



Kingsway Group

SW Kingsway Capital Holdings Limited

滙富金融控股有限公司\*

Incorporated in Bermuda with limited liability

Stock Code: 00188

A member of SUNWAH GROUP 新華集團

商界展關懷

caringcompany<sup>2006-10</sup>

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

# Grow with Solid Foundation



Interim Report

2010/11

\*For identification purpose only

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# Corporate Information

## General Information

### CHAIRMAN

Jonathan Koon Shum Choi

### EXECUTIVE DIRECTORS

Mary Yuk Sin Lam (*Deputy Chairman*)

Michael Koon Ming Choi (*Chief Executive Officer*)

William Wai Leung Wu (resigned on 30 September 2010)

### NON-EXECUTIVE DIRECTORS

Janice Wing Kum Kwan (appointed on 1 February 2011)

Lee G. Lam

Rebecca Yuk Fung Lau (retired on 10 November 2010)

### 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:*

K&L Gates

44th Floor, Edinburgh Tower, The Landmark,

15 Queen's Road Central, Hong Kong

Clifford Chance

28th Floor, Jardine House,

1 Connaught Place, Central, Hong Kong

*As to Bermuda Law:*

Conyers Dill & Pearman

2901 One Exchange Square,

8 Connaught Place, Central, Hong Kong

## Auditor

Deloitte Touche Tohmatsu

35th Floor, One Pacific Place,

88 Queensway, 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

Michael Koon Ming Choi

Vincent Wai Shun Lai

## Bermuda Principal Share Registrar and Transfer Office

Butterfield Fulcrum Group (Bermuda) Limited

Rosebank Centre, 11 Bermudiana Road,

Pembroke HM08, Bermuda

## Hong Kong Branch Share Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited

Shops 1712-1716, 17th Floor, Hopewell Centre,

183 Queen's Road East, Wan Chai, 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

### 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*)

Stanley Kam Chuen Ko



# Condensed Consolidated Income Statement

For the six months ended 31 December 2010 – unaudited (Expressed in Hong Kong dollars)

|   | Notes | Six months ended 31 December |                      |
|---|-------|------------------------------|----------------------|
|   |       | 2010                         | 2009                 |
| <b>Turnover</b>   |       |                              |                      |
| Net gain on disposal of financial assets/liabilities at fair value through profit or loss and remeasurement to fair value |       | \$ 57,788,083                | \$ 44,937,816        |
| Commission and fee income   |       | 47,512,214                   | 41,442,319           |
| Interest and dividend income  |       | 5,197,392                    | 4,103,078            |
|   |       | <b>\$ 110,497,689</b>        | <b>\$ 90,483,213</b> |
| <b>Other income</b>   |       |                              |                      |
|   |       | <b>3,423,329</b>             | <b>515,805</b>       |
|   | 3     | <b>\$ 113,921,018</b>        | <b>\$ 90,999,018</b> |
| <b>Operating expenses</b>   |       |                              |                      |
| Commission expenses   |       | (9,917,458)                  | (9,891,774)          |
| General and administrative expenses   |       | (57,901,332)                 | (42,562,325)         |
| Finance costs   |       | (398,999)                    | (665,042)            |
|   |       | <b>\$ 45,703,229</b>         | <b>\$ 37,879,877</b> |
| Impairment loss for the disposal group  | 8     | –                            | (2,427,392)          |
| Share of profits of associates  | 3     | 1,096,674                    | 2,907,083            |
| Share of losses of jointly controlled entities  | 3     | –                            | (1,074,716)          |
|   |       | <b>\$ 46,799,903</b>         | <b>\$ 37,284,852</b> |
| Income tax (charge)/credit  | 5     | (21,611)                     | 121,969              |
|   |       | <b>\$ 46,778,292</b>         | <b>\$ 37,406,821</b> |
| <b>Profit for the period</b>  |       |                              |                      |
| <b>Attributable to:</b>   |       |                              |                      |
| Owners of the Company   |       | \$ 46,784,419                | \$ 37,407,450        |
| Non-controlling interests   |       | (6,127)                      | (629)                |
|   |       | <b>\$ 46,778,292</b>         | <b>\$ 37,406,821</b> |
| <b>Profit for the period</b>  |       |                              |                      |
|   |       | <b>\$ 46,778,292</b>         | <b>\$ 37,406,821</b> |
| <b>Basic earnings per share</b>   | 7     | <b>1.4 cent</b>              | 1.2 cent             |
| <b>Diluted earnings per share</b>   | 7     | <b>1.4 cent</b>              | 1.2 cent             |

# Condensed Consolidated Statement of Comprehensive Income

For the six months ended 31 December 2010 – unaudited (Expressed in Hong Kong dollars)

|  | Six months ended 31 December |               |
|--|------------------------------|---------------|
|  | 2010                         | 2009          |
| <b>Profit for the period</b>   | \$ 46,778,292                | \$ 37,406,821 |
| <b>Other comprehensive income:</b>   |                              |               |
| Exchange differences arising on translation of financial statements of overseas subsidiaries | \$ (816,841)                 | \$ (25,197)   |
| Share of exchange differences arising on translation recognised by associates                | (8,119)                      | (340)         |
| Surplus on revaluation of land and buildings held for own use                                | 4,815,024                    | 1,407,831     |
| Fair value changes on available-for-sale investments   | (76,226)                     | –             |
| <b>Other comprehensive income for the period</b>   | \$ 3,913,838                 | \$ 1,382,294  |
| <b>Total comprehensive income for the period</b>   | \$ 50,692,130                | \$ 38,789,115 |
| <b>Total comprehensive income attributable to:</b>   |                              |               |
| Owners of the Company  | \$ 50,698,257                | \$ 38,789,744 |
| Non-controlling interests  | (6,127)                      | (629)         |
| <b>Total comprehensive income for the period</b>   | \$ 50,692,130                | \$ 38,789,115 |

# Condensed Consolidated Statement of Financial Position

At 31 December 2010 – unaudited (Expressed in Hong Kong dollars)

|  | Notes | 31 December<br>2010   | 30 June<br>2010       |
|--|-------|-----------------------|-----------------------|
| <b>Non-current assets</b>                                  |       |                       |                       |
| Properties and equipment                                   |       | \$ 31,372,803         | \$ 26,955,547         |
| Intangible assets  |       | 2,331,141             | 2,331,141             |
| Interests in associates                                    |       | 32,205,279            | 31,116,724            |
| Available-for-sale investments                             | 9     | 19,423,774            | –                     |
| Other financial assets                                     |       | 9,910,284             | 9,670,137             |
|  |       | <b>\$ 95,243,281</b>  | <b>\$ 70,073,549</b>  |
| <b>Current assets</b>                                      |       |                       |                       |
| Financial assets at fair value through profit or loss      | 10    | \$ 253,894,017        | \$ 314,977,473        |
| Accounts, loans and other receivables                      | 11    | 170,050,950           | 274,063,690           |
| Amounts due from related companies                         |       | 9                     | 17,804                |
| Cash and cash equivalents                                  | 12    | 306,541,038           | 198,799,944           |
|  |       | <b>\$ 730,486,014</b> | <b>\$ 787,858,911</b> |
| <b>Current liabilities</b>                                 |       |                       |                       |
| Financial liabilities at fair value through profit or loss |       | \$ 1,836,000          | \$ –                  |
| Accruals, accounts and other payables                      | 13    | 129,220,277           | 296,383,976           |
| Bank loans   | 14    | 3,657,464             | 757,938               |
| Obligations under finance leases                           | 15    | 379,284               | 629,492               |
| Current taxation   |       | 1,450,324             | 1,450,324             |
|  |       | <b>\$ 136,543,349</b> | <b>\$ 299,221,730</b> |
| <b>Net current assets</b>                                  |       | <b>\$ 593,942,665</b> | <b>\$ 488,637,181</b> |
| <b>Total assets less current liabilities</b>               |       | <b>\$ 689,185,946</b> | <b>\$ 558,710,730</b> |
| <b>Non-current liabilities</b>                             |       |                       |                       |
| Non-current bank loans                                     | 14    | \$ –                  | \$ 3,275,788          |
| Non-current obligations under finance leases               | 15    | –                     | 55,569                |
| Deferred tax liabilities                                   |       | 326,810               | 305,199               |
|  |       | <b>\$ 326,810</b>     | <b>\$ 3,636,556</b>   |
| <b>NET ASSETS</b>  |       | <b>\$ 688,859,136</b> | <b>\$ 555,074,174</b> |
| <b>CAPITAL AND RESERVES</b>                                |       |                       |                       |
| Share capital  | 16    | \$ 368,104,391        | \$ 324,822,391        |
| Reserves   |       | 320,601,283           | 230,092,194           |
| <b>Equity attributable to owners of the Company</b>        |       | <b>\$ 688,705,674</b> | <b>\$ 554,914,585</b> |
| <b>Non-controlling interests</b>                           |       | <b>153,462</b>        | <b>159,589</b>        |
| <b>TOTAL EQUITY</b>  |       | <b>\$ 688,859,136</b> | <b>\$ 555,074,174</b> |

# Condensed Consolidated Statement of Changes in Equity

For the six months ended 31 December 2010 – unaudited (Expressed in Hong Kong dollars)

|  | Attributable to owners of the Company |               |               |                 |                                  |                  |                  |                     |                                 |                   |                 |                           |                 |
|--|---------------------------------------|---------------|---------------|-----------------|----------------------------------|------------------|------------------|---------------------|---------------------------------|-------------------|-----------------|---------------------------|-----------------|
|  | Share Capital                         | Share Premium | Share         | Special reserve | Capital reserve on consolidation | Warrants reserve | Exchange reserve | Revaluation reserve | Investments revaluation reserve | Retained earnings | Total           | Non-controlling interests | Total           |
| At 1 July 2010   | \$ 324,822,391                        | \$ 31,811,160 | \$ 39,800,000 | \$ 63,391,540   | \$ -                             | \$ -             | \$ (2,573,159)   | \$ 11,499,153       | \$ -                            | \$ 86,163,500     | \$ 554,914,585  | \$ 159,589                | \$ 555,074,174  |
| Profit/(loss) for the period   | -                                     | -             | -             | -               | -                                | -                | -                | -                   | -                               | -                 | -               | -                         | -               |
| Exchange differences arising on translation of financial statements of overseas subsidiaries | -                                     | -             | -             | -               | -                                | -                | (816,841)        | -                   | -                               | -                 | (816,841)       | -                         | (816,841)       |
| Share of exchange differences arising on translation recognised by associates                | -                                     | -             | -             | -               | -                                | -                | (8,119)          | -                   | -                               | -                 | (8,119)         | -                         | (8,119)         |
| Surplus on revaluation of land and buildings held for own use                                | -                                     | -             | -             | -               | -                                | -                | -                | 4,815,024           | -                               | -                 | 4,815,024       | -                         | 4,815,024       |
| Fair value changes on available-for-sale investments   | -                                     | -             | -             | -               | -                                | -                | -                | -                   | (76,226)                        | -                 | (76,226)        | -                         | (76,226)        |
| Total comprehensive income/(expenses) for the period   | \$ -                                  | \$ -          | \$ -          | \$ -            | \$ -                             | \$ -             | \$ (824,960)     | \$ 4,815,024        | \$ (76,226)                     | \$ 46,784,419     | \$ 50,698,257   | \$ (6,127)                | \$ 50,692,130   |
| 2010 final dividend paid   | \$ -                                  | \$ -          | \$ -          | \$ -            | \$ -                             | \$ -             | \$ -             | \$ -                | \$ -                            | \$ (22,737,567)   | \$ (22,737,567) | \$ -                      | \$ (22,737,567) |
| Shares issued (Note 16)  | 43,282,000                            | 62,526,758    | -             | -               | -                                | -                | -                | -                   | -                               | -                 | 105,808,758     | -                         | 105,808,758     |
| Warrants issued (Note 16)  | -                                     | -             | -             | -               | -                                | 21,641           | -                | -                   | -                               | -                 | 21,641          | -                         | 21,641          |
| At 31 December 2010  | \$ 368,104,391                        | \$ 94,337,918 | \$ 39,800,000 | \$ 63,391,540   | \$ 21,641                        | \$ (3,398,119)   | \$ 16,314,177    | \$ (76,226)         | \$ 110,210,352                  | \$ 688,705,674    | \$ 153,462      | \$ 688,859,136            |                 |
| At 1 July 2009   | \$ 324,822,391                        | \$ 31,811,160 | \$ 39,800,000 | \$ 63,391,540   | \$ -                             | \$ -             | \$ (2,234,584)   | \$ 8,461,489        | \$ -                            | \$ 109,125,780    | \$ 575,177,776  | \$ 180,309                | \$ 575,358,085  |
| Profit/(loss) for the period   | \$ -                                  | \$ -          | \$ -          | \$ -            | \$ -                             | \$ -             | \$ -             | \$ -                | \$ -                            | \$ 37,407,450     | \$ 37,407,450   | \$ (629)                  | \$ 37,406,821   |
| Exchange differences arising on translation of financial statements of overseas subsidiaries | -                                     | -             | -             | -               | -                                | -                | (25,197)         | -                   | -                               | -                 | (25,197)        | -                         | (25,197)        |
| Share of exchange differences arising on translation recognised by associates                | -                                     | -             | -             | -               | -                                | -                | (340)            | -                   | -                               | -                 | (340)           | -                         | (340)           |
| Surplus on revaluation of land and buildings held for own use                                | -                                     | -             | -             | -               | -                                | -                | -                | 1,407,831           | -                               | -                 | 1,407,831       | -                         | 1,407,831       |
| Total comprehensive income/(expenses) for the period   | \$ -                                  | \$ -          | \$ -          | \$ -            | \$ -                             | \$ -             | \$ (25,537)      | \$ 1,407,831        | \$ -                            | \$ 37,407,450     | \$ 38,789,744   | \$ (629)                  | \$ 38,789,115   |
| 2009 final dividend paid   | \$ -                                  | \$ -          | \$ -          | \$ -            | \$ -                             | \$ -             | \$ -             | \$ -                | \$ -                            | \$ (22,737,567)   | \$ (22,737,567) | \$ -                      | \$ (22,737,567) |
| At 31 December 2009  | \$ 324,822,391                        | \$ 31,811,160 | \$ 39,800,000 | \$ 63,391,540   | \$ -                             | \$ (2,260,121)   | \$ 9,869,320     | \$ -                | \$ 123,795,663                  | \$ 591,229,953    | \$ 179,680      | \$ 591,409,633            |                 |

# Condensed Consolidated Statement of Cash Flows

For the six months ended 31 December 2010 – unaudited (Expressed in Hong Kong dollars)

|   | Six months ended 31 December |                        |
|---|------------------------------|------------------------|
|   | 2010                         | 2009                   |
| <b>Operating activities</b>                                 |                              |                        |
| Net cash generated from operating activities                | \$ 45,740,385                | \$ 1,308,766           |
| <b>Investing activities</b>                                 |                              |                        |
| Payment for purchase of available-for-sale investments      | \$ (19,500,000)              | \$ –                   |
| Payment for purchase of properties and equipment            | (910,084)                    | (10,957)               |
| Net cash used in investing activities                       | \$ (20,410,084)              | \$ (10,957)            |
| <b>Financing activities</b>                                 |                              |                        |
| Net proceeds from issue of equity shares                    | \$ 105,808,758               | \$ –                   |
| Dividends paid to owners of the Company                     | (22,737,567)                 | (22,737,567)           |
| Proceeds from bank loans                                    | 35,000,000                   | 146,000,000            |
| Repayment of bank loans                                     | (35,376,262)                 | (181,366,299)          |
| Other financing activities                                  | (284,136)                    | (272,827)              |
| Net cash generated from/(used in) financing activities      | \$ 82,410,793                | \$ (58,376,693)        |
| <b>Net increase/(decrease) in cash and cash equivalents</b> | <b>\$ 107,741,094</b>        | <b>\$ (57,078,884)</b> |
| <b>Cash and cash equivalents at 1 July 2010/2009</b>        | <b>198,799,944</b>           | <b>133,446,689</b>     |
| <b>Cash and cash equivalents at 31 December 2010/2009</b>   |                              |                        |
| Bank balances and cash                                      | \$ 306,541,038               | \$ 76,367,805          |



# Notes to Condensed Consolidated Financial Statements

(Expressed in Hong Kong dollars)

## 1 Basis of preparation

The unaudited condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and with Hong Kong Accounting Standard 34, Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants.

## 2 Significant Accounting Policies

The unaudited condensed consolidated financial statements have been prepared on the historical cost basis, except for land and buildings held for own use, available-for-sale investments and financial assets/liabilities at fair value through profit or loss that are measured at revalued amounts or fair values, as appropriate.

A number of new or revised Standards, Amendments and Interpretations are effective for the Group's financial year beginning on 1 July 2010. The adoption of the new and revised Standards, Amendments and Interpretations had no material effect on how the results and financial position for the current and prior accounting periods have been prepared and presented. Except as described below, the same accounting policies, presentation and methods of computation have been followed in these unaudited condensed consolidated financial statements as were applied in the preparation of the Group's consolidated financial statements for the year ended 30 June 2010.

### Available-for-sale financial assets (AFS financial assets)

AFS financial assets are non-derivatives that are either designated as available-for-sale or are not classified as loans and receivables or financial assets at fair value through profit or loss or held-to-maturity investments.

AFS financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. Where the financial asset is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of the reporting period.

### Impairment of AFS financial assets

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

In respect of AFS equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve.

### Equity instrument

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

# Notes to Condensed Consolidated Financial Statements

(Expressed in Hong Kong dollars)

## 2 Significant Accounting Policies (Continued)

### Equity instrument (Continued)

Warrants that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

The Group has not early applied any new and revised Standards, Amendments and Interpretations that have been issued but are not yet effective. The Group is in the process of making an assessment of the impact of these new and revised Standards, Amendments and Interpretations but is not yet in a position to reasonably estimate their impact on the results of operations and financial position of the Group.

## 3 Segment information

The following is an analysis of the Group's revenue and results by operating segment for the periods under review:

|                                | Six months ended 31 December 2010 |                          |                       |  |                     |                       |                       |
|--------------------------------|-----------------------------------|--------------------------|-----------------------|--|---------------------|-----------------------|-----------------------|
|                                | Investment<br>in securities       | Structured<br>investment | Brokerage             | Corporate<br>finance<br>and capital<br>markets | Asset<br>management | Others                | Consolidated          |
| Turnover (Segment revenue)     | \$ 61,165,978                     | \$ -                     | \$ 35,593,678         | \$ 13,330,044                                  | \$ 43               | \$ 407,946            | \$ 110,497,689        |
| Inter-segment revenue          | 281                               | -                        | 1,932,621             | 1,662,266                                      | -                   | 8,962,521             | 12,557,689            |
| Other income                   | 46,400                            | -                        | 252,127               | 704,644  | -                   | 2,420,158             | 3,423,329             |
|                                | <b>\$ 61,212,659</b>              | <b>\$ -</b>              | <b>\$ 37,778,426</b>  | <b>\$ 15,696,954</b>                           | <b>\$ 43</b>        | <b>\$ 11,790,625</b>  | <b>\$ 126,478,707</b> |
| Eliminations                   |                                   |                          |                       |  |                     |                       | (12,557,689)          |
| Total income                   |                                   |                          |                       |  |                     |                       | <b>\$ 113,921,018</b> |
| Segment results                | <b>\$ 53,469,164</b>              | <b>\$ (197,564)</b>      | <b>\$ (4,951,074)</b> | <b>\$ 1,894,224</b>                            | <b>\$ (231,343)</b> | <b>\$ (4,280,178)</b> | <b>\$ 45,703,229</b>  |
| Share of profits of associates | \$ -                              | \$ 997,408               | \$ 99,266             | \$ -   | \$ -                | \$ -                  | 1,096,674             |
| Profit before tax              |                                   |                          |                       |  |                     |                       | <b>\$ 46,799,903</b>  |

  

|  | Six months ended 31 December 2009 |                          |                       |  |                     |                       |                      |
|--|-----------------------------------|--------------------------|-----------------------|--|---------------------|-----------------------|----------------------|
|  | Investment<br>in securities       | Structured<br>investment | Brokerage             | Corporate<br>finance<br>and capital<br>markets | Asset<br>management | Others                | Consolidated         |
| Turnover (Segment revenue)                     | \$ 30,216,860                     | \$ 15,979,034            | \$ 33,859,100         | \$ 9,057,707                                   | \$ 23,410           | \$ 1,347,102          | \$ 90,483,213        |
| Inter-segment revenue                          | 15                                | -                        | 416,395               | -  | -                   | 8,392,302             | 8,808,712            |
| Other income                                   | -                                 | -                        | 264,722               | 17,014   | -                   | 234,069               | 515,805              |
|  | <b>\$ 30,216,875</b>              | <b>\$ 15,979,034</b>     | <b>\$ 34,540,217</b>  | <b>\$ 9,074,721</b>                            | <b>\$ 23,410</b>    | <b>\$ 9,973,473</b>   | <b>\$ 99,807,730</b> |
| Eliminations                                   |                                   |                          |                       |  |                     |                       | (8,808,712)          |
| Total income                                   |                                   |                          |                       |  |                     |                       | <b>\$ 90,999,018</b> |
| Segment results                                | <b>\$ 28,255,576</b>              | <b>\$ 15,786,048</b>     | <b>\$ (2,915,348)</b> | <b>\$ 579,965</b>                              | <b>\$ (809,560)</b> | <b>\$ (3,016,804)</b> | <b>\$ 37,879,877</b> |
| Impairment loss for the disposal group         | \$ -                              | \$ (2,427,392)           | \$ -                  | \$ -   | \$ -                | \$ -                  | (2,427,392)          |
| Share of profits/(losses) of associates        | -                                 | 2,729,723                | 329,941               | -  | (152,581)           | -                     | 2,907,083            |
| Share of losses of jointly controlled entities | -                                 | (1,074,716)              | -                     | -  | -                   | -                     | (1,074,716)          |
| Profit before tax                              |                                   |                          |                       |  |                     |                       | <b>\$ 37,284,852</b> |

### 3 Segment information (Continued)

The following is an analysis of the Group's assets by operating segment:

|                                       | <b>31 December<br/>2010</b> | 30 June<br>2010       |
|---------------------------------------|-----------------------------|-----------------------|
| Investment in securities              | <b>\$ 260,238,488</b>       | \$ 317,729,832        |
| Structured investment                 | <b>38,781,412</b>           | 18,368,348            |
| Brokerage                             | <b>402,963,626</b>          | 400,351,011           |
| Corporate finance and capital markets | <b>8,466,197</b>            | 7,880,686             |
| Asset management                      | <b>855,766</b>              | 875,408               |
| Others                                | <b>114,423,806</b>          | 112,727,175           |
| <b>Total segment assets</b>           | <b>\$ 825,729,295</b>       | <b>\$ 857,932,460</b> |

### 4 Profit before tax

Profit before tax is arrived at after crediting/(charging):

|   | <b>Six months ended 31 December</b> |               |
|---|-------------------------------------|---------------|
|   | <b>2010</b>                         | 2009          |
| Net gain on disposal of financial assets/liabilities at fair value through profit or loss and remeasurement to fair value |                                     |               |
| – equity securities   | <b>\$ 54,846,386</b>                | \$ 44,917,976 |
| – derivatives and others  | <b>2,941,697</b>                    | 19,840        |
| Dividends from listed equity securities   | <b>3,126,397</b>                    | 1,187,272     |
| Interest income from  |                                     |               |
| – bank deposits   | <b>139,143</b>                      | 134,235       |
| – margin and IPO financing  | <b>1,930,970</b>                    | 2,022,546     |
| – others  | <b>882</b>                          | 759,025       |
| Staff costs   | <b>(39,594,681)</b>                 | (24,698,960)  |
| Operating lease charges – land and buildings  | <b>(5,028,633)</b>                  | (4,777,368)   |
| Depreciation  | <b>(1,315,925)</b>                  | (1,396,232)   |
| Interest on   |                                     |               |
| – bank loans and overdrafts   | <b>(366,842)</b>                    | (600,001)     |
| – obligations under finance leases  | <b>(32,023)</b>                     | (64,973)      |
| – others  | <b>(134)</b>                        | (68)          |
| Reversal of impairment losses/(impairment losses) for accounts and other receivables (net)                                | <b>2,319,452</b>                    | (500,854)     |
| Exchange gain (net)   | <b>950,750</b>                      | 34,414        |

# Notes to Condensed Consolidated Financial Statements

(Expressed in Hong Kong dollars)

## 5 Income tax in the condensed consolidated income statement

|                                     | Six months ended 31 December |              |
|-------------------------------------|------------------------------|--------------|
|                                     | 2010                         | 2009         |
| <b>Deferred tax charge/(credit)</b> |                              |              |
| – Tax for the period                | \$ 21,611                    | \$ (121,969) |

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for the current and prior periods. No tax is payable on the profit for the period arising in Hong Kong since the estimated assessable profit for the Group of \$51 million (2009: \$43 million) is wholly absorbed by tax losses brought forward.

The Group has not recognised deferred tax assets in respect of cumulative tax losses of approximately \$326 million (30 June 2010: \$372 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 will not expire under current tax regulation.

## 6 Dividends

Dividends recognised as distributions during the period

|  | Six months ended 31 December |               |
|--|------------------------------|---------------|
|  | 2010                         | 2009          |
| Final dividend in respect of the previous financial year, approved and paid of 0.7 cent per share (2009: 0.7 cent per share) | \$ 22,737,567                | \$ 22,737,567 |

Subsequent to the end of the interim reporting period, at a meeting held on 14 February 2011, the directors declared an interim dividend of 0.33 cent per share (31 December 2009: 0.33 cent per share) with an aggregate amount of \$12,147,445 (31 December 2009: \$10,719,139) based on the number of shares in issue at 14 February 2011.

## 7 Earnings per share

The calculation of basic and diluted earnings per share attributable to the owners of the Company is based on the following:

|   | Six months ended 31 December |               |
|---|------------------------------|---------------|
|   | 2010                         | 2009          |
| <b>Earnings</b>   |                              |               |
| Earnings for the purposes of basic and diluted earnings per share (Profit for the period attributable to owners of the Company) | \$ 46,784,419                | \$ 37,407,450 |
| <b>Number of shares</b>   |                              |               |
| Weighted average number of ordinary shares for the purpose of basic earnings per share  | 3,295,883,254                | 3,248,223,906 |
| Effect of dilutive potential ordinary shares – warrants   | 14,059                       | –             |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share  | 3,295,897,313                | 3,248,223,906 |

Note:

There were no potential ordinary shares for the prior period.

## 8 Impairment loss for the disposal group

On 26 November 2009, the Group entered into a share purchase agreement to dispose of the Group's interest in jointly controlled entity, Total Express Investments Limited ("Total Express"), and to assign the debts due from the jointly controlled entities. Total Express is the ultimate holding company of Overseas Billion Limited, Well Talent Limited and Luxury Development Limited which jointly held the entire interest in investment properties in the PRC. The Group recognised an impairment loss of \$2,427,392 at 31 December 2009. The disposal was completed in March 2010 with sale proceeds (less selling costs) of \$193,426,097 and a loss on disposal of \$957,115.

## 9 Available-for-sale investments

The available-for-sale investments represented the investment in an unlisted private investment fund and the fair value is established by reference to the price quoted by fund administrator.

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

|  | 31 December<br>2010 | 30 June<br>2010 |
|--|---------------------|-----------------|
| <b>Held for trading investments include:</b>         |                     |                 |
| Listed equity securities in Hong Kong, at fair value | \$ 253,894,017      | \$ 314,977,473  |

## 11 Accounts, loans and other receivables

|  | <i>Notes</i> | 31 December<br>2010 | 30 June<br>2010 |
|--|--------------|---------------------|-----------------|
| <b>Accounts and loans receivables</b>        |              |                     |                 |
| Amounts due from brokers and clearing houses | <i>(a)</i>   | \$ 40,465,229       | \$ 171,658,135  |
| Amounts due from margin clients              | <i>(b)</i>   | 55,290,372          | 31,079,627      |
| Amounts due from cash clients                | <i>(c)</i>   | 73,793,319          | 70,106,839      |
| Other accounts receivable                    | <i>(d)</i>   | 2,115,345           | 7,782,943       |
|  |              | \$ 171,664,265      | \$ 280,627,544  |
| Less: Impairment losses                      |              | (3,616,636)         | (9,135,136)     |
|  |              | \$ 168,047,629      | \$ 271,492,408  |
| Prepayments, deposits and other receivables  |              | 2,003,321           | 2,571,282       |
|  |              | \$ 170,050,950      | \$ 274,063,690  |

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 31 December 2010, the Group held \$3,421,610 (30 June 2010: \$2,875,405) with SEOCH and \$7,015,161 (30 June 2010: \$5,105,050) with HKFECC in trust for clients which were not dealt with in these unaudited condensed consolidated financial statements.



# Notes to Condensed Consolidated Financial Statements

(Expressed in Hong Kong dollars)

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

Notes:

- (b) Margin clients of the brokerage division are required to pledge securities collateral to the Group in order to obtain the credit facilities for securities trading. The amount of credit facilities granted to them is determined by the discounted value of securities accepted by the Group. At 31 December 2010, the total market value of securities pledged as collateral in respect of the loans to margin clients was approximately \$189 million (30 June 2010: \$202 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 except for refinancing of IPO subscriptions. They are required to settle their securities trading balances on the settlement day determined under the relevant market practices or exchange rules.
- (d) The balance included an amount of Nil (30 June 2010: \$80,000) receivable from an associate arising from normal business transactions.

The ageing analysis of accounts and loans receivables net of impairment losses based on invoice/advanced/trade date is as follows:

|   | 31 December<br>2010   | 30 June<br>2010       |
|---|-----------------------|-----------------------|
| Current and within one month                | \$ 167,497,645        | \$ 269,908,377        |
| More than one month and within three months | 320,000               | 700,612               |
| More than three months                      | 229,984               | 883,419               |
|   | <b>\$ 168,047,629</b> | <b>\$ 271,492,408</b> |

## 12 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 31 December 2010, segregated clients' accounts not otherwise dealt with in the unaudited condensed consolidated statement of financial position amounted to \$366,355,008 (30 June 2010: \$373,323,289).

## 13 Accruals, accounts and other payables

|   | 31 December<br>2010   | 30 June<br>2010       |
|---|-----------------------|-----------------------|
| <b>Accounts payable<br/>(current and within one month)</b>  |                       |                       |
| Amounts due to brokers and clearing houses  | \$ 39,226,174         | \$ 33,272,450         |
| Clients' accounts payable (net of bank and clearing house balances in segregated clients' accounts) | 65,602,583            | 238,970,330           |
| Others  | 1,622,176             | 5,027,902             |
|   | <b>\$ 106,450,933</b> | <b>\$ 277,270,682</b> |
| Other creditors and accruals  | 22,769,344            | 19,113,294            |
|   | <b>\$ 129,220,277</b> | <b>\$ 296,383,976</b> |

## 14 Bank loans

|   | <b>31 December<br/>2010</b> | 30 June<br>2010 |
|---|-----------------------------|-----------------|
| Secured bank loans  | <b>\$ 3,657,464</b>         | \$ 4,033,726    |
| The bank loans are repayable as follows:                            |                             |                 |
| Within one year or on demand  | <b>\$ 3,657,464</b>         | \$ 757,938      |
| More than one year, but not exceeding two years                     | –                           | 781,752         |
| More than two years, but not exceeding five years                   | –                           | 2,378,461       |
| After five years  | –                           | 115,575         |
|   | <b>\$ 3,657,464</b>         | \$ 4,033,726    |
| Less: Amount due after one year shown under non-current liabilities | –                           | (3,275,788)     |
|   | <b>\$ 3,657,464</b>         | \$ 757,938      |

Note:

All bank loans were repaid after the interim reporting date.

## 15 Obligations under finance leases

At 31 December 2010 and 30 June 2010, the Group had obligations under finance leases repayable as follows:

|                                      | <b>31 December 2010</b>                                    |   |
|--------------------------------------|--|---|
|                                      | <b>Present value<br/>of the minimum<br/>lease payments</b> | <b>Total<br/>minimum<br/>lease payments</b> |
| Within one year                      | <b>\$ 379,284</b>  | <b>\$ 394,100</b>                           |
| Less: Total future interest expenses |  | <b>(14,816)</b>                             |
| Present value of lease obligations   |  | <b>\$ 379,284</b>                           |
|                                      |  |   |
|                                      | <b>30 June 2010</b>  |   |
|                                      | <b>Present value<br/>of the minimum<br/>lease payments</b> | <b>Total<br/>minimum<br/>lease payments</b> |
| Within one year                      | \$ 629,492   | \$ 675,600                                  |
| After one year but within two years  | 55,569   | 56,300                                      |
|                                      | <b>\$ 685,061</b>  | <b>\$ 731,900</b>                           |
| Less: Total future interest expenses |  | (46,839)                                    |
| Present value of lease obligations   |  | <b>\$ 685,061</b>                           |

# Notes to Condensed Consolidated Financial Statements

(Expressed in Hong Kong dollars)

## 16 Share Capital

Pursuant to the share placing agreements, the subscription agreements and the warrants placing agreements dated 23 November 2010 and 17 December 2010, the immediate holding company of the Company, World Developments Limited, placed 324,820,000 and 108,000,000 Company's shares ("Placing Shares") of \$0.1 each to independent third party placees at a price of \$0.238 per share and \$0.265 per share respectively. At the same time, it subscribed for 324,820,000 and 108,000,000 Company's new shares of \$0.1 each at a price of \$0.238 per share and \$0.265 per share respectively. One warrant for each two Placing Shares purchased by the placees was offered at \$0.0001 per warrant and a total of 162,410,000 and 54,000,000 warrants were offered for application. As at 31 December 2010, 162,410,000 and 54,000,000 warrants were placed and are exercisable at any time during a period from 1 December 2010 to 30 November 2011 and from 28 December 2010 to 27 December 2011 respectively. Each warrant carries the right to subscribe for one Company's share at an exercise price of \$0.33 per share subject to certain antidilutive adjustments. At 31 December 2010, the Company had outstanding warrants with an aggregate subscription price of \$71,415,300 (30 June 2010: Nil).

|                                 | 31 December<br>2010 |                | 30 June<br>2010 |                |
|---------------------------------|---------------------|----------------|-----------------|----------------|
|                                 | No. of shares       | Amount         | No. of shares   | Amount         |
| Authorised:                     |                     |                |                 |                |
| Ordinary shares of \$0.1 each   | 4,000,000,000       | \$ 400,000,000 | 4,000,000,000   | \$ 400,000,000 |
| Issued and fully paid:          |                     |                |                 |                |
| At 1 July 2010/2009             | 3,248,223,906       | \$ 324,822,391 | 3,248,223,906   | \$ 324,822,391 |
| Shares issued                   | 432,820,000         | 43,282,000     | –               | –              |
| At 31 December 2010/30 Jun 2010 | 3,681,043,906       | \$ 368,104,391 | 3,248,223,906   | \$ 324,822,391 |

## 17 Contingent liabilities

|   | Company             |                 |
|---|---------------------|-----------------|
|   | 31 December<br>2010 | 30 June<br>2010 |
| Guarantees for banking facilities to subsidiaries | \$ 237,857,464      | \$ 238,233,726  |
| Other guarantees to a subsidiary                  | 13,000,000          | 13,000,000      |
| Total   | \$ 250,857,464      | \$ 251,233,726  |

## 18 Commitments

### (A) CAPITAL COMMITMENTS

|   | 31 December<br>2010 | 30 June<br>2010 |
|---|---------------------|-----------------|
| Contracted but not provided for – equipment | \$ 845,307          | \$ 1,531,820    |

## 18 Commitments (Continued)

### (B) COMMITMENTS UNDER OPERATING LEASES AS LESSEE

As at 31 December 2010 and 30 June 2010, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

|  | Land and buildings   |                      |
|--|----------------------|----------------------|
|  | 31 December<br>2010  | 30 June<br>2010      |
| Within one year                                  | \$ 10,507,212        | \$ 10,492,236        |
| More than one year and not later than five years | 5,253,606            | 10,492,236           |
| <b>Total</b>                                     | <b>\$ 15,760,818</b> | <b>\$ 20,984,472</b> |

### (C) OTHER COMMITMENTS

As at 31 December 2010, the Group has a gross underwriting commitment of approximately \$35 million relating to the share placing of a Hong Kong listed company. The transaction was completed in January 2011.

## 19 Material related party transactions

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

|   | Notes | Six months ended 31 December |           |
|---|-------|------------------------------|-----------|
|   |       | 2010                         | 2009      |
| Brokerage commission earned on securities, options, futures and commodities dealing | (a)   |                              |           |
| – a fellow subsidiary   |       | \$ 10,253                    | \$ 9,196  |
| – an associate  |       | –                            | 1,221     |
| – non-controlling interest of a non-wholly owned subsidiary                         |       | 1,874,516                    | 1,778,752 |
| – Group's directors and their associates  |       | 342,225                      | 283,163   |
| Common office expenses recharged  | (b)   |                              |           |
| – an associate  |       | –                            | 121,180   |
| – a fellow subsidiary   |       | 136,980                      | –         |
| Consultancy and management fees received  | (c)   |                              |           |
| – a fellow subsidiary   |       | 356,000                      | 390,000   |
| – an associate  |       | –                            | 23,360    |
| – jointly controlled entities   |       | –                            | 132,000   |
| Secretarial fee earned  | (d)   |                              |           |
| – fellow subsidiaries   |       | 59,249                       | 66,160    |
| – an associate  |       | 7,410                        | 7,410     |
| – a jointly controlled entity   |       | –                            | 7,410     |
| – an associated company of a Group's director                                       |       | 6,630                        | 6,630     |
| Interest income – jointly controlled entities                                       | (e)   | –                            | 758,554   |

# Notes to Condensed Consolidated Financial Statements

(Expressed in Hong Kong dollars)

## 19 Material related party transactions (Continued)

Notes:

- (a) 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) The allocation of office overheads and rental expenses is primarily based on the percentage of floor area occupied by each company.
- (c) The fees mainly comprised a fixed monthly charge as agreed between the parties involved.
- (d) The fee was charged at rates similar to those normally charged to third party clients.
- (e) Interest rates are set at the same level as those normally offered to third party clients.

## 20 Financial instruments

The Group's activities expose it to a variety of financial risks: credit risk, liquidity risk, 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 Hong Kong Securities and Futures Commission.

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

### (B) LIQUIDITY RISK

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



## 20 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 and available-for-sale investments.

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.

### (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 loans receivables.

### (E) INTEREST RATE RISK

Interest rate risk primarily results from timing differences in the re-pricing of interest bearing assets, liabilities and commitments. The Group's interest rate risk exposure arises mainly from 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.

# Management Discussion and Analysis

## The Market

The western financial markets were affected by the stage two quantitative easing by the United States Federal Reserve and the debt crisis in a number of Euro zone countries. The markets moved in a relatively narrow range compared with the previous periods. The PRC markets were affected by the various monetary tightening measures imposed by the administration and underperformed other major markets. The resumption of appreciation of the RMB against the USD also created a lot of financial pressures on Chinese enterprises. With its open economy, the Hong Kong market was caught between the different forces, which produced no clear direction during this period.

The Hang Seng Index closed at 23,035 at the end of December 2010, compared with 20,129 at the end of June 2010 and 21,873 at the end of December 2009. The average monthly turnover on the Main Board during the six months ended 31 December 2010 ("the first half year of FY2011") was approximately HK\$1,581 billion, as compared to HK\$1,275 billion for the second half year of FY2010. Funds raised from IPOs on the Main Board in the first half year of FY2011 amounted to HK\$394 billion, almost eight times the HK\$50 billion raised in the second half year of FY2010.

## Financial Highlights

The profit for the first half year of FY2011 was HK\$47 million, as compared to HK\$37 million for the first half year of FY2010. Net gain on the disposal of financial assets and the remeasurement to fair value increased from HK\$45 million for the first half year of FY2010 to HK\$58 million for the first half year of FY2011, which was mainly attributed to the recovery in the stock market. Commission and fee income for our financial intermediary business increased from HK\$41 million for the first half year of FY2010 to HK\$48 million for the first half year of FY2011 due to the increase in market activities. The Group recovered an amount of HK\$1.6 million and HK\$1.2 million from accounts receivable on the disposal of investment and corporate finance advisory fees respectively. These receivables were partially written off in previous years and thus the Group recognised a reversal of impairment loss of HK\$2.3 million in this period. General and administrative expenses were HK\$58 million, increased from HK\$43 million for the first half year of FY2010. The increase was mainly due to higher staff costs (both basic and discretionary) in line with the better performance of the Group.

## Brokerage

Total revenue of the division was HK\$37.8 million for the first half year of FY2011, compared with HK\$34.5 million for the first half year of FY2010. Fund raised from IPOs on the Main Board and average daily market turnover increased by 74% and 12% respectively in the first half year of FY2011 when compared with the first half year of FY2010. With the recovery in the fund raising markets and the resultant increase in market activities, commission income improved in the first half year of FY2011. However, staff costs and other overheads also increased at a fast pace mainly due to increase in rental costs and demand for high calibre staff, leading to a higher segmental loss.

Our institutional sales team was appointed by the Bank of East Asia, Limited as its agent to provide liquidity for the structured products issued by the bank. The division is working continuously to introduce new products and service to provide the best investment opportunities for our clients.

Kingsway ranked in the top three in the category of Best Broker in Hong Kong by the Asiamoney Brokers Poll announced in November 2010. Kingsway has enjoyed this honour for the last six consecutive years.

## Corporate Finance And Capital Markets

Total revenue of the division was HK\$15.7 million for the first half year of FY2011, representing a 73% increase over the same period last year.

The division participated in several underwriting and placing activities during the period. The division is working on several projects including several IPOs sponsorships. It is expected that the listing of an IPO will be completed in FY2011 and the division is likely to achieve a growth in revenue.

The division signed a settlement deed and agreed to receive a total sum of HK\$1.2 million from a client for the settlement of the outstanding receivable of HK\$6 million. The division provided a specific provision of HK\$5.5 million in previous years and thus a reversal of impairment loss of HK\$0.7 million was recognised in this period.

## Asset Management

The division had no turnover in the first half year of FY2011 and is now looking for suitable investment opportunities to set up new private equity funds.

## Investment In Securities

The division had total revenue of HK\$61.2 million for the first half year of FY2011, compared with HK\$30.2 million for the first half year of FY2010.

The performance of the investment portfolio improved following the recovery in the stock market, as evidenced by the rise in the Hang Seng Index. The division is working to diversify the investment portfolio to lower the concentration risk of individual stock.

## Structured Investment

The division invested in an unlisted private fund in this period after disposed of the jointly controlled entities and all equity investments last year. The result of the fund was recognised in other comprehensive income and accumulated in investments revaluation reserve. The cumulative gain or loss will be reclassified to income statement when the fund is disposed of.

The division is now looking for suitable opportunities and will acquire more unlisted investments in the futures.

## Outlook

The Group plans to build on the results achieved in the first half year. There are signs of higher demand for our financial advisory services and we are increasing our head count to cope with the anticipated demand. The stronger capital base achieved through completed share placings of our Company also provides more resources for our investment activities. We plan to lower the volatility of our investments through diversification of investment channels and products.

## Liquidity and Financial Resources

Total assets as at end of December 2010 were HK\$826 million, of which approximately 88% were current in nature. Net current assets were HK\$594 million, accounting for approximately 86% of the net assets of the Group as at end of December 2010.

The Group generally finances its operations from internal resources. Total borrowings of approximately HK\$4 million at the end of December 2010 comprised of the following:

- approximately HK\$3.6 million in mortgage loans secured by the Group's office premises in Beijing and Shenzhen and
- approximately HK\$0.4 million in finance lease obligations for office equipment.

The Group's properties with carrying values of HK\$27 million were pledged as security against bank loans granted to the Group. At the period end, the Group's gearing ratio, calculated as a percentage of bank borrowings over shareholder's equity, was approximately 1%.

The Group fully repaid the mortgage loans of HK\$3.6 million in January 2011 to reduce the finance costs.

## Capital Structure

In December 2010, the Company completed the placement of 432,820,000 new shares and the placement of 216,410,000 warrants with net proceeds amounting to HK\$106 million. At 31 December 2010, the warrants have not been exercised by the warrant holders and the expected net proceeds from the exercise of the warrants is approximately HK\$71 million.

## 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, 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 the investment managers. The Group purchased properties in the PRC for its own use. Because of the steady appreciation of RMB against HK\$, 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.

## 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 explained below could cause the Group's financial condition or results of operations to differ materially from expected or historical results. Please refer to the note "Financial instruments" on page 16 for a more detailed discussion of specific risks. There may be other risks in addition to those mentioned in the Interim Report that are unknown to the Group, or which may not be material now but could be material in the future.

The Group's results are affected by trends in the industry in which it operates, particularly, investment, brokerage, corporate finance and capital markets. Income from these operations is dependent upon the 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.

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 results of operations. When the price of securities (listed or unlisted) decreases, it will adversely affect the value of our investment portfolio.

The introduction of new legislation and rules by The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Hong Kong Securities and Futures Commission 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.

## Risk Management Policies and Procedures

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

## Employees

As at 31 December 2010, the number of full time employees of the Group was 133 (30 June 2010: 137). There have been no significant changes in the employment, training or development policies of the Group since the publication of the annual report for the year ended 30 June 2010. The old share option scheme expired on 22 August 2010 and a new share option scheme was approved on 10 November 2010. The details of the new share option scheme were set out in the circular of the Company dated 12 October 2010.



## Interim Dividend

The Board of Directors has declared an interim dividend of 0.33 HK cent per ordinary share for the six months ended 31 December 2010 (six months ended 31 December 2009: 0.33 HK cent). The dividend will be payable on or about Wednesday, 16 March 2011 to shareholders whose names appear on the Register of Members at the close of business on Friday, 4 March 2011.

## Closure of Register of Members

The Register of Members of the Company will be closed from Wednesday, 2 March 2011 to Friday, 4 March 2011, both days inclusive, during which period no transfers of shares will be registered. To determine entitlement to the interim dividend, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrars, Computershare Hong Kong Investor Services Limited (at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong), for registration not later than 4:00p.m. on Tuesday, 1 March 2011.

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

As at 31 December 2010, 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                            | 65.52%                   |
| Ms Mary Yuk Sin Lam         | Personal         | 7,500,000                                | 0.20%                    |
| Mr Michael Wai Chung Wu     | Personal         | 2,514,000                                | 0.07%                    |
| Mr Stanley Kam Chuen Ko     | Personal         | 1,200,000                                | 0.03%                    |

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

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

### (II) INTEREST IN LONG POSITIONS OF COMMON SHARES OF SUNWAH INTERNATIONAL LIMITED (PREVIOUSLY KNOWN AS KINGSWAY INTERNATIONAL HOLDINGS LIMITED), 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** | 10,653,096        | 51,044,214<br>(Note 1) | –                      | 61,697,310                     | 68.3%                     |
| Ms Mary Yuk Sin Lam          | 3,301,098         | –                      | 12,915,060<br>(Note 2) | 16,216,158                     | 17.9%                     |
| Mr Michael Koon Ming Choi    | 106,937           | –                      | –                      | 106,937                        | 0.1%                      |
| Mr Stanley Kam Chuen Ko      | 20,400            | –                      | –                      | 20,400                         | <0.1%                     |

\* Excludes interest in share options and convertible unsecured debentures to acquire common shares of Sunwah International Limited which is disclosed in section (V) and (VI) below.

\*\* By virtue of his interest in Sunwah International Limited, Dr Jonathan Koon Shum Choi is deemed to be interested in the shares of the subsidiaries (including the Company as disclosed in section (I) above) of Sunwah International Limited under the SFO.

#### Notes:

(1) Of these, 36,966,159 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, 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%                     |

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

The old share option scheme expired in August 2010 and a new option scheme was approved by the shareholders of the Company at Annual General Meeting on 10 November 2010.

Pursuant to the new share option schemes operated by the Company, there were no options outstanding as at 31 December 2010 and no options granted, exercised or cancelled in accordance with the terms of the share option scheme during the period.

### (V) INTEREST IN OPTIONS TO ACQUIRE COMMON SHARES OF SUNWAH INTERNATIONAL LIMITED

Pursuant to the share option scheme operated by Sunwah International Limited, the details of the Company's directors' and chief executive's interest in options under the scheme as at 31 December 2010 are as follows:

| Name of director            | Exercise Period          | Date of options granted | Exercise price per share | At 1 July 2010 | Issued during the period | At 31 December 2010 |
|-----------------------------|--------------------------|-------------------------|--------------------------|----------------|--------------------------|---------------------|
| Dr Jonathan Koon Shum Choi* | 15/12/2010 to 15/12/2015 | 15/12/2010              | C\$0.55                  | –              | 3,000,000                | 3,000,000           |
| Mr Michael Koon Ming Choi** | 15/12/2010 to 15/12/2015 | 15/12/2010              | C\$0.55                  | –              | 3,000,000                | 3,000,000           |
| Ms Mary Yuk Sin Lam***      | 15/12/2010 to 15/12/2015 | 15/12/2010              | C\$0.55                  | –              | 200,000                  | 200,000             |

\* After the exercise of the options, Dr Jonathan Koon Shum Choi is deemed to beneficial control a total of 64,697,310 shares.

\*\* After the exercise of the options, Mr Michael Koon Ming Choi is deemed to beneficial control a total of 3,106,937 shares.

\*\*\* After the exercise of the options, Ms Mary Yuk Sin Lam is deemed to beneficial control a total of 16,416,158 shares.

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

### (VI) INTEREST IN CONVERTIBLE UNSECURED DEBENTURES TO ACQUIRE COMMON SHARES OF SUNWAH INTERNATIONAL LIMITED

| Name of director            | Type of interest | Principal amount of debentures | Number of underlying shares | Note |
|-----------------------------|------------------|--------------------------------|-----------------------------|------|
| Dr Jonathan Koon Shum Choi* | Corporate        | C\$ 4,500,000                  | 8,181,818                   | (a)  |
| Mr Michael Koon Ming Choi** | Corporate        | C\$ 1,500,000                  | 2,727,273                   | (a)  |

\* The debentures are held by Sun Wah Capital Limited. Dr Jonathan Koon Shum Choi is deemed to be interested in these debentures 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. After the exercise of the share options and the conversion of the debentures, Dr Jonathan Koon Shum Choi is deemed to beneficial control a total of 72,879,128 shares.

\*\* The debentures are held by Ideal Performance Limited, a company wholly owned by Mr Michael Koon Ming Choi who is deemed to be interested in these debentures. After the exercise of the share options and the conversion of the debentures, Mr Michael Koon Ming Choi is deemed to beneficial control a total of 5,834,210 shares.

Note:

(a) The debentures originally bore interest at the rate of 9% per annum payable semi-annually, matured on 19 September 2011 and were convertible into common shares of Sunwah International Limited at any time prior to the close of business on the earlier of maturity and the business day immediately preceding the date fixed for redemption at a conversion price of C\$0.80 per share. Subsequent to the amendments to terms of the debentures dated 31 December 2010, the interest rate of the debentures was adjusted to 1% per annum payable semi-annually and the maturity date of debentures was extended until 19 September 2013. The conversion price of the debentures was adjusted to C\$0.55 per share and resulted in an increase in the number of underlying shares on the conversion of the debentures of Dr Jonathan Koon Shum Choi and Mr Michael Koon Ming Choi from 5,625,000 shares to 8,181,818 shares and from 1,875,000 shares to 2,727,273 shares respectively.

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 (the "Model Code").

Save as disclosed above, as at 31 December 2010, none of the directors and chief executive had any interests or short positions in the shares of the Company and its associated corporations as defined in the SFO, and none of the directors and chief executive or their spouses or children under 18 years of age had been granted any rights to subscribe for the shares of the Company, or had exercised any such rights during the period.

Save as disclosed above, at no time during the period was the Company or any of its holding companies, subsidiaries and fellow subsidiaries a party to any 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 31 December 2010, 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 shareholder              | Country of incorporation | Number of ordinary shares in the Company |                 | % of total issued shares | Note |
|----------------------------------|--------------------------|--|-----------------|--------------------------|------|
|                                  |                          | Direct interest                          | Deemed interest |                          |      |
| (1) World Developments Limited   | British Virgin Islands   | 2,411,661,327                            | –               | 65.52%                   | (a)  |
| (2) Innovation Assets Limited    | British Virgin Islands   | –  | 2,411,661,327   | 65.52%                   | (a)  |
| (3) Sunwah International Limited | Bermuda                  | –  | 2,411,661,327   | 65.52%                   | (a)  |

Note:

- (a) These shares represent the same interest and are therefore duplicated amongst World Developments Limited, Innovation Assets Limited and Sunwah International Limited. World Developments Limited is a wholly owned subsidiary of Innovation Assets Limited whose entire issued share capital is beneficially owned by Sunwah International Limited. Dr Jonathan Koon Shum Choi beneficially owns or has control of approximately 68.3% of the issued share capital of Sunwah International Limited and therefore is deemed (by virtue of the SFO) to be interested in these 2,411,661,327 shares.

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

## Purchase, sale or redemption of shares

During the six months ended 31 December 2010, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares.

## 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 as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange for the six months ended 31 December 2010.



## Securities Transactions by Directors

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules. The Company has made specific enquiry of all directors regarding any non-compliance with the Model Code during the six months period under review and they have all confirmed that they have complied with the required standard set out in the Model Code.

## Changes in Directors' Information

The changes in the Directors' information as required to be disclosed pursuant to Chapter 13.51B(1) of the Listing Rules are set out below:

Dr Jonathan Koon Shum Choi, Chairman:

The director's fee of Dr Jonathan Koon Shum Choi increased to HK\$1,800,000 annually with effect from 1 Oct 2010.

Mr Michael Koon Ming Choi, Chief Executive Officer and Executive Director:

The salaries, commission and other allowances of Mr Michael Koon Ming Choi increased to HK\$2,412,000 per annum after his appointment as the Chief Executive Officer on 1 October 2010. Mr Michael Koon Ming Choi is also entitled to a contractual bonus determined by reference to the Group performance and a discretionary bonus as determined by the Compensation Committee.

## Audit Committee

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed financial reporting matters including the review of the interim report and the unaudited condensed consolidated financial statements for the six months ended 31 December 2010. Terms of reference of the Audit Committee are available on request to shareholders of the Company.

On behalf of the Board

**Michael, Koon Ming Choi**

*Chief Executive Officer*

Hong Kong, 14 February 2011



TO THE BOARD OF DIRECTORS OF SW KINGSWAY CAPITAL HOLDINGS LIMITED

### Introduction

We have reviewed the interim financial information set out on pages 2 to 17, which comprises the condensed consolidated statement of financial position of SW Kingsway Capital Holdings Limited as of 31 December 2010 and the related condensed consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended and certain explanatory notes. The Main Board Listing Rules governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### Scope of Review

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

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

**Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong

14 February 2011

# Directory of Licensed Subsidiaries and Affiliates

## Licensed Subsidiaries of SW Kingsway Capital Holdings Limited

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

Licensed Corporation of the Hong Kong 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 Hong Kong 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 Hong Kong 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 Hong Kong 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  
Room 801, Building A, Beijing Fortune Plaza,  
No. 7 Dongsanhuan Zhong Road, Chaoyang District,  
Beijing, 100020, PRC
- Shanghai Kingsway Financial Consultancy Limited  
Room 702B, 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

### **Sunwah International Limited (Previously known as Kingsway International Holdings Limited)**

A listed company on the Toronto Stock Exchange



**SW Kingsway Capital Holdings Limited**  
匯富金融控股有限公司\*

A member of **SUNWAH GROUP** 新華集團

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