which they conduct their relationships with their colleagues and our clients. With a shared commitment to creating value for clients and a highly capable workforce, we are well on our way to building a leading local middle-market financial institution.

Wu Wai Leung William
Chief Executive Officer

Management Discussion and Analysis

The Market

This has proved to be a challenging year for the financial services industry. The Hang Seng Index started from a low of below 20,000 in August, reached a peak of almost 32,000 at the end of October, and fell to around 22,000 in June 2008. The sub-prime crisis in the United States led to a very steep interest reduction cycle, huge write-offs reported by numerous financial giants, and the fall of Bear Stearns, one of the largest investment banks in the US. The crisis has also affected markets around the world. There are growing concerns on inflation, particularly in the energy and food sectors. Central banks are caught between rising inflation and lower demands when it comes to setting their monetary policies.

The Hang Seng Index closed at 22,102 at the end of June 2008, compared with 21,773 at the end of June 2007 and 27,813 at the end of December 2007. Turnover reached a record high and funds raised from primary markets were also at peak levels in the second half of the 2007 calendar year. However, the generally weak market sentiment and the continuing volatility of the international capital markets affected the turnover and funds raised in the first half of the 2008 calendar year. The average monthly turnover on the Main Board during the six months ended June 2008 was approximately HK$1,754 billion, which was 27% lower than the six months ended December 2007. Funds raised from IPOs on the Main Board in the first half of the 2008 calendar year amounted to HK$50 billion, as compared to HK$191 billion for the second half of the 2007 calendar year.

Financial Highlights

Due to a depressed equity market and weak investment sentiment, the loss for the year ended 30 June 2008 (the "Period") was HK$98 million, while loss attributable to shareholders for the Period was HK$108 million. Net loss on the disposal of financial assets and the remeasurement to fair value was HK$140 million. This was a result of the substantial devaluation of our investment portfolio during 2008. The Client Services Group continued to grow and remained profitable, with commission and fee income climbing from HK$95 million to HK$139 million. This improvement was due to the increase in brokerage turnover and other income from our clients in a very active Hong Kong market in the second half of 2007 calendar year. In addition, income from corporate finance rose as a result of the increase in number of transactions completed. The decline in general and administrative costs was mainly due to the decrease in discretionary staff costs, which was in line with the weak performance in proprietary trading.

Brokerage

Total revenue for this division was HK$111.9 million for the fiscal year, representing a 37% increase over the same period last year.

Strong activity in the Hong Kong market helped the institutional sales team diversify its client portfolio, resulting in higher trading volume. The division was able to maintain this momentum throughout the first half of 2008, despite market slowdowns. The division is working continuously to improve its services delivery standard by continuously upgrading its technology, considering the strong competition from banks and other service providers.

Kingsway ranked in the top three in the category of Best Broker in Hong Kong by the Asiamoney Brokers Poll 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$54.6 million, representing an 18% increase over the same period last year.

Market sentiment was quite poor during this fiscal year and a number of IPOs were either postponed or cancelled. However, this division was able to secure more advisory work and also benefited from the secondary placings for a few small cap companies. The completion of the HK$330 million placing for Tianjin Tianlian, a GEM board company, in March 2008 was an important achievement, considering the weak market sentiment at that time.

Asset Management

The division contributed revenues of HK$8.5 million, which was 71% less than 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$130.3 million, compared with a turnover of HK$277.9 million for the same period last year.

This fiscal year was characterised by high volatility. With substantial gain recorded in the fiscal year ended June 2007, one of the objectives of the investment managers was to increase the liquidity of the portfolio to help the Group adjust its investment strategy to accommodate new opportunities. Despite the weak market sentiment at end of June 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 jointly controlled entities are now being marketed to the expatriate communities in Beijing. Competition in this market is fierce, and the Group is working with its joint venture partner to increase occupancy rates.

Liquidity and Financial Resources

Total assets as at the end of June 2008 were HK$914 million, of which approximately 73% were current in nature. Net current assets were HK$461 million, accounting for approximately 66% of the net assets of the Group as at the end of June 2008.

The Group generally finances its operations from internal resources. Total borrowings of approximately HK$7 million at the end of June 2008 comprised approximately HK$5 million in mortgage loans for the Group's office premises in Beijing and Shenzhen, as well as approximately HK$2 million in finance lease obligations for office equipment. These loans were mainly denominated in HK$ or US$ to match the future cash flows of our business operations.

The Group's properties with a carrying value of HK$ 21.7 million were pledged as security against bank loans granted to the Group. At the year end, the Group's gearing ratio, calculated as a percentage of bank borrowings over shareholders' fund, was approximately 1.0%.

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$. As part of our investment monitoring process, financial assets denominated in foreign currencies, including equity and debt investments, are monitored on a daily basis together with the changes in market value of these investments. Hedging instruments may be used as part of the overall investment strategy if deemed necessary by investment managers. The Group purchased properties in the PRC for its own use and holds properties in the PRC through jointly controlled entities for investment purposes. These assets are financed by internal resources and loans denominated in either HK$ or US$. Because of the steady appreciation of RMB against HK$ and US$, the Group believes 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.

Employment, Training and Development Policies

New staff were recruited to meet the needs of the Group's business expansion. The number of full time employees increased from 129 last year to 150 at the end of this financial year.

Remuneration and bonuses are based on performance and reviewed annually in conjunction with the annual employee performance appraisal. It also takes into consideration the results of the division to which the employee belongs and the Group as a whole.

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

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

Corporate Governance

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

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

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

Community

In line with our philosophy of being a responsible corporate citizen, the Group contributed HK$0.5 million to charitable organisations during the financial year. Please refer to our Social Responsibility Report for further details.

Social Responsibility Report

2008 Staff Conference held in Thailand

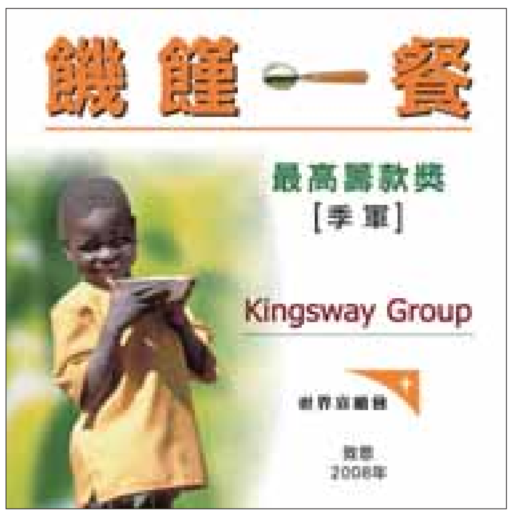
An essential component of our corporate social responsibility is to care for the community. We endeavor to make a positive contribution to the underprivileged by supporting a wide range of socio-economic and educational initiatives. Where possible, we offer a range of support to community organisations including financial donations, staff time and contributions in kind. Our involvement in such activities enables us to become more involved with the communities we work within and helps motivate employees by encouraging teamwork and collaboration outside their usual roles.

Actively Supporting Charity and Public Welfare

We are strongly aware of the needs of the community and support a number of activities in our neighbourhood during the year under review. Many of the programs and activities are driven by active participation from our employees.

"Skip-A-Meal"

In conjunction with our long term partner World Vision Hong Kong, Kingsway once again participate in the "Skip-A-Meal" program to help fight hunger and poverty. The Group and our staff raised a total of HK$50,000 and for the second year in a row was ranked one of the Top 3 corporate donors amongst the 95 organisations in Hong Kong that participated in this donation exercise. More important is that the cries of hungry children are heard and the Group embraces on to its corporate social responsibility.



Kingsway continues to participate in the "Skip-A-Meal" donation exercise and came 3rd among the 95 organizations in Hong Kong.

Term spirit shined in the 2007 Matilda Sedan Chair Race

2007 Matilda Sedan Chair Race and Bazaar

This annual event, which dates back to 1975, raises money for distribution to local charities. Since its inception, the race has raised over HK$48 million for charity. The Kingsway team, composed of eight bearers and a cheerleader, all dressed up in costumes for a 2.1 Km race around the Victoria Peak carrying a sedan chair. A total amount of over HK$40,000 was raised by Kingsway and its staff.

The Community Chest

As one of the corporations that consistently support the work of The Community Chest, Kingsway again participated in the 10K Corporate Challenge, Dress Special Day and various other Community Chest fundraising activities in 2007/2008. The Group contributed matching donations and we raised a total of over HK$50,000 for Community Chest.

Sichuan Earthquake Disaster Relief

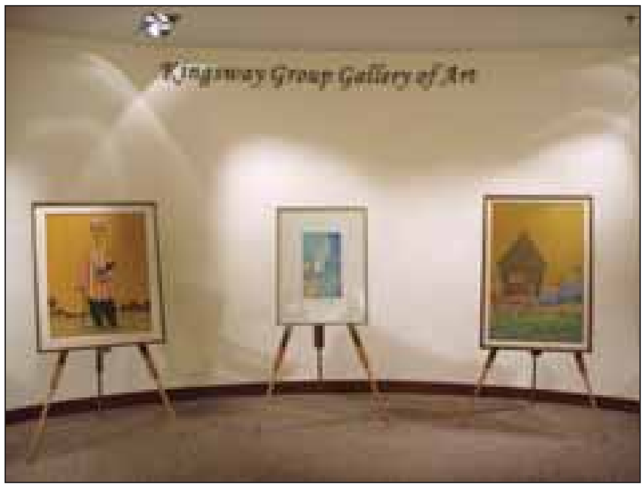
The culture of giving at Kingsway permeates every level of the organization, guided by fundamental principles that shape our goals and direct our actions. Kingsway employees are active members of the community and are committed to providing support to local and national relief agencies to help people with immediate needs. After the devastating earthquake in Sichuan province on 12 May, the Group initiated a fund-raising campaign among staff in Hong Kong. This campaign was fully supported by all staff and has raised funds of over HK$80,000. The donation was channeled to the Red Cross, with the aim of making every effort to help the victims recover from the disaster and rebuild their lives.

Commitment to Education

Our support for education and lifelong learning is a key area of our community involvement. Kingsway works relentlessly to ensure the spread of formal/non-formal education among all members in the community. A number of focused initiatives have been implemented to improve the level of education.

International Christian School

Kingsway continued our commitment to the International Christian School for its new school building project, which was opened for the 2007/2008 academic year. The Elementary campus, Secondary campus and Administrative offices are now fully operational in the new school building. In honour of Kingsway's donation totalling over HK$1 million, the Art Gallery on the new campus was named "Kingsway Group Gallery of Arts" to commemorate the Group's enduring contribution to the school.



Art Gallery on the new campus of International Christian School

The Open University of Hong Kong

At Kingsway, we believe that expanding educational opportunities is one of the most effective ways of improving our community. In 2008, Kingsway continued to fund its three-year, HK$1 million grant to help The Open University of Hong Kong to construct a new campus. We donated HK$300,000 as the third installment for this Financial Year.

Caring for the Well-being of our Employees

Our employees are our most valuable asset. Our vision is to create an inclusive workplace culture at Kingsway that helps us attract, retain, and develop the best and brightest in our industry. By providing support to the Human Resources Department, Kingsway is committed to enhance employees' sense of belonging. A series of staff activities were organised by the Human Resources Department for the purpose of strengthening staff relationships. They included a Bowling Competition, quarterly tea parties, staff conference and the annual dinner. The staff conference is an annual event which sets out the overall business strategy and direction for the coming year. The 2007/08 staff conference was held in Thailand. During the 2-days conference, the Group successfully motivated and inspired our staff and built confidence in our goals and our leaders.

Recognition from the Community

For the second consecutive year, Kingsway received the title of "Caring Company" from the Hong Kong Council of Social Service (HKCSS), in recognition of its ongoing efforts in community involvement. The Caring Company Scheme, organised by The Hong Kong Council of Social Service, aims to build a caring community spirit through cultivating corporate citizenship and motivating strategic partnership. The Caring Company Logo is awarded to private companies and organisations which demonstrate good corporate citizenship and have satisfied two out the six criteria: Volunteering, Employee friendly, Employing the vulnerable, Caring for the environment, Mentoring and Giving. We would like to take this opportunity to once again express our heartfelt thanks to WorldVision for nominating our company as a Caring Company in 2007.

Going Forward

Our contribution to charitable causes and dedicated involvement in community events serve as a solid foundation for our ongoing pursuit of corporate social responsibility. Looking ahead, we will seek to form strategic alliances with non-government organizations in order to launch more charity initiatives to benefit the public.

Kingsway has set a number of objectives to enhance our level of community involvement, and we will report our progress through our annual report. We will:

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

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Corporate Governance Report

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

Code on Corporate Governance Practices

The Company has applied the principles and has complied with the code provisions of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") throughout the year ended 30 June 2008.

Securities Transactions by Directors

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

The Board of Directors

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

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

The brief biographical details of the directors, including financial, business, family or other material or relevant relationships among members of the board, are set out in the "Biographical Details of Directors and Senior Management" section on pages 20 to 22.

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

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

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

The Board meets at least four times a year and additional meetings are convened as and when the Board considers necessary. During the year, six board meetings were held and the principal businesses transacted included approving interim and final results and reports and assessing business performance and implementation. The attendance record of each director during the year ended 30 June 2008 is set out as follows:

Board Directors	**Number of Board meetings Attended/eligible to attend**
Chairman	
Jonathan Koon Shum Choi	5/6
Executive Directors	
Mary Yuk Sin Lam	4/6
William Wai Leung Wu	6/6
Michael Koon Ming Choi	6/6
Non-executive Directors	
Rebecca Yuk Fung Lau	4/6
Lee G. Lam	4/6
Independent Non-executive Directors	
Robert Tsai To Sze	5/6
Stanley Kam Chuen Ko	5/6
Michael Wai Chung Wu	4/6

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

The Company has complied with Rules 3.10(1) and (2) of the Listing Rules relating to the appointment of at least three independent non-executive directors and one of the independent non-executive directors has appropriate professional qualifications or accounting or related finance management expertise. Each of the independent non-executive directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive directors have met independence guidelines set out in Rule 3.13 of the Listing Rules.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

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

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

APPOINTMENT AND RE-ELECTION OF DIRECTORS

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

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

During the period under review, no director was appointed to fill any causal vacancy or otherwise.

Board Committees

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

(1) AUDIT COMMITTEE

The Audit Committee has been established since 2000. It comprises three independent non-executive directors and a non-executive director during the year under review in compliance with rule 3.21 of the Listing Rules.

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

During the year ended 30 June 2008, two committee meetings were held, one to consider the annual results of the Group for the financial year ended 30 June 2007 including the discussion of internal controls report of several departments and one to consider the interim results of the Group for the six months ended 31 December 2007.

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

Committee members	**Number of Committee meetings Attended/eligible to attend**
Robert Tsai To Sze *(Chairman)*	2/2
Stanley Kam Chuen Ko	2/2
Michael Wai Chung Wu	2/2
Rebecca Yuk Fung Lau (appointed 18 Sept 2007)	1/1

(2) COMPENSATION COMMITTEE

Pursuant to code provision B.1.1 of the CG Code, a majority of the members of the remuneration committee should be independent non-executive directors. Currently, the Compensation Committee consists of the Chairman and Deputy Chairman of the Board and three independent non-executive directors.

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

One committee meeting was held during the year ended 30 June 2008 to review and determine the specific remuneration packages including year end bonuses of certain directors and senior officers. It takes into account whether the packages offered are appropriate for the duties and performance of the directors and officers and whether the packages are competitive and sufficiently attractive to retain the executive directors and officers. The attendance record of each member is set out as follows:

Committee members	**Number of Committee meetings Attended/eligible to attend**
Stanley Kam Chuen Ko *(Chairman)*	1/1
Jonathan Koon Shum Choi	1/1
Robert Tsai To Sze	1/1
Mary Yuk Sin Lam	1/1
Michael Wai Chung Wu	1/1

(3) NOMINATION COMMITTEE

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

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

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

As there were no new appointments of directors to consider and the composition of the Board remained unchanged, the Nomination Committee did not hold any meeting during the year under review.

(4) CORPORATE GOVERNANCE COMMITTEE

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

During the year ended 30 June 2008, the Corporate Governance Committee held one meeting to review the Company's corporate governance practices and to bring them in line with the CG Code. Details of the Corporate Governance member attendance record is shown below:

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

Other Committees

Risk Management Control Committees

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

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

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

(a) Investment Committee

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

The committee consists of the Chief Investment Manager and two executive directors. The committee meets as required.

(b) Investment Monitoring Committee

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

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

(c) Credit Committee

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

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

(d) Finance Committee

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

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

Accountability and Audit

FINANCIAL REPORTING

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

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

INTERNAL CONTROLS

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

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

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

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

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

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

EXTERNAL AUDITORS

During the financial year and up to the date of this report, the external auditor of the Group is KPMG. Fees for auditing services and non-auditing services (including interim review and reports of agreed-upon procedures on on-going connected transactions) provided by the external auditor for the year ended 30 June 2008 are HK$1,456,000 and HK$474,000 respectively.

Risk Management

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

OPERATIONAL RISK AND INTEREST RATE RISK

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

MARKET RISK

The Group operates in highly competitive and rapidly changeable markets. New market entrants, the intensification of price competition by existing competitors, product innovation or technical advancement could adversely affect the Group's financial conditions and result of operations. When the price of securities (listed or unlisted) decrease, it will adversely affect the value of our investment portfolio.

CREDIT RISK

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

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

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

FOREIGN EXCHANGE RISK

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

IMPACT OF NEW LEGISLATION

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

POLICIES AND PROCEDURES

The Group has established policies and procedures for risk management which are reviewed regularly by the management, to ensure the proper monitoring and control of all major risks arising from the Group's activities at all times. The Group's L&C together with 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.

Communication with Shareholders

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

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

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

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

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

To promote effective communication, the Company also maintains a website at www.kingswaygroup.com, where information and updates on the Company's business developments and operations and other information are posted, including all the regulatory announcements relating to the Company and the poll results on the business day following the shareholders' meeting (if any).

Biographical Details of Directors and Senior Management

Chairman

Dr Jonathan Koon Shum Choi, BBS, JP, aged 51, is the Chairman of the Group. He has been responsible for the overall strategic planning of the Group since 1995. Dr Choi is also Co-Chairman of Kingsway International Holdings Limited, the parent company of the Company and a substantial shareholder of the Company pursuant to Part XV of the Securities and Futures Ordinance ("SFO"). Concurrently Dr Choi is the Chairman of the Sun Wah Group and director of the Vietnam Opportunity Fund listed on London AIM.

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

Executive Directors

Ms Mary Yuk Sin Lam, aged 54, is an Executive Director and Deputy Chairman of the Company. Prior to her appointments, Ms Lam was the Group Managing Director-Brokerage of Kingsway Financial Services Group Limited ("KFSGL"). Currently Ms Lam is a Securities and Futures Commission ("SFC") licensed representative of KFSGL. Prior to joining the Group in 1995, Ms Lam had over 12 years of experience in securities dealing with various securities houses. Ms Lam is also a member of the Hong Kong Securities Institute. Ms Lam is a director and Co-Chairman of Kingsway International Holdings Limited and a substantial shareholder of the Company pursuant to Part XV of the SFO. Ms Lam is the sister of Ms Rebecca Yuk Fung Lau.

Mr William Wai Leung Wu, aged 42, is an Executive Director and Chief Executive Officer of the Company. Mr Wu is responsible for the overall strategy, corporate planning and business development of the Group. Mr Wu joined the Group in 2002 as the Head of Equity Capital Markets and was appointed as the Group Managing Director – Investment Banking of KFSGL in 2005. Mr Wu has extensive experience in the investment banking and institutional broking business covering clients all around the world. Prior to joining the Group in 2002, Mr Wu held senior positions in several local and international investment banks. Mr Wu has over 15 years of experience in the financial services industry.

Mr Michael Koon Ming Choi, aged 40, is an Executive Director of the Company. Mr Choi has extensive experience in the financing activities of corporate and property mortgage, real estate development and property investment prior to joining the Group in 1995. Mr Choi is a director of Kingsway International Holdings Limited, a substantial shareholder of the Company pursuant to Part XV of the SFO. Mr Choi is the brother of Dr Jonathan Koon Shum Choi.

Non-executive Directors

Ms Rebecca Yuk Fung Lau, aged 49, is a Non-Executive Director of the Company. Ms Lau was appointed as the Deputy Chief Executive Officer in June 2006. In December 2006, Ms Lau was re-designated as a Non-Executive Director. Ms Lau joined the Group as Legal Counsel in 2000 and was promoted to Head of Legal and Compliance and Company Secretary in 2001. Ms Lau was also the former Chief Operating Officer of the Group. Ms Lau is a qualified solicitor of the High Court of Hong Kong and the Supreme Court of England and Wales. She has over 25 years experience in the commercial area covering legal, investment advisory and insurance fields in Hong Kong, Taiwan, Philippines, Canada and the States. Prior to joining the Group, she was with Linklaters, an international law firm. Ms Lau is the sister of Ms Mary Yuk Sin Lam.

Dr Lee G. LAM, aged 49, is a Non-Executive Director of the Company. Dr Lam holds a Bachelor of Science in Mathematics and Sciences, a Master of Science in Systems Science, and a Master of Business Administration, all from the University of Ottawa in Canada, a Post-graduate Diploma in Public Administration from Carleton University in Canada, a Post-graduate Diploma in English and Hong Kong Law and a Bachelor of Law (Hons) from Manchester Metropolitan University in the UK, a PCLL (and has completed the Bar Course) from the City University of Hong Kong, and a Doctor of Philosophy from the University of Hong Kong. Dr Lam has over 25 years of international experience as a CEO, company director and investment banker in the telecommunications, media and technology (TMT), retail, property and financial services sectors. Dr Lam is Chairman of Monte Jade Science and Technology Association of Hong Kong, and serves as an independent or non-executive director of several publicly-listed companies in the Asia Pacific region. Dr Lam is a Member of the Hong Kong Institute of Bankers, a Board Member of the East-West Center, a Member of the Young Presidents' Organization, a Fellow of the Hong Kong Institute of Directors and a Member of its Corporate Governance Policies Committee, a Member of the General Council and the Corporate Governance Committee of the Chamber of Hong Kong Listed Companies, and a Part-time Member of the Central Policy Unit of the Government of the Hong Kong Special Administrative Region.

Independent Non-executive Directors

Mr Robert Tsai To Sze, aged 67, was appointed as an Independent Non-Executive Director in 2000. Mr Sze had worked in Price Waterhouse (now known as PricewaterhouseCoopers) Hong Kong for 25 years where he had been a partner for over 22 years. Mr Sze is a fellow member of The Institute of Chartered Accountants in England & Wales and a fellow member of the Hong Kong Institute of Certified Public Accountants.

Mr Stanley Kam Chuen Ko, aged 62, was appointed as an Independent Non-Executive Director in September 2004. Mr Ko has extensive experience and network in both Hong Kong and the PRC and he also serves actively in the Hong Kong community including being an Executive Committee Member of the Hong Kong Coalition of Service Industries where he was the former Chairman, a Member of Hong Kong/Japan Business Cooperation Committee, a Director of the Link Management Limited and China National Aviation Corporation (Group) Ltd. Mr Ko is the Chairman of LARK International Holdings Limited, Boyden China Ltd and Jardine Airport Services Ltd.

Mr Michael Wai Chung Wu, aged 59, was appointed as an Independent Non-Executive Director in 2000 and was subsequently appointed as an Executive Director of the Company in December 2002. In January 2005 Mr Wu was re-designated as a Non-Executive Director. In January 2007 Mr Wu was further re-designated as an Independent Non-Executive Director. Mr Wu was formerly the Deputy Chairman of the Shanghai Stock Exchange and a Commissioner in the Strategy & Development Committee of the China Securities Regulatory Commission in the PRC. Prior to that, he was the Deputy Chairman, Chief Operating Officer and Executive Director of the SFC responsible for the Intermediaries Division, comprising the Licensing and Intermediaries Supervision Departments until his departure on 31st December 1997.

Chief Financial Officer

Mr Eric Kwok Keung Chan, aged 45, was appointed as Chief Financial Officer (CFO) in April 2004. Mr Chan is responsible for overseeing the Group's financial operations. Mr Chan is a fellow of the Association of Chartered Certified Accountants (UK). Mr Chan is also a member of the Hong Kong Institute of Certified Public Accountants and the Hong Kong Securities Institute and a Certified International Investment Analyst. Mr Chan also offers significant assurance and business advisory experience gained from working with the Hong Kong and Boston offices of PricewaterhouseCoopers for 14 years. Mr Chan joined the Group from his responsibilities as CFO and Company Secretary of a Hong Kong listed company with operations in nine countries and annual turnover of over HK$6 billion.

Chief Administrative Officer and Company Secretary

Mr Vincent Wai Shun Lai, aged 47, was appointed as the Company Secretary in November 2004. Mr Lai is also the Chief Administrative Officer of the Company. Mr Lai is a Solicitor of the High Court of the Hong Kong Special Administrative Region and an Attorney at Law of the State of New York, USA. Immediately prior to joining the Company, Mr Lai worked in an international law firm. Mr Lai holds a Juris Doctor degree from Union University-Albany Law School and a Bachelor of Science degree from the State University of New York at Albany.

Report of the Directors

The directors hereby submit their report together with the audited financial statements for the year ended 30 June 2008.

Principal activities

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

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

Results and appropriations

The profit of the Group for the year ended 30 June 2008 and the state of the Company's and the Group's affairs as at that date are set out in the consolidated financial statements on pages 35 to 94.

An interim dividend for the year ended 30 June 2008 of 0.35 HK cent per ordinary share was paid on 13 March 2008. The directors propose, subject to the approval of the shareholders at the forthcoming Annual General Meeting, the payment of a final dividend of 0.7 HK cent per ordinary share for the year.

Five year financial summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 95 of the annual report.

Reserves

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

Donations

Charitable and other donations made by the Group during the year amounted to HK$508,276 (2007: HK$1,429,615).

Other properties and equipment

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

Share capital

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

Distributable reserves

The Company's reserves available for distribution to shareholders as at 30 June 2008 consisted of contributed surplus of HK$199,229,696 (2007: HK$199,229,696) and retained profits of HK$136,576,761 (2007: HK$123,160,076).

Share options

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

(a) INFORMATION OF THE SHARE OPTION SCHEME

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

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

Share options (Continued)

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

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

Note: For more details of options granted to individual directors, please refer to the section "Directors' and chief executives' interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation" on page 27.

Directors

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

CHAIRMAN
Jonathan Koon Shum Choi

EXECUTIVE DIRECTORS
Mary Yuk Sin Lam (Deputy Chairman)
William Wai Leung Wu (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

In accordance with clauses 86(2) and 87(1) of the Company's Bye-Laws, Mr William Wai Leung Wu, Mr Robert Tsai To Sze and Mr Michael Wai Chung Wu will retire at the forthcoming Annual General Meeting and being eligible, offer themselves for re-election.

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

Biographical details of directors and senior management

Biographical details of directors and senior management are set out on pages 20 to 22.

Directors' service contracts

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

Directors' interests in contracts

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

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

As at 30 June 2008, 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	Personal	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 30.

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	46.0%
Ms Mary Yuk Sin Lam **	9,790,507	–	22,641,810 *(Note 2)*	32,432,317	40.4%
Mr Michael Koon Ming Choi	106,937	–	–	106,937	0.1%
Mr Stanley Kam Chuen Ko	20,400	–	–	20,400	<0.1%
Ms Rebecca Yuk Fung Lau	100	–	–	100	<0.1%

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

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

Notes:

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

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

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

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

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

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

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

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

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

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

Name of director	Exercise period	Exercise price per share	At 1 July 2007	Lapsed during the year	At 30 June 2008
Mr William Wai Leung Wu	24 September 2004 to 23 March 2008	$0.43	7,000,000	(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 30 June 2008 and no options were granted to the directors during the year.

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

Save as disclosed above, as at 30 June 2008, none of the directors and chief executive had any interests or short positions in the shares of the Company and its associated corporations as defined in the SFO, and none of the directors and chief executive or their spouses or children under 18 years of age had been granted any rights to subscribe for the shares of the Company, or had exercised any such rights during the year.

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

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

As at 30 June 2008, 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 Direct interest	Number of ordinary shares in the Company Deemed interest	% of total issued shares	Note
(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% 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 40.4% of the issued share capital of Kingsway International and therefore is deemed (by virtue of the SFO) to be interested in these 2,411,661,327 shares.

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

Management contracts

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

Purchase, sale or redemption of shares

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

Pre-emptive rights

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

Major customers and suppliers

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

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

Related party and connected party transactions

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

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

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

Brokerage commission was received from the Group's directors and their respective associates in the ordinary course of the Group's business of dealing in securities and futures. Commission rates are set at the same level as those normally offered to third party clients or the applicable staff rate if the clients are directors or employees of the Group. The total brokerage commission received by the Group from any one director and their respective associates was less than HK$1 million.

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

Total loans for the purpose of subscribing to initial public offer of securities granted to any director and their respective associates are less than HK$10 million. During the year, the associates of two directors were granted loans for subscribing initial public offers and the loan amounts exceeded HK$1 million. The maximum loan amount granted to any of the two directors and the respective associates was HK$4,609,041 and the interest received by the Group amounted to HK$18,950. The interest rates are set at the same level as those normally offered to third party clients or the applicable staff rate if the clients are directors or employees of the Group.

Related party and connected party transactions (Continued)

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

SBI E*Trade is a subsidiary of SBI Holdings, Inc., which in turn is a minority shareholder of a subsidiary of the Group. SBI E*Trade entered into a brokerage agreement with Kingsway Financial on 11 March 2005 and a supplemental agreement on 11 March 2007 appointing Kingsway Financial as its executing broker and custodian, to execute and facilitate the clearing of all of SBI E*Trade's securities transactions for securities traded on the Stock Exchange made through the electronic trading platform. The appointment will terminate on 14 March 2010. The brokerage commission rate is set at the same level as those normally offered to third party clients and is subject to a minimum monthly fee. The total brokerage commission received by the Group under the arrangement amounted to HK$3,526,212 for the year ended 30 June 2008. The amount received has exceeded the relevant cap set out in the announcement dated 12 March 2007. As the annual cap was exceeded for the year ended 30 June 2008, the Company made an announcement on 4 September 2008 in compliance with Rule 14A.36(1) of the Listing Rules.

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

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

(1) the Transactions are:

(i) entered into in the ordinary course of business of each of the companies of the Group;

(ii) on normal commercial terms; and

(iii) fair and reasonable so far as the shareholders of the Company are concerned;

(2) (i) the aggregate amount of the commission received by the Group in respect of the Securities Transactions for the year ended 30 June 2008 did not exceed HK$10 million; and

(ii) the aggregate amount of the loan granted and amount of interest charged by the Group in respect of the Margin Financing Transactions for the year ended 30 June 2008 did not exceed HK$10 million.

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

(i) were approved by the board of directors of the Company; and

(ii) had been entered into in accordance with the relevant agreements governing the transactions.

Sufficiency of public float

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

Corporate Governance

The Company is committed to maintaining a high standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 11 to 19.

Directors' interest in competing business

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

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

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

Auditors

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

By order of the board

Jonathan Koon Shum Choi
Chairman

Hong Kong, 18 September 2008

Independent Auditor's Report

Independent auditor's report to the shareholders of SW Kingsway Capital Holdings Limited

(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of SW Kingsway Capital Holdings Limited (the "Company") set out on pages 35 to 94, which comprise the consolidated and Company balance sheets as at 30 June 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

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

Auditor's responsibility

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

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 30 June 2008 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

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

18 September 2008

Consolidated Income Statement

For the year ended 30 June 2008 (Expressed in Hong Kong dollars)

	Note	2008	2007
Continuing operations:			
Turnover			
Net (loss)/gain on disposal of financial assets at fair value through profit or loss and remeasurement to fair value	3	**$ (140,154,399)**	$ 285,019,274
Commission and fee income	3	**139,450,296**	94,818,199
Interest and dividend income	3	**32,957,856**	32,239,072
		$ 32,253,753	$ 412,076,545
Other income	4	**4,428,904**	10,086,103
		$ 36,682,657	$ 422,162,648
Valuation gains on investment properties	13	**–**	4,538,858
Gains on disposal of subsidiaries		**–**	10,763,253
Operating expenses			
Commission expenses		**(28,418,192)**	(14,683,452)
General and administrative expenses		**(127,411,141)**	(150,337,762)
Reversal of revaluation loss on building held for own use		**–**	548,409
Finance costs	5(a)	**(11,696,222)**	(18,672,580)
		$ (130,842,898)	$ 254,319,374
Share of (losses)/profits of associates	17	**(4,516,965)**	7,885,582
Share of profits of jointly controlled entities	18	**40,958,315**	360,432
(Loss)/profit before taxation	5	**$ (94,401,548)**	$ 262,565,388
Income tax	6(a)	**(3,309,287)**	(28,856,202)
(Loss)/profit for the year from continuing operations		**$ (97,710,835)**	$ 233,709,186
Discontinued operations:			
Profit for the year from discontinued operations	7	**–**	2,186,617
(Loss)/profit for the year		**$ (97,710,835)**	$ 235,895,803
Attributable to:			
Equity shareholders of the Company	9	**$ (107,511,696)**	$ 207,536,982
Minority interests	31	**9,800,861**	28,358,821
(Loss)/profit for the year		**$ (97,710,835)**	$ 235,895,803
Dividends payable to equity shareholders of the Company attributable to the year:	10		
Interim dividend paid during the year		**$ 11,368,784**	$ 10,719,139
Final dividend proposed after the balance sheet date		**22,737,567**	22,737,567
		$ 34,106,351	$ 33,456,706
Basic (loss)/earnings per share	11(a)		
From continuing and discontinued operations		**(3.3) cents**	6.4 cents
From continuing operations		**(3.3) cents**	6.3 cents
From discontinued operations		**– cent**	0.1 cent
Diluted (loss)/earnings per share	11(b)	**N/A**	N/A

The notes on pages 41 to 94 form part of these financial statements.

Consolidated Balance Sheet

At 30 June 2008 (Expressed in Hong Kong dollars)

	Note	2008	2007
Non-current assets			
Other properties and equipment	14	$ 28,869,500	$ 24,017,665
Intangible assets	15	2,331,141	2,731,141
Interests in associates	17	45,696,885	50,740,533
Interests in jointly controlled entities	18	158,408,105	114,328,811
Other financial assets	19	8,918,385	9,029,110
		$ 244,224,016	$ 200,847,260
Current assets			
Financial assets at fair value through profit or loss	20	$ 318,478,470	$ 597,971,875
Accounts, loans and other receivables	21	182,618,355	1,180,216,096
Amounts due from related companies	22	17,804	17,804
Tax prepaid		–	3,395,834
Cash and cash equivalents	23	168,391,088	88,075,637
		$ 669,505,717	$ 1,869,677,246
Current liabilities			
Financial liabilities at fair value through profit or loss	24	$ –	$ 83,700,000
Accruals, accounts and other payables	25	168,252,118	256,107,940
Bank loans	26	680,769	792,555,840
Obligations under finance leases	27	501,137	447,136
Current taxation		38,691,654	37,963,105
		$ 208,125,678	$ 1,170,774,021
Net current assets		$ 461,380,039	$ 698,903,225
Total assets less current liabilities		$ 705,604,055	$ 899,750,485
Non-current liabilities			
Non-current bank loans	26	$ 4,787,693	$ 5,505,570
Non-current obligations under finance leases	27	1,246,720	1,747,857
Deferred tax liabilities	28	425,165	515,955
		$ 6,459,578	$ 7,769,382
NET ASSETS		$ 699,144,477	$ 891,981,103
CAPITAL AND RESERVES			
Share capital	29	$ 324,822,391	$ 324,822,391
Reserves	31	346,531,459	483,668,946
		$ 671,353,850	$ 808,491,337
Minority interests	31	27,790,627	83,489,766
TOTAL EQUITY		$ 699,144,477	$ 891,981,103

Approved and authorised for issue by the board of directors on 18 September 2008

Mary Yuk Sin Lam
Director

William Wai Leung Wu
Director

The notes on pages 41 to 94 form part of these financial statements.

Balance Sheet

At 30 June 2008 (Expressed in Hong Kong dollars)

	Note		**2008**		2007
Non-current assets					
Investment in subsidiaries	*16*	**$**	**663,002,854**	$	673,068,764
Current assets					
Prepayments and deposits	*21*	**$**	**182,100**	$	178,000
Cash and cash equivalents			**30,427,212**		8,153,651
		$	**30,609,312**	$	8,331,651
Current liabilities					
Accruals, accounts and other payables	*25*	**$**	**1,172,158**	$	2,365,492
Net current assets		**$**	**29,437,154**	$	5,966,159
NET ASSETS		**$**	**692,440,008**	$	679,034,923
CAPITAL AND RESERVES					
Share capital	*29*	**$**	**324,822,391**	$	324,822,391
Reserves	*31*		**367,617,617**		354,212,532
TOTAL EQUITY		**$**	**692,440,008**	$	679,034,923

Approved and authorised for issue by the board of directors on 18 September 2008.

Mary Yuk Sin Lam
Director

William Wai Leung Wu
Director

The notes on pages 41 to 94 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 30 June 2008 (Expressed in Hong Kong dollars)

	Note	2008	2007
Total equity at 1 July 2007/2006		**$ 891,981,103**	$ 686,716,771
Net (loss)/income recognised directly in equity:			
Exchange differences on translation of			
financial statements of overseas subsidiaries	*31*	**$ (1,492,851)**	$ (486,313)
Share of reserve of associates	*31*	**(26,683)**	(5,912)
Surplus on revaluation of buildings held for own use	*31*	**6,000,094**	2,341,101
Net income for the year recognised directly in equity		**$ 4,480,560**	$ 1,848,876
Net (loss)/profit for the year	*31*	**(97,710,835)**	235,895,803
Total recognised income and expense for the year		**$ (93,230,275)**	$ 237,744,679
Attributable to:			
Equity shareholders of the Company		**$ (103,031,136)**	$ 209,385,858
Minority interests		**9,800,861**	28,358,821
		$ (93,230,275)	$ 237,744,679
Dividends paid to:			
Equity shareholders of the Company	*31*	**$ (34,106,351)**	$ (32,482,239)
Minority interests	*31*	**(50,500,000)**	–
		$ (84,606,351)	$ (32,482,239)
Movements in equity arising from capital transactions:			
Equity settled share-based transactions	*31*	**$ –**	$ 1,932
Eliminated on disposal of a subsidiary	*31*	**–**	(40)
Return of capital to minority interests	*31*	**(15,000,000)**	–
		$ (15,000,000)	$ 1,892
Total equity at 30 June 2008/2007		**$ 699,144,477**	$ 891,981,103

The notes on pages 41 to 94 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 30 June 2008 (Expressed in Hong Kong dollars)

	2008	2007
Continuing operations:		
Operating activities		
(Loss)/profit before taxation	**$ (94,401,548)**	$ 262,565,388
Adjustment for:		
Gains on disposal of subsidiaries	**–**	(10,763,253)
Valuation gains on investment properties	**–**	(4,538,858)
Reversal of revaluation loss on building held for own use	**–**	(548,409)
Depreciation	**3,128,056**	2,992,882
Interest expense	**11,696,222**	18,672,580
Dividend income	**(4,943,237)**	(5,385,737)
Interest income	**(28,014,619)**	(26,853,335)
Share of losses/(profits) of associates	**4,516,965**	(7,885,582)
Share of profits of jointly controlled entities	**(40,958,315)**	(360,432)
Net loss on disposal of equipment	**–**	3,427
Equity settled share-based transactions	**–**	1,932
Charge for/(reversal of) impairment losses for bad and doubtful debts (net)	**55,385**	(7,287,191)
Effect of foreign exchange rate changes	**(1,542,094)**	(455,949)
Operating (loss)/profit before changes in working capital	**$ (150,463,185)**	$ 220,157,463
Decrease in other financial assets	**55,725**	1,342,180
Decrease/(increase) in financial assets at fair value through profit or loss	**279,493,405**	(307,157,594)
Decrease/(increase) in accounts, loans and other receivables	**997,534,297**	(1,039,172,163)
Increase in amount due from jointly controlled entities	**(1,618,929)**	(1,499,178)
(Decrease)/increase in accruals, accounts and other payables	**(87,849,039)**	222,206,610
(Decrease)/increase in financial liabilities at fair value through profit or loss	**(83,700,000)**	83,700,000
Cash generated from/(used in) operations	**$ 953,452,274**	$ (820,422,682)
Interest received	**26,520,628**	26,154,224
Dividend received	**4,943,237**	5,385,737
Interest paid	**(11,703,005)**	(18,656,046)
Hong Kong Profits Tax paid	**(2,671,528)**	(2,051,768)
Hong Kong Profits Tax refunded	**3,395,834**	–
Net cash generated from/(used in) operating activities of continuing operations	**$ 973,937,440**	$ (809,590,535)

For the year ended 30 June 2008 (Expressed in Hong Kong dollars)

	Note	2008	2007
Investing activities			
Payment for purchase of other properties and equipment		**$ (1,930,554)**	$ (2,245,535)
Proceeds from sale of equipment		**–**	140,131
Dividend received from an associate		**500,000**	–
Proceeds from disposal of subsidiaries	*36*	**455,000**	26,816,149
Advances to jointly controlled entities		**–**	(27,310,000)
Net cash used in investing activities of continuing operations		**$ (975,554)**	$ (2,599,255)
Financing activities			
Proceeds from new bank loans		**$ –**	$ 792,000,000
Repayment of bank loans		**(792,592,948)**	(2,012,614)
Decrease in pledged bank deposits		**–**	4,225,273
Repayment of obligations under finance leases		**(447,136)**	(367,418)
Dividends paid to equity shareholders of the Company		**(34,106,351)**	(32,482,239)
Return of capital to minority interests		**(15,000,000)**	–
Dividends paid to minority interests		**(50,500,000)**	–
Net cash (used in)/generated from financing activities of continuing operations		**$ (892,646,435)**	$ 761,363,002
Cash flows generated from/(used in) continuing operations		**$ 80,315,451**	$ (50,826,788)
Discontinued operations:			
Net cash flows generated from discontinued operations		**–**	1,523,028
Net increase/(decrease) in cash and cash equivalents		**$ 80,315,451**	$ (49,303,760)
Cash and cash equivalents at 1 July 2007/2006		**88,075,637**	137,379,397
Cash and cash equivalents at 30 June 2008/2007		**$ 168,391,088**	$ 88,075,637
Analysis of the balances of cash and cash equivalents:			
Bank balances and cash		**$ 168,391,088**	$ 88,075,637

The notes on pages 41 to 94 form part of these financial statements.

Notes to the Financial Statements

For the year ended 30 June 2008 (Expressed in Hong Kong dollars)

1 Corporate information

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

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

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

2 Significant accounting policies

(a) STATEMENT OF COMPLIANCE

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

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2(w) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The consolidated financial statements for the year ended 30 June 2008 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and jointly controlled entities.

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

2 Significant accounting policies (Continued)

(b) BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (Continued)

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

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in this year are discussed in note 39.

(c) SUBSIDIARIES AND MINORITY INTERESTS

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. An investment in a controlled subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

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

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

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

2 Significant accounting policies (Continued)

(d) ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

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

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

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

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

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

(e) GOODWILL

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

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

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

2 Significant accounting policies (Continued)

(f) FINANCIAL INSTRUMENTS

(i) Initial recognition

The Group classifies its financial instruments into different categories at inception, depending on the purpose for which the assets were acquired or the liabilities were incurred. The categories are: fair value through profit or loss, held-to-maturity investments and loans and receivables.

Financial assets and financial liabilities are recognised on the balance sheet when the Group becomes a party to the contractual provisions of the instrument. A regular way purchase or sale of financial assets is recognised using trade date accounting. Financial assets and financial liabilities are initially measured at fair value, which normally will be equal to the transaction price plus, in case of a financial asset or financial liability not held at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset or issue of the financial liability. Transaction costs on financial assets or financial liabilities at fair value through profit or loss are expensed immediately.

(ii) Categorisation

Fair value through profit or loss

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

Financial assets and financial liabilities under this category are carried at fair value. Changes in the fair value are included in the income statement in the period in which they arise. Upon disposal or repurchase, the difference between the net sale proceeds or the net payment and the carrying value is included in the income statement. The net gain or loss recognised in the income statement excludes any dividend or interest earned on the financial assets.

Held-to-maturity investments

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

Loans and receivables

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

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

2 Significant accounting policies (Continued)

(f) FINANCIAL INSTRUMENTS (Continued)

(iii) Fair value measurement principles

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

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

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

(iv) Derecognition

Financial assets are derecognised when the contractual rights to receive the cash flows from the financial asset have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership. Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled or expired.

The Group uses the weighted average method to determine realised gains and losses to be recognised in income statement on derecognition.

(v) Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet where there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(g) INTANGIBLE ASSETS (OTHER THAN GOODWILL)

The trading rights in the Stock Exchange, the B-Shares Special Seat of Shenzhen Stock Exchange, the B-Shares Tangible Trading Seat of Shanghai Stock Exchange and non-redeemable club memberships have indefinite useful lives and are recognised as intangible assets in the balance sheet. They are stated at cost less impairment losses (see note 2(k)) and are tested for impairment annually by comparing their recoverable amount with their carrying amount.

(h) INVESTMENT PROPERTIES

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

2 Significant accounting policies (Continued)

(i) OTHER PROPERTY, PLANT AND EQUIPMENT

(i) Buildings held for own use

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

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

– when a deficit arises on revaluation, it will be charged to the income statement to the extent that it exceeds the amount held in the reserve in respect of that same asset immediately prior to the revaluation; and

– when a surplus arises on revaluation, it will be credited to the income statement to the extent that a deficit on revaluation in respect of that same asset had previously been charged to the income statement.

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

(ii) Equipment

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

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

(iii) Depreciation

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

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

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

2 Significant accounting policies (Continued)

(j) LEASED ASSETS

(i) Classification of assets leased to the Group

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

(ii) Assets acquired under finance leases

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

(iii) Operating lease charges

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

(k) IMPAIRMENT OF ASSETS

(i) Held-to-maturity investments and loans and receivables

Held-to-maturity investments and loans and receivables that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. The impairment loss is measured as the difference between the carrying value of the financial asset and the present value of estimated future cash flows, discounted at the original effective interest rate of the financial asset where the effect of discounting is material. If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the income statement. A reversal of an impairment loss shall not result in the carrying value of the asset exceeding that which would have been determined had no impairment loss been recognised in prior years.

2 Significant accounting policies (Continued)

(k) IMPAIRMENT OF ASSETS (Continued)

(ii) Other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the equipment, intangible assets, goodwill and investments in subsidiaries, associates and jointly controlled entities may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased. If any such indication exists, the recoverable amount of the asset is estimated. In addition, for goodwill and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the assets. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

Recognition of impairment loss

An impairment loss is recognised in income statement whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

Reversals of impairment losses

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

(l) CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(m) ACCOUNTS AND OTHER PAYABLES

Accounts and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

2 Significant accounting policies (Continued)

(n) INTEREST-BEARING BORROWINGS

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

(o) EMPLOYEE BENEFITS

(i) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. An accrual is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Bonus plans

The expected cost of bonus payments is recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made. Liabilities for bonus payments are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

(iii) Defined contribution pension plan obligations

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

(iv) Share-based payments

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

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

2 Significant accounting policies (Continued)

(p) INCOME TAX

(i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

(ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

(iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

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

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

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

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

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

2 Significant accounting policies (Continued)

(p) INCOME TAX (Continued)

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

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

(q) PROVISIONS AND CONTINGENT LIABILITIES

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(r) REVENUE RECOGNITION

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

(i) Brokerage and commission income is recognised on a trade date basis when the relevant transactions are executed and related services are provided. Underwriting and sub-underwriting commission is recognised once the corresponding underwriting exposure has ceased. Corporate finance advisory, asset management, loan arrangement, secretarial and other service fees are recognised upon such services being rendered.

(ii) Interest income is recognised as it accrues using the effective interest method.

(iii) Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend. Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

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

2 Significant accounting policies (Continued)

(s) TRANSLATION OF FOREIGN CURRENCIES

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

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

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

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

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

(t) DISCONTINUED OPERATIONS

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

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

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

– the post-tax profit or loss of the discontinued operation; and

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

2 Significant accounting policies (Continued)

(u) RELATED PARTIES

For the purposes of these financial statements, parties are considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a jointly controlled entity in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(v) SEGMENT REPORTING

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

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

2 Significant accounting policies (Continued)

(v) SEGMENT REPORTING (Continued)

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

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

Unallocated item represents tax balances of the Group.

(w) CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of new and revised HKFRSs and Interpretations that are first effective or available for early adoption for the current accounting period of the Group and the Company.

There have been no significant changes to the accounting policies applied in these financial statements for the years presented as a result of these developments. However, as a result of the adoption of HKFRS 7, Financial instruments: Disclosures and the amendment to HKAS 1, Presentation of financial statements: Capital disclosures, there have been some additional disclosures provided as follows:

As a result of the adoption of HKFRS 7, the financial statements included expanded disclosure about the significance of the Group's financial instruments and the nature and extent of risks arising from those instruments, compared with the information previously required to be disclosed by HKAS 32, Financial instruments: Disclosure and presentation. These disclosures are provided throughout these financial statements, in particular in note 37.

The amendment to HKAS 1 introduces additional disclosure requirements to provide information about the level of capital and the Group's and the Company's objectives, policies and processes for managing capital. These new disclosures are set out in note 29.

Both HKFRS 7 and the amendment to HKAS 1 do not have any material impact on the classification, recognition and measurement of the amounts recognised in the financial statements.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 42).

For the year ended 30 June 2008 (Expressed in Hong Kong dollars)

3 Turnover

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

	2008	2007
Net (loss)/gain on disposal of financial assets at fair value through profit or loss and remeasurement to fair value		
– equity securities	**$ (130,625,052)**	$ 291,182,151
– debt securities designated at fair value through profit or loss	**4,166,533**	(15,843,006)
– derivatives and others	**(13,695,880)**	9,680,129
	$ (140,154,399)	$ 285,019,274
Commission and fee income on		
– stock, futures and commodities brokerage	**$ 86,197,706**	$ 47,092,163
– underwriting and placements in equity capital markets	**22,166,652**	30,043,423
– corporate finance	**16,182,673**	9,853,359
– miscellaneous fee income	**14,903,265**	7,829,254
	$ 139,450,296	$ 94,818,199
Interest and dividend income		
– interest from		
– bank deposits	**$ 7,393,414**	$ 6,144,571
– margin and IPO financing	**18,582,581**	18,495,938
– other financing	**237,584**	676,010
– others	**1,801,040**	1,536,816
– dividends from listed equity securities	**4,943,237**	5,385,737
	$ 32,957,856	$ 32,239,072
	$ 32,253,753	$ 412,076,545

For the year ended 30 June 2008 (Expressed in Hong Kong dollars)

4 Other income

		2008		2007
Exchange gain	**$**	**2,642,487**	$	512,184
Reversal of impairment losses for accounts receivables (net)		**–**		7,287,191
Other income		**1,786,417**		2,286,728
	$	**4,428,904**	$	10,086,103

5 (Loss)/profit before taxation

(Loss)/profit before taxation is arrived at after charging:

		2008		2007
(a) Finance costs:				
Interest on:				
– bank loans and overdrafts	**$**	**11,397,317**	$	14,096,528
– other accounts payable		**–**		4,321,079
– obligations under finance leases		**228,464**		251,882
– other		**70,441**		3,091
	$	**11,696,222**	$	18,672,580
(b) Staff costs:				
Salaries and other allowances	**$**	**81,198,108**	$	102,386,636
Pension costs – defined contribution plan		**1,646,542**		1,703,542
Equity settled share-based payment expenses		**–**		1,932
	$	**82,844,650**	$	104,092,110
(c) Other items:				
Impairment losses for accounts receivables (net)	**$**	**55,385**	$	–
Operating lease charges				
– land and buildings		**8,383,356**		8,189,504
Share of associates' taxation		**781,460**		245,675
Depreciation		**3,128,056**		2,992,882
Net loss on disposal of equipment		**–**		3,427
Auditors' remuneration		**2,076,723**		1,735,268

For the year ended 30 June 2008 (Expressed in Hong Kong dollars)

6 Income tax in the consolidated income statement

(a) TAXATION IN THE CONSOLIDATED INCOME STATEMENT REPRESENTS:

Hong Kong Profits Tax has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profits for the year.

	2008	2007
Current tax – Provision for Hong Kong Profits Tax		
Tax for the year	**$ 8,406,942**	$ 28,373,989
(Over)/under provision in prior years	**(5,006,865)**	400,000
	$ 3,400,077	$ 28,773,989
Deferred tax		
Origination and reversal of temporary differences	**(61,307)**	82,213
Effect of decrease in tax rate on deferred tax liabilities at 1 July	**(29,483)**	–
	(90,790)	82,213
	$ 3,309,287	$ 28,856,202

(b) RECONCILIATION BETWEEN TAX EXPENSE AND ACCOUNTING (LOSS)/PROFIT AT APPLICABLE TAX RATES:

	2008	2007
(Loss)/profit before tax	**$ (94,401,548)**	$ 262,565,388
Tax at the domestic income tax rate of 16.5% (2007:17.5%)	**$ (15,576,256)**	$ 45,948,943
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(2,870,683)**	1,834,893
Tax effect of non-deductible expenses	**215,925**	4,079,518
Tax effect of non-taxable revenue	**(9,467,631)**	(4,968,698)
Tax effect of utilisation of tax losses not previously recognised	**(1,501,171)**	(18,239,043)
Tax effect of tax losses not recognised	**35,767,580**	1,257,448
Effect on opening deferred tax liabilities resulting from a decrease in tax rate	**(29,483)**	–
(Over)/Under provision in prior years	**(5,006,865)**	400,000
Others	**1,777,871**	(1,456,859)
Actual tax expense	**$ 3,309,287**	$ 28,856,202

For the year ended 30 June 2008 (Expressed in Hong Kong dollars)

7 Discontinued operations

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

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

	2008	2007
Discontinued operations:		
Revenue	**$ –**	$ 11,432,238
Expenses	**–**	(9,245,621)
Profit before taxation from discontinued operations	**$ –**	$ 2,186,617
Income tax	**–**	–
Profit for the year from discontinued operations	**$ –**	$ 2,186,617

8 Directors' and management's emoluments

(a) DIRECTORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	2008				
	Fees	**Salaries, commissions and other allowances**	**Bonuses**	**Retirement scheme contributions**	**Total**
Jonathan Koon Shum Choi	**$ 1,200,000**	**$ –**	**$ –**	**$ –**	**$ 1,200,000**
Mary Yuk Sin Lam	**–**	**4,406,837**	**200,000**	**12,000**	**4,618,837**
William Wai Leung Wu	**–**	**3,180,000**	**1,346,152**	**12,000**	**4,538,152**
Michael Koon Ming Choi	**–**	**540,000**	**268,688**	**72,000**	**880,688**
Rebecca Yuk Fung Lau	**200,000**	**–**	**–**	**–**	**200,000**
Lee G. Lam	**200,000**	**–**	**–**	**–**	**200,000**
Michael Wai Chung Wu	**200,000**	**–**	**–**	**–**	**200,000**
Robert Tsai To Sze	**200,000**	**–**	**–**	**–**	**200,000**
Stanley Kam Chuen Ko	**200,000**	**–**	**–**	**–**	**200,000**
	$ 2,200,000	**$ 8,126,837**	**$ 1,814,840**	**$ 96,000**	**$ 12,237,677**

For the year ended 30 June 2008 (Expressed in Hong Kong dollars)

8 Directors' and management's emoluments (Continued)

(a) DIRECTORS' EMOLUMENTS (Continued)

	2007				
	Fees	Salaries, commissions and other allowances	Bonuses	Retirement scheme contributions	Total
Jonathan Koon Shum Choi	$ 1,200,000	$ –	$ 1,401,787	$ –	$ 2,601,787
Mary Yuk Sin Lam	–	4,458,345	2,075,370	12,000	6,545,715
William Wai Leung Wu	–	3,095,838	28,495,450	12,000	31,603,288
Michael Koon Ming Choi	–	540,000	816,807	72,000	1,428,807
Rebecca Yuk Fung Lau	113,334	1,850,000	–	155,000	2,118,334
Lee G. Lam	83,333	–	–	–	83,333
Michael Wai Chung Wu	180,000	–	–	–	180,000
Robert Tsai To Sze	200,000	–	–	–	200,000
Stanley Kam Chuen Ko	200,000	–	–	–	200,000
Raymond Wai Yung Wu	40,000	–	–	–	40,000
	$ 2,016,667	$ 9,944,183	$ 32,789,414	$ 251,000	$ 45,001,264

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

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

(b) MANAGEMENT'S EMOLUMENTS (EXCLUDING COMMISSIONS)

The five individuals whose emoluments (excluding commissions) were the highest in the Group for the year include 1 (2007: 2) director whose emoluments (excluding commissions) received in his capacity as director of the Company are reflected in the analysis presented above. The emoluments (excluding commissions) payable to the remaining 4 (2007: 3) individuals during the year are as follows:

	2008	2007
Salaries, other allowances and benefits in kind	**$ 5,256,000**	$ 2,421,953
Bonuses	**16,433,000**	8,264,284
Inducement payment	**–**	500,000
Retirement scheme contributions	**48,000**	29,000
	$ 21,737,000	$ 11,215,237

For the year ended 30 June 2008 (Expressed in Hong Kong dollars)

8 Directors' and management's emoluments (Continued)

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

The emoluments are within the following bands:

	2008 **Number of individuals**	2007 Number of individuals
\$2,500,001 – \$3,000,000	**1**	–
\$3,000,001 – \$3,500,000	**1**	1
\$3,500,001 – \$4,000,000	**–**	1
\$4,000,001 – \$4,500,000	**–**	1
\$6,500,001 – \$7,000,000	**1**	–
\$8,000,001 – \$8,500,000	**1**	–

9 (Loss)/profit attributable to equity shareholders of the Company

The consolidated (loss)/profit attributable to equity shareholders includes a profit of \$47,511,436 (2007:\$49,368,060) which has been dealt with in the financial statements of the Company.

10 Dividends

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

	2008	2007
Interim dividend paid of 0.35 cent per share (2007: 0.33 cent per share)	**\$ 11,368,784**	\$ 10,719,139
Final dividend proposed after the balance sheet date of 0.7 cent per share (2007: 0.7 cent per share)	**22,737,567**	22,737,567
	\$ 34,106,351	\$ 33,456,706

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

For the year ended 30 June 2008 (Expressed in Hong Kong dollars)

10 Dividends (Continued)

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

	2008	2007
Final dividend in respect of the previous financial year, approved and paid during the year, of 0.7 cent per share (2007: 0.67 cent per share)	**$ 22,737,567**	$ 21,763,100

11 (Loss)/earnings per share

(a) BASIC (LOSS)/EARNINGS PER SHARE

FROM CONTINUING AND DISCONTINUED OPERATIONS

The calculation of basic (loss)/earnings per share is based on the Group's results attributable to shareholders of loss of $107,511,696 (2007: profit of $207,536,982) and on 3,248,223,906 (2007: 3,248,223,906) ordinary shares in issue during the year.

FROM CONTINUING OPERATIONS

	2008	2007
(Loss)/earnings for the year attributable to equity shareholders of the Company	**$ (107,511,696)**	$ 207,536,982
Less: Earnings for the year from discontinued operations	**–**	(2,186,617)
	$ (107,511,696)	$ 205,350,365

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

FROM DISCONTINUED OPERATIONS

In prior year, basic earnings per share for discontinued operations was 0.1 cent which was calculated based on the profit for the year from discontinued operations of $2,186,617. The denominators used were the same as those detailed above for basic earnings per share from continuing and discontinued operations.

(b) DILUTED (LOSS)/EARNINGS PER SHARE

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

12 Segment reporting

(a) BY BUSINESS SEGMENTS

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

Investment in securities	:	Investment in securities for treasury and liquidity management
Structured investment	:	Investment in structured deals including listed and unlisted equity, debt securities and investment properties
Brokerage	:	Provision of stock, futures and commodities 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 these financial statements. There is no impact on the recognition and presentation of the amounts included in these business segments for both the current and prior years arising from these changes of descriptions. The directors consider that these changes result in a more appropriate presentation of segment information in these financial statements.

For the year ended 30 June 2008 (Expressed in Hong Kong dollars)

12 Segment reporting (Continued)

	2008						
	Investment in securities	Structured investment	Brokerage	Corporate finance and capital markets	Asset management	Others	Consolidated
Segmental income statement							
Turnover	$ (143,386,062)	$ 13,061,361	$ 106,999,204	$ 54,440,899	$ (1,504,371)	$ 2,642,722	$ 32,253,753
Inter-segment revenue	28,114	266,423	4,030,391	–	10,010,618	23,466,369	37,801,915
Other revenue	32,513	782,580	907,034	166,781	–	2,539,996	4,428,904
	$ (143,325,435)	$ 14,110,364	$ 111,936,629	$ 54,607,680	$ 8,506,247	$ 28,649,087	$ 74,484,572
Eliminations							(37,801,915)
Total revenue							$ 36,682,657
Segment results	$ (152,794,857)	$ 3,731,765	$ 7,010,039	$ 17,618,281	$ (3,311,589)	$ (3,096,537)	$ (130,842,898)
Share of (losses)/profits of associates	$ –	$ (7,330,630)	$ 4,372,494	$ –	$ (1,558,829)	$ –	(4,516,965)
Share of profits of jointly controlled entities	–	40,958,315	–	–	–	–	40,958,315
Loss before taxation							$ (94,401,548)
Income tax							(3,309,287)
Loss after taxation							$ (97,710,835)
Segment assets and liabilities							
Segment assets	$ 265,170,503	$ 84,923,005	$ 311,534,863	$ 6,499,704	$ 5,058,538	$ 64,948,738	$ 738,135,351
Interests in associates	–	31,751,849	13,277,820	–	667,216	–	45,696,885
Interests in jointly controlled entities	–	158,408,105	–	–	–	–	158,408,105
							$ 942,240,341
Eliminations							(28,510,608)
Total assets							$ 913,729,733
Segment liabilities	$ 98,000	$ 30,000	$ 168,024,595	$ 14,534,749	$ 5,861,804	$ 15,429,897	$ 203,979,045
Unallocated liabilities							39,116,819
							$ 243,095,864
Eliminations							(28,510,608)
Total liabilities							$ 214,585,256
Other segmental information							
Depreciation of tangible assets for the year	$ –	$ –	$ 1,027,324	$ 88,316	$ 9,868	$ 2,002,548	$ 3,128,056
Capital expenditure during the year	$ –	$ –	$ 889,345	$ –	$ –	$ 1,041,209	$ 1,930,554
Charge for impairment losses	$ –	$ –	$ 2,942	$ 50,000	$ –	$ 2,443	$ 55,385

For the year ended 30 June 2008 (Expressed in Hong Kong dollars)

12 Segment reporting (Continued)

	2007									
	Continuing operations							Discontinued operations	Eliminations	Consolidated
	Investment in securities	Structured investment	Brokerage	Corporate finance and capital markets	Asset management	Others	Total	Wealth management		
Segmental income statement										
Turnover	$ 165,650,345	$ 112,277,953	$ 71,306,557	$ 41,323,526	$ 16,469,890	$ 5,048,274	$ 412,076,545	$ 2,998,840	$ (2,410,900)	$ 412,664,485
Inter-segment revenue	14,744	214	2,646,781	5,062,500	12,557,819	34,860,305	55,142,363	8,434,447	–	63,576,810
Other revenue	(3,209)	(35,113)	7,546,874	49,467	12,241	2,515,843	10,086,103	(1,049)	(1,023,398)	9,061,656
	$ 165,661,880	$ 112,243,054	$ 81,500,212	$ 46,435,493	$ 29,039,950	$ 42,424,422	$ 477,305,011	$ 11,432,238	$ (3,434,298)	$ 485,302,951
Eliminations							(55,142,363)	(8,434,447)	–	(63,576,810)
Total revenue							$ 422,162,648	$ 2,997,791	$ (3,434,298)	$ 421,726,141
Segment results	$ 126,254,236	$ 94,092,064	$ 317,721	$ 16,684,342	$ 18,188,126	$ (1,217,115)	$ 254,319,374	$ 2,186,617	$ –	$ 256,505,991
Share of profits of associates	$ –	$ 4,812,391	$ 2,138,598	$ –	$ 934,593	$ –	7,885,582	–	–	7,885,582
Share of profits of jointly controlled entities	–	360,432	–	–	–	–	360,432	–	–	360,432
Profit before taxation							$ 262,565,388	$ 2,186,617	$ –	$ 264,752,005
Income tax										(28,856,202)
Profit after taxation										$ 235,895,803
Segment assets and liabilities										
Segment assets	$ 296,083,211	$ 251,487,417	$1,227,620,777	$ 88,750,712	$ 3,018,589	$ 37,139,876	$1,904,100,582	$ –	$ –	$ 1,904,100,582
Interests in associates	–	39,109,163	8,905,326	–	2,726,044	–	50,740,533	–	–	50,740,533
Interests in jointly controlled entities	–	114,328,811	–	–	–	–	114,328,811	–	–	114,328,811
Unallocated assets										3,395,834
										$ 2,072,565,760
Eliminations										(2,041,254)
Total assets										$ 2,070,524,506
Segment liabilities	$ 17,659,191	$ 4,866,616	$ 990,849,675	$ 93,485,101	$ 6,148,640	$ 29,096,374	$1,142,105,597	$ –	$ –	$ 1,142,105,597
Unallocated liabilities										38,479,060
										$ 1,180,584,657
Eliminations										(2,041,254)
Total liabilities										$ 1,178,543,403
Other segmental information										
Depreciation of tangible assets for the year	$ –	$ –	$ 977,288	$ 148,067	$ 46,497	$ 1,821,030	$ 2,992,882	$ –	$ –	$ 2,992,882
Reversal of revaluation loss recognised in the income statement	$ –	$ –	$ –	$ –	$ –	$ 548,409	$ 548,409	$ –	$ –	$ 548,409
Capital expenditure during the year	$ –	$ –	$ 1,225,420	$ 30,221	$ –	$ 3,552,305	$ 4,807,946	$ –	$ –	$ 4,807,946
(Reversal of)/charge for impairment losses	$ –	$ –	$ (7,347,330)	$ 13,429	$ –	$ 46,710	$ (7,287,191)	$ –	$ –	$ (7,287,191)

For the year ended 30 June 2008 (Expressed in Hong Kong dollars)

12 Segment reporting (Continued)

(b) BY GEOGRAPHICAL SEGMENTS

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

	Group					
	Turnover		Assets		Capital expenditure	
	2008	2007	**2008**	2007	**2008**	2007
Hong Kong	**$ 2,547,297**	$ 430,211,061	**$ 665,869,178**	$1,837,142,921	**$ 1,610,194**	$ 4,778,422
The People's Republic of China (the "PRC")	**6,241,401**	2,621,995	**27,829,501**	22,074,750	**320,360**	29,524
Japan	**4,166,533**	(18,086,240)	**36,241,298**	32,117,975	**–**	–
Canada/Australia	**18,579,685**	(9,153,736)	**–**	11,658,192	**–**	–
Other markets	**718,837**	6,483,465	**8,195,374**	1,106,744	**–**	–
	$ 32,253,753	$ 412,076,545	**$ 738,135,351**	$1,904,100,582	**$ 1,930,554**	$ 4,807,946

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

13 Investment properties

	Group	
	2008	2007
Fair Value		
At 1 July	**$ –**	$ 280,357,490
Fair value adjustment (Note)	**–**	4,538,858
Disposal	**–**	(284,896,348)
	$ –	$ –

The investment properties disposed of in the prior year were located in the PRC and were held on a long lease of more than 50 years.

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

Note: The fair value adjustment included an exchange gain of $4,538,858 in respect of the appreciation of the Renminbi during the prior year.

For the year ended 30 June 2008 (Expressed in Hong Kong dollars)

14 Other properties and equipment

	Group					
	Buildings held for own use	Leasehold improvements	Furniture and fixtures	Office equipment	Motor vehicles	Total
Cost or valuation:						
At 1 July 2006	$ 13,163,008	$ 6,506,536	$ 1,979,148	$ 12,214,208	$ 2,671,039	$ 36,533,939
Exchange adjustment	–	78,244	1,288	15,741	45,255	140,528
Additions	–	78,220	71,196	4,658,530	–	4,807,946
Disposals	–	(87,430)	(120,836)	(1,032,118)	(512,184)	(1,752,568)
Elimination on revaluation	(298,338)	–	–	–	–	(298,338)
Surplus on revaluation	2,889,510	–	–	–	–	2,889,510
At 30 June 2007 and 1 July 2007	$ 15,754,180	$ 6,575,570	$ 1,930,796	$ 15,856,361	$ 2,204,110	$ 42,321,017
Exchange adjustment	–	156,054	2,569	35,912	90,258	284,793
Additions	320,360	441,890	268,882	899,422	–	1,930,554
Disposals	–	(2,663,199)	(1,314,440)	(4,995,327)	–	(8,972,966)
Elimination on revaluation	(348,384)	–	–	–	–	(348,384)
Surplus on revaluation	6,000,094	–	–	–	–	6,000,094
At 30 June 2008	$ 21,726,250	$ 4,510,315	$ 887,807	$ 11,796,368	$ 2,294,368	$ 41,215,108
Accumulated depreciation and impairment						
At 1 July 2006	$ –	$ 5,126,612	$ 1,767,280	$ 8,985,540	$ 1,158,043	$ 17,037,475
Exchange adjustment	–	78,244	212	9,248	18,416	106,120
Charge for the year	298,338	467,617	100,040	1,662,972	463,915	2,992,882
Elimination on revaluation	(298,338)	–	–	–	–	(298,338)
Disposals	–	(87,430)	(90,652)	(972,567)	(384,138)	(1,534,787)
At 30 June 2007 and 1 July 2007	$ –	$ 5,585,043	$ 1,776,880	$ 9,685,193	$ 1,256,236	$ 18,303,352
Exchange adjustment	–	156,054	746	24,595	54,155	235,550
Charge for the year	348,384	371,279	63,108	1,913,998	431,287	3,128,056
Elimination on revaluation	(348,384)	–	–	–	–	(348,384)
Disposals	–	(2,663,199)	(1,314,440)	(4,995,327)	–	(8,972,966)
At 30 June 2008	$ –	$ 3,449,177	$ 526,294	$ 6,628,459	$ 1,741,678	$ 12,345,608
Carrying values:						
At 30 June 2008	$ 21,726,250	$ 1,061,138	$ 361,513	$ 5,167,909	$ 552,690	$ 28,869,500
At 30 June 2007	$ 15,754,180	$ 990,527	$ 153,916	$ 6,171,168	$ 947,874	$ 24,017,665
Representing:						
Cost	$ –	$ 4,510,315	$ 887,807	$ 11,796,368	$ 2,294,368	$ 19,488,858
Valuation	21,726,250	–	–	–	–	21,726,250
At 30 June 2008	$ 21,726,250	$ 4,510,315	$ 887,807	$ 11,796,368	$ 2,294,368	$ 41,215,108
Representing:						
Cost	$ –	$ 6,575,570	$ 1,930,796	$ 15,856,361	$ 2,204,110	$ 26,566,837
Valuation	15,754,180	–	–	–	–	15,754,180
At 30 June 2007	$ 15,754,180	$ 6,575,570	$ 1,930,796	$ 15,856,361	$ 2,204,110	$ 42,321,017

For the year ended 30 June 2008 (Expressed in Hong Kong dollars)

14 Other properties and equipment (Continued)

The Group's interest in buildings held for own use represents two buildings located in the PRC which are held on a medium lease of less than 50 years. The buildings were revalued at 30 June 2008 by RHL Appraisal Limited, an independent firm of chartered surveyors employed by the Group, on the basis of open market value. The revaluation surplus of $6,000,094 (2007: $2,341,101) was credited to the revaluation reserve (note 31).

In prior year, additions to office equipment of the Group financed by finance leases were $2,562,411. At the balance sheet date, the net book value of office equipment held under finance leases of the Group was $1,580,153 (2007: $2,092,636). At the end of the lease term the Group has the option to purchase the leased equipment at a price deemed to be a bargain purchase option. None of the leases includes contingent rentals.

15 Intangible assets

	Membership of Chinese Gold & Silver Exchange Society	Club memberships	Exchange trading rights	Total
Cost				
At 1 July 2006, 30 June 2007 and 1 July 2007	$ 280,000	$ 590,000	$ 1,966,435	$ 2,836,435
Release on disposal of a subsidiary	–	–	(411,765)	(411,765)
At 30 June 2008	$ 280,000	$ 590,000	$ 1,554,670	$ 2,424,670
Accumulated amortisation and impairment				
At 1 July 2006, 30 June 2007 and 1 July 2007	$ –	$ 70,000	$ 35,294	$ 105,294
Release on disposal of a subsidiary	–	–	(11,765)	(11,765)
At 30 June 2008	$ –	$ 70,000	$ 23,529	$ 93,529
Carrying amount				
At 30 June 2008	$ 280,000	$ 520,000	$ 1,531,141	$ 2,331,141
At 30 June 2007	$ 280,000	$ 520,000	$ 1,931,141	$ 2,731,141

16 Investment in subsidiaries

	Company 2008	2007
Unlisted shares, at cost	**$ 271,222,358**	$ 271,222,358
Amounts due from subsidiaries	**391,780,496**	401,846,406
	$ 663,002,854	$ 673,068,764

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

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

For the year ended 30 June 2008 (Expressed in Hong Kong dollars)

17 Interests in associates

	Group 2008	Group 2007
Share of net assets	**$ 45,696,885**	$ 50,740,533

Notes: During the year, Sinochem Kingsway Capital Inc., an associate of the Company, entered into an agreement with a third party for investment in a bond instrument. As at 30 June 2008, Sinochem Kingsway Capital Inc. had a net commitment to invest in the bond instrument amounting to US$3 million. Modern Harvest Limited, an associate of the Company, entered into an agreement in June 2006 with two third parties to set up a consultancy company in the PRC. Under the agreement, Modern Harvest Limited is committed to inject RMB8 million for a 40% equity interest in the consultancy company. As at 30 June 2008 and 2007, RMB4 million has been injected by Modern Harvest Limited.

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

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

Summary financial information on associates:

	Assets	Liabilities	Equity	Revenue	(Loss)/profit
2008					
100 per cent	**$ 279,936,658**	**$ 128,503,328**	**$ 151,433,330**	**$ 21,946,288**	**$ (12,978,111)**
Group's effective interest	**$ 84,338,502**	**$ 38,641,617**	**$ 45,696,885**	**$ 7,241,635**	**$ (4,516,965)**
2007					
100 per cent	$ 231,876,107	$ 66,375,721	$ 165,500,386	$ 50,268,946	$ 25,039,149
Group's effective interest	$ 70,783,929	$ 20,043,396	$ 50,740,533	$ 16,508,459	$ 7,885,582

For the year ended 30 June 2008 (Expressed in Hong Kong dollars)

18 Interests in jointly controlled entities

	Group			
		2008		2007
Share of net assets	**$**	**57,207,137**	$	16,248,822
Amount due from jointly controlled entities		**101,200,968**		98,079,989
	$	**158,408,105**	$	114,328,811

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

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

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

		2008		2007
Non-current assets	**$**	**216,001,469**	$	165,214,553
Current assets		**6,794,507**		8,981,800
Non-current liabilities		**(151,580,811)**		(151,580,811)
Current liabilities		**(14,008,028)**		(6,366,720)
Net assets	**$**	**57,207,137**	$	16,248,822
Income	**$**	**57,270,998**	$	7,152,282
Expenses		**(16,312,683)**		(6,791,850)
Profit for the year	**$**	**40,958,315**	$	360,432

For the year ended 30 June 2008 (Expressed in Hong Kong dollars)

19 Other financial assets

	Group	
	2008	2007
Unlisted held-to-maturity convertible bonds	**$ 40,070,000**	$ 40,070,000
Statutory deposits	**5,290,763**	5,421,164
Others	**3,627,622**	3,607,946
	$ 48,988,385	$ 49,099,110
Less: Impairment loss	**(40,070,000)**	(40,070,000)
	$ 8,918,385	$ 9,029,110

Full impairment loss provision against the cost of the unlisted convertible bonds was made in prior years as the shares of the listed issuer was suspended from trading and is in the process of a creditors' winding-up.

20 Financial assets at fair value through profit or loss

	Group	
	2008	2007
Listed equity securities, at fair value		
– in Hong Kong	**$ 282,228,268**	$ 540,582,386
– outside Hong Kong	**1,357**	11,660,151
	$ 282,229,625	$ 552,242,537
Unlisted investments, at fair value		
– debt securities (Note (a))	**$ 36,241,298**	$ 32,074,765
– derivative instruments (Note (b))	**7,547**	13,654,573
	$ 36,248,845	$ 45,729,338
	$ 318,478,470	$ 597,971,875
The carrying amounts of the above financial assets are classified as follows:		
Held for trading	**$ 282,229,625**	$ 552,242,537
Designated as fair value through profit or loss on initial recognition	**36,248,845**	45,729,338
	$ 318,478,470	$ 597,971,875

Notes: (a) The debt securities represent convertible bonds with a maturity over 1 year but less than 5 years. During the year, a minority shareholder of a subsidiary of the Group acquired a significant interest in the issuer of the convertible bonds. The bonds were redeemed at face value after year end.

(b) The derivative instruments represent share options with a maturity within 1 year.

For the year ended 30 June 2008 (Expressed in Hong Kong dollars)

21 Accounts, loans and other receivables

		Group		Company	
	Note	**2008**	2007	**2008**	2007
Accounts and loans receivables					
Amounts due from brokers and clearing houses	*(a)*	**$ 88,429,393**	$ 38,311,585	**$ –**	$ –
Amounts due from margin clients	*(b)*	**47,611,797**	63,933,609	**–**	–
Amounts due from cash clients	*(c)*	**46,690,147**	1,035,377,691	**–**	–
Loans receivable	*(d)*	**1,214,505**	18,929,066	**–**	–
Others	*(e)*	**1,838,041**	3,296,802	**–**	–
		$ 185,783,883	$ 1,159,848,753	**$ –**	$ –
Less: Impairment losses		**(4,826,872)**	(8,835,208)	**–**	–
		$ 180,957,011	$ 1,151,013,545	**$ –**	$ –
Prepayments, deposits and other receivables		**1,661,344**	29,202,551	**182,100**	178,000
		$ 182,618,355	$ 1,180,216,096	**$ 182,100**	$ 178,000

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 The SEHK Options Clearing House Limited ("SEOCH") and HKFE Clearing Corporation Limited ("HKFECC"). At 30 June 2008, the Group held $5,779 (2007: $nil) with SEOCH and $13,709,246 (2007: $7,396,416) with HKFECC in trust for clients which were not dealt with in these financial statements.

(b) Margin clients of the brokerage division are required to pledge securities collateral to the Group in order to obtain the credit facilities for securities trading. The amount of credit facilities granted to them is determined by the discounted value of securities accepted by the Group. At 30 June 2008, the total market value of securities pledged as collateral in respect of the loans to margin clients was approximately $240 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 $203,010 (2007: $241,040) receivable from an associate arising from normal business transactions.

For the year ended 30 June 2008 (Expressed in Hong Kong dollars)

21 Accounts, loans and other receivables (Continued)

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

	Group		Company	
	2008	2007	**2008**	2007
Current	**$ 180,524,901**	$ 1,149,709,675	**$ –**	$ –
Within one month past due	**322,051**	550,000	**–**	–
More than one month and within three months past due	**–**	690,135	**–**	–
More than three months past due	**110,059**	63,735	**–**	–
	$ 180,957,011	$ 1,151,013,545	**$ –**	$ –

The movements in the allowance for impairment were as follows:

	Amounts due from margin clients	Loans receivable	Accounts receivables	Total
At 1 July 2006	$ 10,962,490	$ 4,512,379	$ 711,965	$ 16,186,834
Amounts written off	–	–	(64,435)	(64,435)
Amounts recovered	(7,387,330)	–	–	(7,387,330)
Amounts charged to income statement	–	–	100,139	100,139
At 30 June 2007 and 1 July 2007	$ 3,575,160	$ 4,512,379	$ 747,669	$ 8,835,208
Amounts written off	(1,235)	(3,297,874)	(764,612)	(4,063,721)
Amounts charged to income statement	2,942	–	52,443	55,385
At 30 June 2008	$ 3,576,867	$ 1,214,505	$ 35,500	$ 4,826,872

Impairment losses in respect of accounts, loans and other receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against accounts, loans and other receivables directly.

Impairments of accounts, loans and other receivables are made in the income statement after proper review by the senior management, based on the latest status of the receivables, and the latest announced or available information about the underlying collateral held.

22 Amounts due from related companies

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

23 Cash and cash equivalents

The Group maintains segregated clients' accounts with licensed banks to hold clients' monies arising from normal business transactions in connection with the Group's brokerage activities. As at 30 June 2008, segregated clients' accounts not otherwise dealt with in these financial statements amounted to $298,525,264 (2007: $434,125,148).

For the year ended 30 June 2008 (Expressed in Hong Kong dollars)

24 Financial liabilities at fair value through profit or loss

	Group	
	2008	2007
Short positions in equity securities listed in Hong Kong	**$ –**	$ 83,700,000

In connection with a placing transaction where the Group acted as a placing agent, the issuer granted to the Group a call option which fully covered the Group's short positions arising from the over-allotment of the underlying securities. During the current year, such short positions were settled.

25 Accruals, accounts and other payables

	Group		Company	
	2008	2007	**2008**	2007
Accounts payable (current and within one month)				
Amounts due to brokers and clearing houses	**$ 5,850,456**	$ 90,915,014	**$ –**	$ –
Clients' accounts payable (net of bank and clearing house balances in segregated clients' accounts)	**119,891,497**	88,095,787	**–**	–
Others	**3,787,094**	7,755,735	**–**	–
	$ 129,529,047	$ 186,766,536	**$ –**	$ –
Other creditors and accruals	**38,723,071**	69,341,404	**1,172,158**	2,365,492
	$ 168,252,118	$ 256,107,940	**$ 1,172,158**	$ 2,365,492

26 Bank loans

	Group	
	2008	2007
Unsecured bank loans	**$ –**	$ 792,000,000
Secured bank loans	**5,468,462**	6,061,410
	$ 5,468,462	$ 798,061,410

The bank loans are repayable as follows:

	Group	
	2008	2007
Within one year or on demand	**$ 680,769**	$ 792,555,840
More than one year, but not exceeding two years	**711,561**	599,096
More than two years, but not exceeding five years	**2,332,003**	2,091,987
After five years	**1,744,129**	2,814,487
	$ 5,468,462	$ 798,061,410
Less: Amount due after one year shown under non-current liabilities	**(4,787,693)**	(5,505,570)
	$ 680,769	$ 792,555,840

For the year ended 30 June 2008 (Expressed in Hong Kong dollars)

26 Bank loans (Continued)

As at 30 June 2008, the Group's buildings held for own use with carrying value of $21,726,250 (2007: $15,754,180) were pledged as securities for bank loans amounting to $5,468,462 (2007: $6,061,410).

Some of the Group's banking facilities are subject to the fulfillment of covenants relating to certain of the Group's balance sheet ratios, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in note 37. As at 30 June 2008, none of the covenants relating to drawn down facilities had been breached.

27 Obligations under finance leases

At 30 June 2008 and 2007, the Group had obligations under finance leases repayable as follows:

	30 June 2008	
	Present value of the minimum lease payments	**Total minimum lease payments**
Within one year	**$ 501,137**	**$ 675,600**
After one year but within two years	**$ 561,659**	**$ 675,600**
After two years but within five years	**685,061**	**731,900**
	$ 1,246,720	**$ 1,407,500**
	$ 1,747,857	**$ 2,083,100**
Less: Total future interest expenses		**(335,243)**
Present value of lease obligations		**$ 1,747,857**

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

For the year ended 30 June 2008 (Expressed in Hong Kong dollars)

28 Deferred taxation

(a) DEFERRED TAX LIABILITIES RECOGNISED

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

		Group	
	Accelerated depreciation	Revaluation of investment properties	Total
At 1 July 2006	$ 433,742	$ 4,000,857	$ 4,434,599
Exchange adjustment	–	64,772	64,772
Charged to income statement	82,213	–	82,213
Released upon disposal of subsidiaries	–	(4,065,629)	(4,065,629)
At 30 June 2007 and 1 July 2007	$ 515,955	$ –	$ 515,955
Credited to income statement	(61,307)	–	(61,307)
Effect of change in tax rate	(29,483)	–	(29,483)
At 30 June 2008	$ 425,165	$ –	$ 425,165

(b) DEFERRED TAX ASSETS NOT RECOGNISED

In accordance with the accounting policy set out in note 2(p), the Group has not recognised deferred tax assets in respect of cumulative tax losses of $360 million (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.

29 Share capital

	No. of shares	Amount
Authorised:		
Ordinary shares of $0.1 each	4,000,000,000	$ 400,000,000
Issued and fully paid:		
At 1 July 2006 and 2007, 30 June 2007 and 2008	3,248,223,906	$ 324,822,391

The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

For the year ended 30 June 2008 (Expressed in Hong Kong dollars)

29 Share capital (Continued)

Capital management

The Group's objective for capital management is to safeguard the Group's ability to continue as a going concern, to enhance shareholder value and to match the business funding needs. The Group manages its capital structure and makes adjustments to it in line with the changes in economic conditions and business strategies by adjusting the dividend payout ratio, returning capital to shareholders or issuing new shares. During the year ended 30 June 2008 and 2007, the Group consistently followed the objective and applied the policies and process on managing capital.

The Company is not subject to externally imposed capital requirements. Certain subsidiaries of the Company are subject to regulatory imposed capital and liquid capital requirements (Note 37). These subsidiaries complied with those requirements at all times during both the current and prior financial years.

The Group monitors capital using a target gearing ratio of 0-25%, which is total borrowings divided by the shareholders' equity. Total borrowings comprise of bank borrowings and obligations under finance leases. Shareholders' equity comprises all components of equity attributable to the equity shareholders of the Company. The gearing ratio at year-end was as follows:

		2008		2007
Total bank borrowings	**$**	**5,468,462**	$	798,061,410
Total obligations under finance leases		**1,747,857**		2,194,993
Total borrowings	**$**	**7,216,319**	$	800,256,403
Shareholders' equity	**$**	**671,353,850**	$	808,491,337
Gearing ratio		**1%**		99%

The gearing ratio at 30 June 2007 was higher than normal as the bank borrowings included short-term loans of $792,000,000 for re-financing customers' IPO subscriptions. These short-term bank loans were repaid shortly after year end.

30 Equity settled share-based transactions

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

For the year ended 30 June 2008 (Expressed in Hong Kong dollars)

30 Equity settled share-based transactions (Continued)

(i) MOVEMENTS IN SHARE OPTIONS

	2008	**2008**	2007	2007
		Weighted average		Weighted average
	Number	**exercise price**	Number	exercise price
		$		$
At 1 July of previous year	**8,000,000**	**0.43**	38,000,000	0.38
Lapsed	**(8,000,000)**	**0.43**	(30,000,000)	0.37
At 30 June	**–**	**–**	8,000,000	0.43
Exercisable at the end of the year	**–**	**–**	8,000,000	0.43

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

Date of share options granted	Range of exercise periods	Exercise price per share $	At 1 July 2006	Lapsed during the year	At 30 June 2007 and 1 July 2007	Lapsed during the year	At 30 June 2008
Directors:							
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 23 March 2008	0.43	7,000,000	–	7,000,000	(7,000,000)	–
Employees:							
11 March 2004	24 September 2004 to 7 April 2008	0.43	4,000,000	(3,000,000)	1,000,000	(1,000,000)	–
Total			38,000,000	(30,000,000)	8,000,000	(8,000,000)	–

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

For the year ended 30 June 2008 (Expressed in Hong Kong dollars)

31 Reserves

THE GROUP

	Attributable to equity shareholders of the Company									
	Share premium (Note (a))	Special reserve (Note (b))	Capital reserve on consolidation (Note (c))	Equity compensation reserve (Note (d))	Exchange reserve (Note (e))	Revaluation reserve (Note (f))	Retained profits (Note (g))	Total	Minority interests	Total
At 1 July 2007	$31,811,160	$39,800,000	$63,391,540	$11,600	$(764,205)	$3,990,358	$345,428,493	$483,668,946	$83,489,766	$567,158,712
Exchange differences on translation of financial statements of overseas subsidiaries	–	–	–	–	(1,492,851)	–	–	(1,492,851)	–	(1,492,851)
Share of reserve of associates	–	–	–	–	(26,683)	–	–	(26,683)	–	(26,683)
Surplus on revaluation	–	–	–	–	–	6,000,094	–	6,000,094	–	6,000,094
Return of capital to minority interests	–	–	–	–	–	–	–	–	(15,000,000)	(15,000,000)
Dividends paid to minority interests	–	–	–	–	–	–	–	–	(50,500,000)	(50,500,000)
Transfer between reserves	–	–	–	(11,600)	–	–	11,600	–	–	–
(Loss)/profit attributable to equity shareholders	–	–	–	–	–	–	(107,511,696)	(107,511,696)	9,800,861	(97,710,835)
Dividends paid										
– 2007, final	–	–	–	–	–	–	(22,737,567)	(22,737,567)	–	(22,737,567)
– 2008, interim	–	–	–	–	–	–	(11,368,784)	(11,368,784)	–	(11,368,784)
At 30 June 2008	$31,811,160	$39,800,000	$63,391,540	$ –	$(2,283,739)	$9,990,452	$203,822,046	$346,531,459	$27,790,627	$374,322,086
Attributable to:										
– the Company and its subsidiaries	$31,811,160	$39,800,000	$63,391,540	$ –	$(2,256,395)	$9,990,452	$153,577,933	$296,314,690	$ –	$296,314,690
– associates	–	–	–	–	(27,344)	–	9,225,366	9,198,022	–	9,198,022
– jointly controlled entities	–	–	–	–	–	–	41,018,747	41,018,747	–	41,018,747
At 30 June 2008	$31,811,160	$39,800,000	$63,391,540	$ –	$(2,283,739)	$9,990,452	$203,822,046	$346,531,459	$ –	$346,531,459

For the year ended 30 June 2008 (Expressed in Hong Kong dollars)

31 Reserves (Continued)

THE GROUP

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

For the year ended 30 June 2008 (Expressed in Hong Kong dollars)

31 Reserves (Continued)

THE COMPANY

	Contributed surplus (Note (h))	Share premium (Note (a))	Equity compensation reserve (Note (d))	Retained profits (Note (g))	Total
At 1 July 2006	$ 199,229,696	$ 31,811,160	$ 87,483	$ 106,196,440	$ 337,324,779
Equity settled share-based transactions	–	–	1,932	–	1,932
Transfer between reserves	–	–	(77,815)	77,815	–
Profit for the year	–	–	–	49,368,060	49,368,060
Dividends paid					
– 2006, final	–	–	–	(21,763,100)	(21,763,100)
– 2007, interim	–	–	–	(10,719,139)	(10,719,139)
At 30 June 2007	$ 199,229,696	$ 31,811,160	$ 11,600	$ 123,160,076	$ 354,212,532
At 1 July 2007	$ 199,229,696	$ 31,811,160	$ 11,600	$ 123,160,076	$ 354,212,532
Transfer between reserves	–	–	(11,600)	11,600	–
Profit for the year	–	–	–	47,511,436	47,511,436
Dividends paid					
– 2007, final	–	–	–	(22,737,567)	(22,737,567)
– 2008, interim	–	–	–	(11,368,784)	(11,368,784)
At 30 June 2008	$ 199,229,696	$ 31,811,160	$ –	$ 136,576,761	$ 367,617,617

Notes:

(a) The application of share premium account is governed by Section 40 of the Companies Act 1981 of Bermuda.

(b) The special reserve of the Group represents the difference between the aggregate of the nominal value and the share premium of the shares of SW Kingsway Capital Group Limited at the date of acquisition by the Company and the nominal value of the shares of the Company issued for the acquisition at the time of the Reorganisation on 10 August 2000.

(c) The capital reserve on consolidation of the Group represents negative goodwill arising from acquisitions prior to 1 July 2001.

(d) The equity compensation reserve represents the fair value of the actual or estimated number of unexercised share options granted to employees of the Company recognised in accordance with the accounting policy adopted for share based payments. The equity amount was transferred to retained profits when the outstanding options expired.

For the year ended 30 June 2008 (Expressed in Hong Kong dollars)

31 Reserves (Continued)

Notes: (Continued)

(e) The exchange reserve has been set up and will be dealt with in accordance with the accounting policies adopted for foreign currency translation.

(f) The revaluation reserve was set up to deal with the surplus or deficit arising from the revaluation of buildings held for own use.

(g) Retained profits represent:

	Group		Company	
	2008	2007	**2008**	2007
2008 proposed final dividend	**$ 22,737,567**	$ –	**$ 22,737,567**	$ –
2007 proposed final dividend	**–**	22,737,567	**–**	22,737,567
Others	**181,084,479**	322,690,926	**113,839,194**	100,422,509
	$ 203,822,046	$ 345,428,493	**$ 136,576,761**	$ 123,160,076

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

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

32 Contingent liabilities

	Company	
	2008	2007
Guarantees for banking facilities to subsidiaries and jointly controlled entities	**$ 329,168,462**	$ 299,761,410
Other guarantees	**13,000,000**	–
Total	**$ 342,168,462**	$ 299,761,410

For the year ended 30 June 2008 (Expressed in Hong Kong dollars)

33 Commitments

(a) CAPITAL COMMITMENTS

	Group			
		2008		2007
Contracted but not provided for	**$**	**1,192,124**	$	1,016,912

(b) COMMITMENTS UNDER OPERATING LEASES

As lessee

As at 30 June 2008, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Land and buildings			
		2008		2007
Not later than 1 year	**$**	**8,170,880**	$	8,649,543
Later than 1 year and not later than 5 years		**24,187,500**		32,347,840
	$	**32,358,380**	$	40,997,383

Operating leases relate to land and buildings with lease terms of between 1 to 4 years. The Group does not have an option to purchase the leased assets at the expiry of the leased period.

34 Related party and connected party transactions

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

(a) KEY MANAGEMENT PERSONNEL REMUNERATION

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

		2008		2007
Fees	**$**	**2,200,000**	$	2,016,667
Salaries, commissions and other allowance		**11,006,837**		12,704,183
Bonuses		**2,214,840**		34,289,414
Retirement scheme contributions		**360,000**		515,000
	$	**15,781,677**	$	49,525,264

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

For the year ended 30 June 2008 (Expressed in Hong Kong dollars)

34 Related party and connected party transactions (Continued)

(b) OTHERS

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

	Note	**2008**	2007
Brokerage commission earned on securities, futures and commodities dealing	*(a)*	**$ 5,184,965**	$ 4,654,592
Common office expenses recharged	*(b)*	**726,370**	768,375
Consultancy and management fees received	*(c)*	**5,051,847**	3,402,331
Secretarial fee earned	*(d)*	**115,220**	185,254
Interest earned on margin and IPO loans	*(e)*	**18,950**	55,446
Interest income	*(f)*	**1,502,050**	691,052

Notes:

(a) Brokerage commission was received from fellow subsidiaries, associates, minority shareholders of non-wholly owned subsidiary, the Group's directors and their associates in the ordinary course of the Group's business of dealing in securities, futures and commodities. Commission rates are set at the same level as those normally offered to third party clients or the applicable staff rate if the clients are directors or employees of the Group.

(b) Amounts represent office overheads and rental expenses recharged to a fellow subsidiary and an associate. The allocation of office overheads and rental expenses is primarily based on the percentage of floor area occupied by each company.

(c) Consultancy and management fees were received from a fellow subsidiary, jointly controlled entities and an associate for the provision of management and administrative services. The fees mainly comprised a fixed monthly charge as agreed between the parties involved.

(d) Secretarial fee was received from associates, jointly controlled entities, fellow subsidiaries and companies associated with two of the Group's directors for corporate secretarial services provided. The fee was charged at rates similar to those normally charged to third party clients.

(e) Margin loan interest was received from fellow subsidiaries, the Group's directors and their associates in the ordinary course of the Group's margin financing business. Interest rates are set at the same level as those normally offered to third party clients or the applicable staff rate if the clients are directors or employees of the Group.

(f) Interest income was received from jointly controlled entities for the loans advanced. Interest rates are set at the same level as those normally offered to third party clients.

For the year ended 30 June 2008 (Expressed in Hong Kong dollars)

35 Particulars of significant subsidiaries

The following is a list of the significant subsidiaries as at 30 June 2008:

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

For the year ended 30 June 2008 (Expressed in Hong Kong dollars)

35 Particulars of significant subsidiaries (Continued)

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

* Companies not audited by KPMG. The aggregate total assets of these subsidiaries contributed to approximately 6% of the Group's total assets.

For the year ended 30 June 2008 (Expressed in Hong Kong dollars)

36 Disposal of subsidiaries

On 22 October 2007, the Group disposed of its entire shareholding interest in KES Limited.

The net assets of KES Limited at the date of disposal were as follows:

		2008		2007
Net assets disposed of:				
Intangible assets	**$**	**400,000**	$	–
Other financial assets		**55,000**		–
Investment properties		**–**		284,896,348
Other properties and equipment		**–**		1,380
Accounts, loans and other receivables		**–**		63,936,404
Cash and cash equivalents		**11,169**		7,710,802
Accruals, accounts and other payables		**–**		(169,042,749)
Bank loans		**–**		(109,629,018)
Deferred tax liabilities		**–**		(4,065,629)
	$	**466,169**	$	73,807,538
Gain on disposal		**–**		10,763,253
Consideration for disposal of subsidiaries		**(466,169)**		(68,682,401)
Reclassification to interests in jointly controlled entities	**$**	**–**	$	15,888,390
Satisfied by:				
Cash	**$**	**466,169**	$	34,526,951
Transfer of debt		**–**		34,155,450
	$	**466,169**	$	68,682,401
Net cash inflow arising on disposal:				
Cash consideration	**$**	**466,169**	$	34,526,951
Cash and cash equivalents disposed of		**(11,169)**		(7,710,802)
	$	**455,000**	$	26,816,149

37 Financial instruments

The Group's activities expose it to a variety of financial risks: credit risk, liquidity risk, equity price risk, foreign exchange 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 counterparty in a transaction may default during the settlement process. It also arises from lending, settlement, treasury, market making, proprietary trading, and other activities undertaken by the Group.

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

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

Accounts, loans and other receivables consist of amounts due from brokers, clearing houses, clients, term loans and other receivable items. In respect of advances to clients, the Group generally requires collateral from clients before advances are granted. Collateral normally takes the form of listed securities or cash deposits. Amounts due from brokers are treated as lower credit risk as counterparties are reputable financial institutions.

Investment in debt securities and unlisted derivative financial instruments are governed by whether the issuers have good credit ratings. The latest financial position of the issuers will be reported to senior management for considering of the credit risk of these investments.

The maximum exposure to credit risk without taking account of any collateral held or other credit enhancements is represented by the carrying value of each financial asset. Except for the financial guarantees given by the Group as set out in note 32, the Group does not provide any other guarantees which would expose the Group or the Company to credit risk. The maximum exposure to credit risk in respect of corporate guarantee at the balance sheet date is disclosed in note 32.

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default. Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, senior management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over the receivables that were past due but not impaired.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from accounts, loans and receivables are set out in note 21.

The Company's credit risk is primarily attributable to amounts due from subsidiaries. The Company manages this risk by assessing the financial positions of subsidiaries on a regular basis.

For the year ended 30 June 2008 (Expressed in Hong Kong dollars)

37 Financial instruments (Continued)

(b) LIQUIDITY RISK

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

The following table details the remaining contractual maturities at the balance sheet date of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates) and the earliest date the Group can be required to pay:

			Group			
	Repayment on demand or within one month	More than one month but within three months	More than three months but within one year	More than one year but within five years	Over five years	Total
As 30 June 2008						
Accruals, accounts and other payables	**$ 168,252,118**	**$ –**	**$ –**	**$ –**	**$ –**	**$ 168,252,118**
Bank loans	**75,602**	**151,204**	**680,416**	**3,628,888**	**1,826,506**	**6,362,616**
Finance lease obligations	**56,300**	**112,600**	**506,700**	**1,407,500**	**–**	**2,083,100**
	$ 168,384,020	**$ 263,804**	**$ 1,187,116**	**$ 5,036,388**	**$ 1,826,506**	**$ 176,697,834**
As 30 June 2007						
Financial liabilities at fair value through profit or loss	$ 83,700,000	$ –	$ –	$ –	$ –	$ 83,700,000
Accruals, accounts and other payables	256,107,940	–	–	–	–	256,107,940
Bank loans	793,021,063	164,929	742,179	3,958,289	3,182,932	801,069,392
Finance lease obligations	56,300	112,600	506,700	2,083,100	–	2,758,700
	$ 1,132,885,303	$ 277,529	$ 1,248,879	$ 6,041,389	$ 3,182,932	$ 1,143,636,032

The Company's policy is to regularly monitor its liquidity requirements including amounts due to subsidiaries, dividend payments to shareholders and payments of accrued expenses to ensure that is maintains sufficient reserves of cash to satisfy its contractual and foreseeable obligations as they fall due.

37 Financial instruments (Continued)

(c) EQUITY PRICE RISK

The Group is exposed to equity price changes arising from investments classified as financial assets or financial liabilities at fair value through profit or loss.

The Group's listed investments are mainly listed on the Stock Exchange of Hong Kong. Decisions to buy or sell trading securities are rested with assigned investment managers and governed by specific investment guidelines. 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.

Assuming a 10% upward/downward movement in the Hang Seng Index with all other variables held constant at the balance sheet date, the Group's profit before tax would have increased/decreased by an estimated $24,801,000 (2007: $36,139,000).

(d) FOREIGN EXCHANGE RISK

Foreign exchange risk is the risk to earnings or capital arising from movements of foreign exchange rates. 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.

The Group's foreign exchange risk primarily arises from currency exposures originating from its proprietary investments. Principal brokerage and lending operations are mainly 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.

The following table details the Group's exposure at the balance sheet date to currency risk arising from recognised assets and liabilities denominated in a currency other than the functional currency of the entity to which they relate.

For the year ended 30 June 2008 (Expressed in Hong Kong dollars)

37 Financial instruments (Continued)

(d) FOREIGN EXCHANGE RISK (Continued)

	USD	JPY	RMB	CAD	AUD	Others
At 30 June 2008						
Other financial assets	**$ 390,000**	**$ –**	**$ –**	**$ –**	**$ –**	**$ –**
Financial assets at fair value through profit or loss	**1,357**	**36,241,298**	**–**	**–**	**–**	**–**
Account, loans and other receivables	**6,391,584**	**511,972**	**157,880**	**–**	**–**	**46,906**
Cash and cash equivalents	**7,832,364**	**75,829**	**1,339,356**	**98,190**	**4,520,967**	**55,227**
Accounts, loans and other payables	**(11,102,658)**	**–**	**(163,996)**	**–**	**–**	**–**
Bank loans	**(4,213,744)**	**–**	**–**	**–**	**–**	**–**
Net exposure arising from recognised assets and liabilities	**$ (701,097)**	**$ 36,829,099**	**$ 1,333,240**	**$ 98,190**	**$ 4,520,967**	**$ 102,133**

	USD	JPY	RMB	CAD	AUD	Others
At 30 June 2007						
Other financial assets	$ 390,000	$ –	$ –	$ –	$ –	$ –
Financial assets at fair value through profit or loss	1,954	31,727,222	–	11,658,097	–	–
Account, loans and other receivables	1,262,473	407,898	126,185	–	–	80,729
Cash and cash equivalents	4,464,420	65,773	1,159,050	84,194	–	111,898
Accounts, loans and other payables	(16,955,854)	–	(121,629)	–	–	–
Bank loans	(4,690,381)	–	–	–	–	–
Net exposure arising from recognised assets and liabilities	$ (15,527,388)	$ 32,200,893	$ 1,163,606	$ 11,742,291	$ –	$ 192,627

37 Financial instruments (Continued)

(d) FOREIGN EXCHANGE RISK (Continued)

An analysis of the estimated change in the Group's profit before tax in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the balance sheet date is presented in the following table.

	2008		2007	
	Increase/(decrease) in exchange rates	**Effect on profit before tax**	Increase/(decrease) in exchange rates	Effect on profit before tax
Renminbi, RMB	**+5%**	**66,662**	+5%	58,180
	–5%	**(66,662)**	–5%	(58,180)
Japanese Yen, JPY	**+5%**	**1,841,455**	+5%	1,610,045
	–5%	**(1,841,455)**	–5%	(1,610,045)
Canadian Dollar, CAD	**+5%**	**4,910**	+5%	587,115
	–5%	**(4,910)**	–5%	(587,115)
Australian Dollar, AUD	**+5%**	**226,048**	+5%	–
	–5%	**(226,048)**	–5%	–

The above analysis assumes the change in foreign exchange rates had occurred at the balance sheet date and had been applied to each of the Group entities' exposure to currency risk in existence at that date while all other variables remains constant. The stated changes also represent management's assessment of reasonably possible changes in foreign exchange rates until the next annual balance sheet date. The Hong Kong Dollar and the United States Dollar peg is assumed to stay materially unaffected by any fluctuation in United States Dollar against other currencies.

37 Financial instruments (Continued)

(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 bank balances, margin financing, short-term bank loans and other lending activities undertaken. The short-term bank loans are mainly utilised for re-financing customers' borrowings which the Group has the legal capacity to quickly recall the margin loans or re-price the 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.

Assuming that the Hong Kong market interest rates had been 100 basis points higher/lower and all other variables held constant at the balance sheet date, the Group's profit before tax would have an estimated increase/decrease of $1,927,000 (2007: $1,091,000).

The Company is exposed to interest rate risk only to the extent that it earns banks interest on deposits. Assuming that the Hong Kong market interest rates had been 100 basis points higher/lower and all other variables held constant at the balance sheet date, the Company's profit before tax would have an estimated increase/decrease of $304,000 (2007: $82,000).

38 Fair value of financial instruments

All financial instruments are stated at fair value or carried at amounts not materially different from their fair values as at 30 June 2008 and 2007.

The fair value of financial assets and financial liabilities (including derivative instruments) with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices and ask prices respectively. The fair value of other financial assets and financial liabilities (including derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input. For an option-based derivative, the fair value is estimated using the Black-Scholes model.

39 Critical accounting judgements

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

(a) FAIR VALUE ON FINANCIAL ASSETS

For financial assets held at fair value through profit or loss, the fair value is principally based on their quoted market prices at the balance sheet date. Judgment is required when determining whether the quoted market price can reflect the fair value of the financial assets. For unquoted derivatives, the fair value is significantly affected by the combination of the valuation methodologies employed, the parameters used and, if required, the underlying sample chosen. The valuation methodologies adopted by the Group is discussed in note 38.

(b) IMPAIRMENT ALLOWANCES ON LOANS AND RECEIVABLES

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

40 Parent and ultimate holding company

At 30 June 2008, the directors consider the parent of the Group to be World Developments Limited, which is incorporated in the British Virgin Islands. This entity does not produce financial statements available for public use. The directors consider the ultimate holding company of the Group to be Kingsway International Holdings Limited, which is incorporated in Bermuda and listed on the Toronto Stock Exchange.

41 Comparative figures

At a result of adopting HKFRS 7, Financial instruments: disclosure, and the amendments to HKAS 1, Presentation of financial statements: Capital disclosures, certain comparative figures have been adjusted to conform with changes in disclosures in the current year and to show separately comparative amounts in respect of items disclosed for the first time in 2008. Further details of these developments are disclosed in note 2.

42 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 30 June 2008

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 30 June 2008 and which have not been adopted in these financial statements.

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. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Company's results of operations and financial position.

In addition, HKFRS 8, Operating segments, which is effective for annual periods beginning on or after 1 January 2009, may result in new or amended disclosures in the financial statements.

Five Year Financial Summary

(Expressed in Hong Kong dollars)

	2004 '000	2005 '000	2006 '000	2007 '000	**2008** **'000**
Results					
Turnover	$198,461	$189,261	$152,278	$412,077	**$32,254**
(Loss)/profit attributable to equity shareholders	$81,432	$84,574	$19,338	$207,537	**$(107,512)**
Basic (loss)/earnings per share (cents)	2.6	2.6	0.6	6.4	**(3.3)**
Dividends payable to equity shareholders of the Company attributable to the year	$32,020	$32,482	$32,482	$33,457	**$34,106**
Assets and liabilities					
Total assets	$681,563	$1,261,664	$933,242	$2,070,524	**$913,730**
Total liabilities	$(106,846)	$(595,156)	$(246,526)	$(1,178,543)	**$(214,585)**
Net assets attributable to equity shareholders of the Company	$574,717	$630,479	$631,586	$808,491	**$671,354**

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

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

Directory of Licensed Subsidiaries and Affiliates

Licensed Subsidiaries of SW Kingsway Capital Holdings Limited

Kingsway Financial Services Group Limited

Licensed Corporation of the Securities and Futures Commission

Exchange Participant of The Stock Exchange of Hong Kong

Broker Participant of Hong Kong Securities Clearing Company Limited

Exchange Participant of Hong Kong Futures Exchange

Participant of HKFE Clearing Corporation Limited

Options Trading Exchange Participant of SEHK

SEOCH Direct Clearing Participant

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

B-Shares Special Seat Holder of Shenzhen Stock Exchange

B-Shares Tangible Trading Seat Holder of Shanghai Stock Exchange

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

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

Kingsway Capital Limited

Licensed Corporation of the Securities and Futures Commission

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

Kingsway SW Asset Management Limited

Licensed Corporation of the Securities and Futures Commission

Kingsway SW Finance Limited

Money Lender registered with the HKSAR Government

Kingsway SBF Investment Management Company Limited

Licensed Corporation of the Securities and Futures Commission

Affiliated & Overseas Offices

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

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

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

www.kingswaygroup.com