

REPORT FROM CHIEF EXECUTIVE OFFICER

Dear friends and fellow shareholders,

This year proved to be a successful year at Kingsway, achieving a record profit and strong transaction flow across most of the Group's businesses. Shareholders' funds rose to HK\$697 million, compared to HK\$271 million at 30th June 2000, an increase of 157%. The increase of our shareholders' funds and the solid earning contributions from the Group's businesses provide a strong foundation on which we have built ourselves to be a successful investment bank. Profit attributable to shareholders increased by 16% compared with last year to HK\$201 million. Basic earnings per share were HK20.7 cents, down from the previous year of HK23.2 cents. This was due to the increase in the number of shares after the Initial Public Offering ("IPO") in September 2000.

The exceptional performance was achieved against the backdrop of a marked deterioration of the U.S. economy and a downturn of the equity market in Hong Kong. This reflected the breadth and depth of the Group's businesses.

A more detailed analysis of segmental results is set out as follows:

	Turnover		Contribution to profit/(loss)	
	2001	Proforma 2000	2001	Proforma 2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Investment in securities	204,614	168,636	187,884	168,245
Stockbroking and equity capital market	74,562	75,359	20,608	25,411
Corporate finance	25,497	21,340	7,028	12,360
Margin and other financing	14,012	8,625	4,209	(4,663)
Asset management and others	17,093	9,877	4,778	3,660
	335,778	283,837	224,507	205,013
Taxation			(24,434)	(31,068)
Net profit			200,073	173,945
Minority interests			1,014	(137)
Profit attributable to shareholders			201,087	173,808

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INVESTMENT IN SECURITIES

A record result was achieved in investment in securities. Profit increased by 12% to HK\$188 million, contributing significantly to the Group's performance. The result is especially noteworthy as it shows the resilience of this division, despite the difficult and occasionally volatile market conditions. The division continues to build a strong portfolio to support its business. Recent investments in fixed rate convertible bonds are expected to yield a higher rate of return while maintaining an upside capability to invest in companies at a lower entry price in the future.

Our priority, of course, is to ensure adequate risk management controls are in place to oversee transactions and that checks and balances exist throughout the investment process.

To mitigate risks, the Group has stringently adopted a system of separating prudential controls from operational management. A selected group of senior members of staff, duly approved by the Board, are delegated with varying levels of authority to approve investment transactions. Major investments exceeding prescribed limits require approval from the Risk Management Committee.

STOCKBROKING AND EQUITY CAPITAL MARKET

Stockbroking and Equity Capital Market ("ECM") revenue fell marginally by 1%. This was despite a 17% fall in the yearly market turnover of SEHK from HK\$2,908 billion to HK\$2,408 billion, coupled with a substantial decline in underwriting activities.

One of our revenue drivers continues to be fee and commission income earned from the ECM transactions where we act as placing agents and underwriters. The level of business activity on these transactions rose 25% to 60 from the previous year of 48. I am pleased to report ongoing efforts to increase transactions amidst sluggish market conditions has increased the Group's market share of the Hong Kong capital raising activities.

Total operating expenses for this division increased by 8%. This was primarily due to an increase in staff costs to roll out the following initiatives:

(1) Migration to new trading systems

We successfully migrated to the new trading system AMS/3 and adopted the multi-workstations set-up during the year. With the enhancement of our trading systems, we expect to pass on increased efficiency and service benefits to our clients.

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STOCKBROKING AND EQUITY CAPITAL MARKET (Continued)

(2) Online trading and retail brokerage

After pilot testing of the online brokerage service earlier this year, the Group launched its online trading system through its K88.com.hk platform on 1st March 2001. This system was developed in-house and is slated to be rolled out to our associated companies that have formed alliances with us.

The system displays real-time SEHK quotes, routes orders to the SEHK, and also executes and reports trades. The online trading system provides the Group with the capability to enter the retail market in a cost efficient way. Furthermore, it also enables the Group to build a platform to interface with other overseas markets, forming a single globalised online system to trade round the clock.

The Group recognises both the opportunities and also the risks involved in the Hong Kong retail marketplace as competition intensifies and markets remain volatile. The de-regulation of brokerage commission income expected to commence in April 2002 will further impact the retail marketplace. In this environment, we believe retail investors increasingly seek the advice from experienced account executives who are able to provide superior services and also extensive product knowledge. In this context, along with a strong record of services and also products innovation, we opened our first branch in Causeway Bay in August 2000 to further serve our clients.

(3) Futures

The futures broking section achieved a modest trading volume, with the division targeting an increased market share in the futures market in the years to come.

(4) Expanding our network to China

In December 2000, we were granted with a lead underwriter license by China Securities Regulatory Commission ("CSRC"), thereby allowing us to sponsor and assist Chinese enterprises to raise capital in the B-Shares market. We have also been granted with a brokerage license which allows us to trade the B-Shares on the Shanghai and Shenzhen Stock Exchanges.

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STOCKBROKING AND EQUITY CAPITAL MARKET (Continued)

(4) Expanding our network to China (Continued)

To allow us to better respond to market demands, our Beijing office was established in April 2001 after obtaining our CSRC license on 8th March 2001. The Beijing office is managed by a small team of professionals with expertise in the PRC and Hong Kong markets. As a further service, we have established a management consultancy company in Beijing to allow us to generate a solid pipeline of mandates with reasonable yields over the medium term. With plans to open an office in Shanghai in the first half of 2002, we continue our efforts to increase our presence in the PRC.

CORPORATE FINANCE

Corporate finance business revenue grew by 19% to HK\$25 million, with the number of transactions increasing from 35 to 60, despite a decline in funds raised through IPOs on the SEHK by 34% from HK\$98 billion to HK\$65 billion.

The division advised on a broad range of significant transactions during the year. Major assignments included acting as a financial adviser for takeover and general offer of Sing Pao Media on behalf of Capital Strategic Investments Limited, independent financial adviser to C.P. Pokphand Co Limited, financial adviser to connected and share acquisition transactions for Legend Holdings Limited, financial adviser and placing agent for Guangnan (Holdings) Limited, underwriter for Lippo China Resources Limited's rights issue, and debt restructuring of Techcap Holdings Limited.

Despite an increase in the division's revenue by HK\$4 million, the division's net profit dipped by HK\$5 million. This was caused primarily by recruitment of experienced and high caliber staff who are expected to contribute to the capabilities of the business.

MARGIN AND OTHER FINANCING

The average loan portfolio was HK\$84 million, a 55% increase, compared to the previous year.

The quality of the loan book was exceptional. Over the past 5 years, our bad debts written off amounted to only HK\$351,136. This reflected our tight credit standards and the close monitoring of the status of clients' debt positions by our Risk Management Department.

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ASSET MANAGEMENT AND OTHERS

During the year, the division recorded profits of HK\$4.8 million compared to HK\$3.7 million in the last financial year. This was mainly due to contributions from our Kingsway Asset Management Group.

The significant event for the division was the acquisition of a fund management business from the Polaris Group in May 2001. As an important move, it allows the Group to control the oldest established Hong Kong based fund management company with 7 Hong Kong authorised open-ended unit trust funds. It is also one of a handful of local Hong Kong based authorised Mandatory Provident Fund (MPF) service providers.

The acquired fund management companies have a reputation for excellence in fund management. Its Kingsway Middle Kingdom Fund has won several awards by S&P's Micropal over the years. Recently, it received recognition for managing the best Hong Kong Equity Fund from Reuter's Benchmark Fund of the Year Award 2000.

Its extensive expertise is also reflected in its MPF Kingsway Korea Fund, where out of nearly 300 MPF funds, it achieved the highest return since the launch of MPF scheme in accordance with S&P's published statistics. Strong results were also posted by the division's other MPF funds, including Kingsway HKSAR, Kingsway Asia Pacific (Ex-HK) and Kingsway Global Diversification Funds which were ranked within the top 10 on this S&P list.

While the integration of the newly acquired fund management business will continue to grow in stages throughout 2001, the Group has quickly accomplished key tasks to retain assets and increase funds under its management. However, it is not expected that the fund management business will resume its path of profitability in the coming fiscal year.

The division also reached an important milestone in August 2001, when Kingsway Fund Management Limited became a founding sponsor of the Association for Sustainable & Responsible Investment in Asia ("AsrIA"). AsrIA is a non-profit membership association dedicated to promote corporate responsibility and sustainable investment practices in the Asia Pacific region.

In September 2001, the Group acquired a 50% interest in Sinochem Investment Management Limited ("SIML") (to be renamed as Sinochem Kingsway Asset Management Limited) from Sinochem Hong Kong (Holdings) Company Limited ("Sinochem HK"). SIML is an investment adviser registered under the Securities Ordinance, and will act as an investment manager for a private investment fund to be jointly set up by Sinochem HK and the Group. This fund enables us to capture the enormous investment opportunities in China after its accession to the World Trade Organisation ("WTO").

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LIQUIDITY AND FINANCING RESOURCES

Total assets increased by 170% to HK\$927 million, compared to HK\$343 million at last financial year end. Liquid assets, including bank balances, marketable securities and accounts receivable, increased from HK\$286 million to HK\$823 million at current year end, while the Group maintained negligible borrowings during the year. The distribution of our liquid assets are summarised as follows:

	2001 HK\$'million	Proforma 2000 HK\$'million
Bank balances and cash	401	31
Marketable securities	275	104
Accounts receivable (which consists almost entirely of amounts due within one month)	147	151
	823	286

These movements were largely a result of the successful capital raising in the net amount of HK\$258 million in September 2000, cash inflow of HK\$152 million from operating activities, and proceeds of HK\$29 million from the disposal of Hong Kong Exchanges and Clearing Limited shares which were obtained upon the merger and listing of the exchanges and clearing houses.

The strong financial position of the Group allows it to improve returns to shareholders, enhance its commercial flexibility, ensure counterparty confidence and fund opportunities arising in its businesses.

EMPLOYMENT, TRAINING AND DEVELOPMENT POLICIES

The number of full time employees has increased from 108 to 143. This increase was mainly distributed among the online brokerage, futures brokerage, asset management, legal and compliance departments.

The Group is committed to staff training and development. Since April 2001, the Group has been providing in-house training courses to all professional staff registered with the Securities and Futures Commission to meet the mandatory continuous professional training requirements.

The Group also runs an employee share option scheme which is available to full time employees. Details of the scheme are set out in note 21 to the accounts. As at 30th June 2001, there are 74,290,000 outstanding options (Proforma 2000: Nil), with exercise prices of HK\$0.7 and HK\$1.03, exercisable between 28th March 2001 to 21st December 2005.

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APPLICATION OF PROCEEDS FROM THE IPO

The net proceeds from the new issue and placement of shares in September 2000 amounted to approximately HK\$258 million, and have been applied in the following areas as at 30th June 2001:

	Use of net proceeds HK\$'million
Developing online brokerage business	10
Expansion of retail stockbroking business	25
Developing future broking business	10
Recruitment of qualified personnel	10
Developing margin financing business	50
Working capital	88
Unused proceeds	65
Total	<u>258</u>

The use of proceeds of funds from the IPO generally reflects the expectations stated in the prospectus except in the areas of developing an online brokerage business and expansion of our retail network where the unused proceeds as at 30th June 2001 are HK\$40 million and HK\$25 million respectively.

Since our listing, there has been a tremendous change in the landscape of online brokerage, a period in which we learned that not all is bright in the online industry. The business model of an online brokerage was predicated upon one simple building block – trading. This was acceptable when the market was trading at HK\$12 billion per day and was achieving double digit growth annually. However, when the market reversed and was trading at HK\$9 billion per day and investors were not able to liquidate their holdings, online brokerage business models were not robust or diversified enough to shift the retail investors into another channel.

Given the environment, we need to realign our strategies for our online brokerage and retail branches. This realignment will take time and the Group will exercise caution and act prudently as the industry is still in a flux.

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APPLICATION OF PROCEEDS FROM THE IPO (Continued)

We propose to allocate the unused proceeds in relation to our development of online trading and retail brokerage to the following areas:

	HK\$'million
Asset management division:	
Mainly for setting up a private equity fund and the projected net operating cost of our fund management business in the coming year	25
PRC market:	
Mainly for expansion of our China operations and direct investments in the PRC companies	10
Working capital:	
For increasing the general working capital of the Group	30
Application of unused proceeds	<hr/> 65 <hr/>

The change in strategy releases surplus funds to realign the Group's interests. We believe there will be opportunities in developing the asset management business and the PRC market, and we are actively exploring these markets. The surplus capital has been placed in fixed deposits in banks and also invested in liquid listed investments to maximise returns.

CORPORATE GOVERNANCE

Corporate governance is a vital link that connects us to our investors. We believe sound corporate governance enables us to access competitively priced capital, and the directors are committed to the principles of best practice in corporate governance.

Furthermore, a substantial number of the Group's operating subsidiaries are registered with one or more regulatory authorities. The primary governance obligation of our registered subsidiaries is to abide by the letter as well as the spirit of the legislation and regulation, which ranges from practice notes to code of conduct.

We have summarised the measures adopted by the Group to ensure superior corporate governance under the section, Statement of Corporate Governance, immediately following this report.

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PROSPECTS

We are well positioned for medium and long term growth, and over the coming year, we will build on the significant expansion of our revenue and capital that has taken place during the last two years. However, the Group's short term performance is subject to market and economic conditions in the sectors and the countries that we operate in.

Currently, there is significant uncertainty bordering pessimism in some quarters about the economic and business outlook in Hong Kong. There appears to be two main factors at work. Firstly, the deterioration of the U.S. economy in part because of the terrorist attacks. Secondly, the sharp downturn of the equity market business in Hong Kong which will invariably accelerate the re-structuring of the financial sector.

The terrorist attacks in the U.S. have created a high level of uncertainty not only in the markets but also to the Group's short term performance. The Group believes the ensuing period of volatility will have an adverse impact on the performances of all divisions, especially investment in securities. However, the Group adopts a positive approach and is ready to take up windows of opportunities that are presented, following the aftermath of the terrorist attacks in the U.S.. Although monetary policy responses by the U.S. and European Union authorities were swift and vigorous, it is widely expected that the volatility in global markets is likely to limit trading in the local market in the near term.

On a broader level, there are also a number of positive influences we can look forward to:

- (i) an environment of declining interest rates;
- (ii) the tax reduction plan and the provision of liquidity in the money market announced by the U.S. government, which hopefully will stimulate consumer confidence and the U.S. economy. The continued strength of the U.S. economy is vital for us to remain positive about our immediate prospects; and
- (iii) the healthy growth of the PRC economy and the imminent entry of the PRC into the WTO.

While the economic outlook is still uncertain, the Group will focus on the following key business expansion drivers to build a sound foundation and also strategies for future earnings growth.

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PROSPECTS (Continued)

Firstly, we plan to expand our PRC business significantly. To achieve this, we have already set up our Beijing office and there are plans to set up other PRC offices to enhance our market positioning. Building on our Hong Kong experiences, our PRC offices will develop opportunities for our various business activities. China has medium and long-term potential for our investment banking expertise, and we are ensuring that we are well positioned to take advantage of this potential.

Secondly, we remain positive about prospects for our asset management business for continuing growth. We believe there will be opportunities for private equity funding that specialises in investment in the Greater China areas. To this end, we are in the process of building our asset management team to serve an expected fund size of over HK\$1 billion.

In addition, we plan to launch a Socially Responsible Investment (SRI) fund. We believe, this SRI fund will be among the first in Asia and will represent the Group's commitment to the principles of SRI. The Group strongly believes that how we invest our assets today will be part of the legacy we leave to our future generations.

As part of the integrated SRI investment process in our fund management division, the Group applies SRI principles in the management of all its public funds, including its authorised unit trusts and MPF Master Trust.

It is important to note that underlying these initiatives is a strong culture of giving to the poor and needy. Such a culture is integrated into the Group's approach and is the subject of a high level of management attention in all our social obligations.

This year, because of our record profits, the Group has increased its charitable donations. The Group has contributed HK\$1 million to the Hong Kong Community Chest and HK\$900,000 to a registered charitable education foundation providing education and building infrastructure in the underdeveloped regions of China.

Finally, we believe the structure of the broking industry in Hong Kong has been forever changed by the Internet. The freeing up of the minimum brokerage commission rate is only a harbinger of things to come. Meeting the challenges of connectivity, reengineering back office processes for greater efficiency, automating the speedy flow of information to the right place at the right time, straight through processing and the pending move to T + 1, are all challenges that are at the top of our e-commerce agenda.

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PROSPECTS (Continued)

We believe our model of direct access trading to our clients and offering an investment advisory service side by side to the retail market form the basis for a sustainable e-commerce strategy. By implementing these initiatives, we believe we can deliver continued growth and enhance the long term growth prospects of the Group.

I have every confidence that the Group will continue to be a successful investment bank. Our experienced and high calibre staff will continue to deliver services of the highest standard, and maintain the Group's spirit of integrity and professionalism. The Group is ready and well-equipped to respond to the forthcoming changes in the investment banking sector.

ACKNOWLEDGEMENTS

As impressive as the last few years of record growth, the Group's performance is the achievement of every member of the Group.

I wish to take this opportunity to thank the Board for its vision and leadership, and also our employees for their efforts in building the Group's success.

William Ka Chung Lam
Chief Executive Officer

8th October 2001