

## CHAIRMAN'S STATEMENT

### FINANCIAL OVERVIEW – ANOTHER GOOD YEAR

This was another year which demonstrated our people's capabilities and strength. Our Group was successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited ("SEHK") in September 2000 and raised a net proceeds of HK\$258 million. Meanwhile, we recorded a profit attributable to shareholders of HK\$201 million, a 16% increase compared with last year's HK\$174 million. Shareholders' funds surged from HK\$271 million to HK\$697 million, representing a jump of 157%. The Board of Directors recommended a final dividend of HK2 cents per share, together with the interim dividend of HK1 cent per share paid in April 2001, the total payout to our shareholders will amount to HK3 cents per share.

The performance in investment securities continued to be exceptional. Other core business segments, the Stockbroking and Equity Capital Market Division, and the Corporate Finance Division also outperformed the market. No doubt this was the result of our people's dedicated efforts and commitment to the Group.

### DIVERSIFICATION

We have prudently pursued a strategy of diversification. During the year, we (i) opened our first retail branch in Causeway Bay; (ii) started the futures brokerage business; (iii) launched our online trading platform; (iv) acquired the oldest established Hong Kong based fund management business; and (v) strengthened our corporate finance capabilities. Geographically, we have diversified our business to the PRC. Not only have we obtained a number of licenses relating to B-Shares including trading rights, broker and lead underwriter, but have also opened our office in Beijing in April 2001.

### SHIFTING FROM A TRADITIONAL BROKERAGE FIRM TO AN INVESTMENT BANK

Throughout this process, we continue to build our Group to have a broader business mix, better quality income streams, and a stronger balance sheet. In doing so, our risk profile is spread out and we can better explore the growth potential across our core businesses. However, it is equally important to realise that diversification is an on-going process. This is certainly the case when the Group decided to gradually shift its profile from that of a traditional brokerage firm to a professional investment bank with a broader range of services.

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### AN ON-GOING PROCESS REQUIRING FREQUENT MONITORING AND EVALUATION

On the other hand, our management is fully aware of the potential risks in a growing process. We have endeavoured to ensure that our growth is closely monitored with on-going evaluation of our financials and business strategies. It is not uncommon to see some rapid growing enterprises having gearing and liquidity problems. The funding for our expansion comes entirely from internal resources with negligible borrowing throughout the year. Our highly liquid position with some HK\$401 million bank balances, particularly under an anticipated tough environment, has enabled us to react to threats and opportunities more effectively and efficiently.

Echoing to the above principle of managing our businesses, we took the initiative to streamline our budget for the development of our Internet and retail brokerage businesses. The experience in the U.S. and Korea indicates that the key driver to trigger the retail investors to change their mode of placing orders is market turnover. We believe, at the moment, spending a huge amount of resources in developing and promoting online trading is not cost effective. This does not mean that we have lost confidence in the e-commerce. On the contrary, we consider this a consolidation period and a good opportunity to build up our systems and to train our people so we will be in a position to benefit when the market turnover picks up again. Our aim is to invest wisely, so that as a result, our shareholders may maximise their return.

### BECOMING A MEMBER OF ONE OF THE HANG SENG INDEXES STOCKS – A PUBLIC RECOGNITION TO THE GROUP

We are also pleased to report that we have been accepted as a constituent stock in the Hang Seng Hong Kong Composite Index in October 2001. This reflects a public recognition of our Group's financial strength and performance.

### MACRO ECONOMIC OUTLOOK – UNCERTAIN BUT CHALLENGING

Previously, Hong Kong's economy was hinged on the property market. During the downturn of the property market in the 1997 Asia financial turmoil, we entered into a stage of structural change in our economy. Later on, the Internet dream (supposedly the next gear to drive our economy) also vanished when its bubble burst in the first half of Year 2000.

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### MACRO ECONOMIC OUTLOOK – UNCERTAIN BUT CHALLENGING (Continued)

The global economy has been further dragged down by the economic slowdown in the U.S.. It is still too early to conclude the total impact on the global economy caused by the terrorist attacks in the U.S. and the international conflicts in Afghanistan. Nevertheless, the local economists have already warned us of the expected negative GDP growth, the probable "zero" interest to our savings rate, and the continued increase of unemployment rate. Hong Kong's economy is searching for a new direction. History has taught us that in order for us to enjoy prosperity in a new era, we must weather the current storms.

### OUR RESPONSE – GEARING UP FOR BOTH THREATS AND OPPORTUNITIES

We consider PRC's accession into the World Trade Organisation a possible driver to Hong Kong's economy. This, however, will not bring immediate solution to all our problems. We need time and experience in order to reap profits in the PRC market which is a new market to us. Meanwhile, we will proactively meet the challenges of these unsettled times by closely monitoring our business and financial performance, and take proper actions and precautions according to changes in the operating environment. As the diversification process continues to unfold, the Group will strive to create long term value for its shareholders by further strengthening its core businesses and capturing the opportunities that lie ahead. It is our belief that Kingsway Group, having navigated through the Asian financial contagion and the Internet bubble economy, will continue to prosper as Hong Kong, inevitably, will enter a new era of prosperity.

### APPRECIATION – OUR SUCCESS RESULTED FROM THE CONTRIBUTION OF ALL STAFF AND SUPPORT OF ALL SHAREHOLDERS

Finally, I wish to express my gratitude to our committed employees who have stood by the Group through this period, to our directors for their advice and guidance, and to our shareholders for their continuing support.

**Jonathan Koon Shum Choi**  
*Chairman*

8th October 2001