

REPORT OF THE DIRECTORS

The directors have pleasure in submitting their report together with the audited accounts of the Company and its subsidiaries (collectively the "Group") for the year ended 30th June 2001.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The activities of the principal subsidiaries are set out in note 29 to the consolidated accounts.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 30th June 2001 are set out in the consolidated profit and loss account on page 35.

Interim dividend paid for the year is set out in note 8 to the accounts. The directors propose, subject to the approval of the shareholders at the forthcoming Annual General Meeting, the payment of a final dividend of HK\$0.02 per ordinary share, totalling HK\$20,649,800 for the year.

SEGMENT INFORMATION

An analysis of the Group's turnover by principal activities carried out in Hong Kong together with their respective contributions to profit/(loss) for the year is set out in the Report from Chief Executive Officer shown on page 7.

No geographical analysis is provided as less than 10% of the consolidated turnover and less than 10% of the consolidated trading results of the Group are attributable to markets outside Hong Kong.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the years/period ended 30th June 2001, 2000, 1999, 1998, 1997 is set out on page 68.

RESERVES

Movements in the reserves of the Group during the year are set out in note 22 to the accounts.

DONATIONS

Charitable and other donations made by the Group during the year amounted to HK\$1,900,000 (Proforma 2000: HK\$ Nil).

REPORT OF THE DIRECTORS

FIXED ASSETS

Movements in fixed assets of the Group during the year are set out in note 11 to the accounts.

SHARE CAPITAL AND SHARE OPTIONS

Details of the movements in the Company's share capital and share options during the year are set out in note 21 to the accounts.

SUBSEQUENT EVENTS

Details of the subsequent events are set out in note 28 to the accounts.

DIRECTORS

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

Chairman

Jonathan Koon Shum Choi

Executive directors

William Ka Chung Lam

Richard Yingneng Yin

Mary Yuk Sin Lam

Michael Koon Ming Choi

Non-executive director

Douglas Ching Shan Hui

Independent non-executive directors

Robert Tsai To Sze

Michael Wai Chung Wu

In accordance with Article 87(1) of the Company's Bye-Laws, Ms. Mary Yuk Sin Lam and Mr. Robert Tsai To Sze will retire at the forthcoming Annual General Meeting but, being eligible, offer themselves for re-election.

REPORT OF THE DIRECTORS

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of directors and senior management are set out in pages 20 to 21.

DIRECTORS' SERVICES CONTRACTS

Each of Mr. William Ka Chung Lam, Mr. Richard Yingneng Yin and Ms. Mary Yuk Sin Lam has entered into a service agreement with the Company for an initial period of three years commenced on 1st July 2000 which is not determinable within one year without payment of compensation. These services contracts shall continue thereafter until terminated by either party giving to the other not less than six months' prior written notices, such notice to expire upon or after the initial terms of three years.

Save as aforesaid, none of the Directors proposed for re-election at the forthcoming Annual General Meeting has entered into any service agreements with any member of the Group which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed above, no director had a significant beneficial interest in any material contract in relation to the business of the Company to which the Company or any of its holding companies, subsidiaries and fellow subsidiaries, was a party during the year.

DIRECTORS' INTERESTS IN SHARES

As at the date of this report, the interests of the directors and their associates in the share capital of the Company and its associated corporations as recorded in the register maintained under Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") or as notified to the Company were as follows:

(i) Interest in ordinary shares of the Company

Name of Director	Type of interest	Number of ordinary shares in the company (excluding options)
Mr. Jonathan Koon Shum Choi*	Corporate	750,000,000
Ms. Mary Yuk Sin Lam	Personal	2,500,000

* Mr. Jonathan Koon Shum Choi is deemed to be interested in these 750,000,000 ordinary shares (by virtue of the SDI Ordinance). Such interest in shares is also set out in "Substantial Shareholders" shown on page 29.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN SHARES (Continued)

(ii) Interest in common shares of US\$0.01 each of Kingsway International Holdings Limited ("Kingsway International")

Name of director	Personal interest	Family interest	Corporate interest	Other interest	Total number of common shares (excluding options)
Mr. Jonathan Koon Shum Choi**	33,906,386 common shares	–	107,312,222 common shares (Note 1)	–	141,218,608
Mr. William Ka Chung Lam**	32,085,000 common shares	–	25,355,981 common shares (Note 2)	–	57,440,981
Ms. Mary Yuk Sin Lam**	35,439,749 common shares	–	3,622,283 common shares (Note 3)	–	39,062,032
Mr. Richard Yingneng Yin**	7,909,630 common shares	–	–	–	7,909,630
Mr. Michael Koon Ming Choi**	427,749 common shares	–	–	–	427,749

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN SHARES (Continued)

(ii) Interest in common shares of US\$0.01 each of Kingsway International Holdings Limited ("Kingsway International") (Continued)

** By virtue of his/her respective interests in Kingsway International, the ultimate holding company of the Company, each of Mr. Jonathan Koon Shum Choi, Mr. William Ka Chung Lam, Ms. Mary Yuk Sin Lam, Mr. Richard Yingneng Yin and Mr. Michael Koon Ming Choi is interested in the shares in the subsidiaries of Kingsway International under the SDI Ordinance.

Note 1: Of these, 51,000,000 common shares of Kingsway International are held by Sun Wah Capital Limited. Mr. Jonathan Koon Shum Choi was deemed to be interested in these shares as he is entitled to control the exercise or exercise one third or more of the voting power at general meetings of Sun Wah Capital Limited.

Remaining 56,312,222 common shares of Kingsway International are held by Scarlet Red Limited. Mr. Jonathan Koon Shum Choi was deemed to be interested in these shares as he is entitled to control the exercise or exercise one third or more of the voting power at general meetings of Scarlet Red Limited.

Note 2: 25,355,981 common shares of Kingsway International are held by Dynasty International Holdings Limited which is wholly owned by Global Fame Limited. Global Fame Limited is wholly owned by The WKC Lam Family Trust which is a discretionary trust and Mr. William Ka Chung Lam and his two children are objects of such discretionary trust.

Note 3: 3,622,283 common shares of Kingsway International are held by Canadian Pioneer Consultants Limited. Ms. Mary Yuk Sin Lam was deemed to be interested in these shares as she is entitled to control the exercise or exercise one third or more of the voting power at general meetings of Canadian Pioneer Consultants Limited.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN SHARES (Continued)

(iii) Interest in options to acquire ordinary shares of the Company

A share option scheme was approved by the shareholders on 23rd August 2000 under which the board of directors may, at its discretion, grant to any full time employees of the Group, including any executive directors of any companies in the Group to subscribe for the Company's shares. Details of the share option scheme are set out in note 21 to the accounts. Details of the movements of directors' interests in options during the year are as follows:

Name of director	Number of options granted on 28/9/2000	Number of options exercised during the year	Number of options held on 30/6/2001	Exercise period	Exercise price per share	Market value per share on exercise of options
Mr. Jonathan Koon Shum Choi	15,000,000	-	15,000,000	9/4/2001 – 8/10/2004	HK\$0.7	-
Mr. William Ka Chung Lam	15,000,000	-	15,000,000	29/3/2001 – 28/9/2004	HK\$0.7	-
Mr. Richard Yingneng Yin	13,600,000	-	13,600,000	29/3/2001 – 28/9/2004	HK\$0.7	-
Ms. Mary Yuk Sin Lam	7,500,000	(2,500,000)	5,000,000	29/3/2001 – 28/9/2004	HK\$0.7	HK\$1.03
Mr. Michael Koon Ming Choi	5,500,000	-	5,500,000	4/4/2001 – 3/10/2004	HK\$0.7	-

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN SHARES (Continued)

(iv) Interest in options to acquire common shares of Kingsway International

Pursuant to a share option plan operated by the ultimate holding company, Kingsway International, certain directors had outstanding options as at 30th June 2001 to subscribe for the shares of Kingsway International as follows:

Name of director	Number of options held on 30/6/2000	Number of options granted on 27/12/2000	Number of options exercised during the year	Number of options held on 30/6/2001	Exercise period	Exercise price per share	Market value per share on exercise of options
Mr. Jonathan Koon Shum Choi	7,000,000	-	(500,000)	6,500,000	8/7/1997-15/7/2002	C\$0.4	C\$0.6
	-	8,000,000	-	8,000,000	27/12/2000-26/12/2003	C\$0.48	-
Mr. William Ka Chung Lam	7,000,000	-	(7,000,000)	-	8/7/1997-15/7/2002	C\$0.4	C\$0.69
	3,300,000	-	(3,300,000)	-	17/12/1999-13/10/2003	C\$0.2	C\$0.9
	-	8,000,000	-	8,000,000	27/12/2000-26/12/2003	C\$0.48	-
Mr. Richard Yingneng Yin	7,000,000	-	(7,000,000)	-	17/12/1999-13/10/2003	C\$0.2	C\$0.9
	-	8,000,000	-	8,000,000	27/12/2000-26/12/2003	C\$0.48	-
Ms. Mary Yuk Sin Lam	100,000	-	-	100,000	8/7/1997-15/7/2002	C\$0.4	-
	3,500,000	-	(3,500,000)	-	17/12/1999-13/10/2003	C\$0.2	C\$0.9
Mr. Michael Koon Ming Choi	1,000,000	-	-	1,000,000	17/12/1999-13/10/2003	C\$0.2	-
Mr. Douglas Ching Shan Hui	1,000,000	-	-	1,000,000	17/12/1999-13/10/2003	C\$0.2	-

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN SHARES (Continued)

Save as disclosed above, as at the date of this report, none of the directors and chief executive had any interests in the shares of the Company and its associated corporations as defined in the SDI Ordinance, and none of the directors and chief executive or their spouses or children under 18 years of age had any rights to subscribe for the shares of the Company, or had exercised any such rights during the year and up to the date of this report.

Save as disclosed above, at no time during the year and up to the date of this report was the Company or any of its holding companies, subsidiaries and fellow subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at the date of this report, the register of substantial shareholders, other than a director or chief executive of the Company, maintained under section 16(1) of the SDI Ordinance, shows that the Company has been notified of the following interest, being 10% or more of the Company's issued share capital:

Name of shareholders	Number of ordinary shares in the Company	
	Direct interest	Deemed interest
Kingsway International Holdings Limited (Bermuda)	–	750,000,000 ***
Innovation Assets Limited (BVI)	–	750,000,000 ***
World Developments Limited (BVI)	750,000,000 ***	–

*** 750,000,000 shares represent the same interest and are therefore duplicated amongst Kingsway International, Innovation Assets Limited and World Developments Limited. World Developments Limited is a wholly owned subsidiary of Innovation Assets Limited whose entire issued share capital is beneficially owned by Kingsway International. Mr. Jonathan Koon Shum Choi beneficially owns or has control over approximately 47.26% of the issued share capital of Kingsway International and was deemed (by virtue of the SDI Ordinance) to be interested in the 750,000,000 shares.

Save as disclosed above, the Company has not been notified of any interests representing 10% or more of the issued share capital of the Company.

MANAGEMENT CONTRACTS

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

REPORT OF THE DIRECTORS

PURCHASE, SALE OR REDEMPTION OF SHARES

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

PRE-EMPTIVE RIGHTS

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

MAJOR CUSTOMERS AND SUPPLIERS

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

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

CONNECTED TRANSACTIONS

Connected transactions which are required to be disclosed pursuant to Chapter 14 of the Listing Rules are as follows:

(a) Lease arrangements between Billion On Development Limited and Kingsway International

By a sub-lease agreement dated 10th August 2000 between Billion On Development Limited (a wholly owned subsidiary of the Company) and Kingsway International, Billion On Development Limited has agreed to sub-lease a portion of the office premises in Hong Kong to Kingsway International for a term of six years from 1st July 2000 to 30th June 2006 at a monthly rental of HK\$113,750 for an initial term of 3 years and thereafter for the fourth year to sixth year at market rate, exclusive of rates, management fees, air conditioning and other utilities charges and other services (the "Other Charges"). Kingsway International shall pay the Other Charges by reference to the proportion of saleable floor area occupied by Kingsway International. The terms of the Sub-lease Agreement are on normal commercial terms. Vigers Hong Kong Limited, a firm of independent property valuers, has confirmed that the rental payable under the Sub-lease Agreement is based on market rates and is fair and reasonable so far as the Group is concerned. The rental sharing arrangement is calculated on a cash basis and will commence on 1st November 2000 after the expiration of the rent free period.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS (Continued)

(b) Fees received by the Group from Mr. Jonathan Koon Shum Choi ("Mr. Choi") and his associates (as defined in the Listing Rules)

Mr. Choi and his associates may engage the Group from time to time to provide financial advisory and related services under normal commercial terms and it is expected that the fees received from the Group for the provision of such financial advisory or related services will not be substantial and will not exceed HK\$10,000,000 for any financial year. The Directors confirmed that any future engagement of the Group for the provision of financial advisory and related services will be entered into on normal commercial terms in the ordinary course of business of the Group and are in the interests of the Group. The fees received by the Group from Mr. Choi and his associates amounted to HK\$984,955 for the year ended 30th June 2001 (Proforma 2000: HK\$5,000,000).

The independent non-executive directors, Mr. Robert Tsai To Sze and Mr. Michael Wai Chung Wu, have reviewed the above transactions and confirmed that:

- (a) the transactions have been entered into in the ordinary and usual course of business;
- (b) the transactions have been entered into either (i) on normal commercial terms whose expression will be applied by reference to transactions of a similar nature and to be made by similar entities or (ii) (where there is no available comparison) on terms that are fair and reasonable so far as the shareholders of the Company are concerned;
- (c) the transactions have been carried out in accordance with the terms of the agreements governing such transactions or where there are no such agreements, on terms no less favourable than those available to or from independent third parties; and
- (d) the aggregate amount of the "Fees received by the Group from Mr. Choi and his associates (as defined in the Listing Rules)" for the year ended 30th June 2001 did not exceed the cap amount of HK\$10 million.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

The Company has complied throughout the year with the Code of Best Practice as set out by The Stock Exchange of Hong Kong Limited in Appendix 14 to the Listing Rules, except that non-executive directors of the Company were not appointed for a specific term but are subject to retirement by rotation according to the provisions of the Company's Bye-Laws.

REPORT OF THE DIRECTORS

AUDIT COMMITTEE

An audit committee was established on 10th August 2000. Written terms of reference which set out the authorities and duties of the audit committee were adopted by the Board on the same date. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group. The audit committee has two members comprising the two independent non-executive directors. Mr. Robert Tsai To Sze is the Chairman of the audit committee.

DIRECTORS' INTEREST IN COMPETING BUSINESS

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

- (1) Kingsway International and its subsidiaries other than those in the Group ("Kingsway International Group") is mainly engaged in direct and regional investments and the provision of electronic trading services and securities brokerage services in Australia and Canada. The Company has entered into a non-competition undertaking with Kingsway International on 25th August 2000 ("the Kingsway International Undertaking"). According to the Kingsway International Undertaking, Kingsway International shall not, and shall procure Kingsway International Group not to, among other things, engage in the provision of financial, advisory, stockbroking, financing, fund management and futures brokerage services relating to securities in Hong Kong. Kingsway International has also undertaken not to, and will procure Kingsway International Group not to, apply for or obtain licences to conduct such services in Hong Kong. Investment in securities for the Group and the Kingsway International Group performed independently from each other, i.e. there was no overlap of key personnel engaged in such activities and each entity used separate investment managers and investment committees for the execution of orders for dealing in securities.
- (2) The Company and Mr. Jonathan Koon Shum Choi ("Mr. Choi") on 10th August 2000 also entered into a non-competition undertaking ("the Choi's Undertaking"). According to the Choi's Undertaking, Mr. Choi shall not, and shall procure the covenantors (as defined therein) not to, among other things, engage in the provision of financial, advisory, stockbroking, financing, fund management and futures brokerage services relating to securities in Hong Kong which may only be lawfully provided by a registered person (as defined therein) but excluding the provision of financial accommodation which does not fall within the definition of "securities margin financing" for the purposes of the Securities Ordinance as amended by Securities (Margin Financing) (Amendment) Ordinance 2000 in competition with the Group.

REPORT OF THE DIRECTORS

RETIREMENT SCHEME

The Group operated a pension scheme under rules and regulations of Mandatory Provident Fund ("MPF") Scheme Ordinance since 1 December 2000. The assets of the scheme are held separately from those of the Group in an independently administered fund. The Group has chosen to follow the minimum statutory contribution requirement of 5% of eligible employees' relevant aggregate income which will be further subject to the relevant monthly income cap of HK\$20,000 imposed by MPF Scheme Ordinance. The contributions are charged to the profit and loss accounts as incurred. Employer's contribution to the MPF Scheme charged to profit and loss account amounted to HK\$348,746 (Proforma 2000: HK\$ Nil) for the year ended 30th June 2001.

AUDITORS

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Jonathan Koon Shum Choi
Chairman

Hong Kong, 8th October 2001