

NOTES TO THE ACCOUNTS

1 GROUP REORGANISATION AND BASIS OF PREPARATION

(a) Group reorganisation

The Company was incorporated in Bermuda under the Companies Act as an exempted company with limited liability on 17th May 2000.

Pursuant to a group reorganisation completed on 10th August 2000 (the "Reorganisation") to rationalise the Company and its subsidiaries in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company issued shares in exchange for the entire share capital of SW Kingsway Capital Group Limited and thereby became the holding company of the Group. The Company's shares were successfully listed on the Stock Exchange on 15th September 2000. Details of the Reorganisation are set out in note 21 to the accounts and in the Prospectus dated 29th August 2000 issued by the Company.

(b) Basis of preparation of the accounts

The accounts have been prepared under the historical cost convention as modified by the revaluation of land and building and investment in securities as appropriate. The principal accounting policies adopted in the preparation of the accounts are in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants.

The Company remained inactive during the period from 17th May 2000 (date of incorporation) to 30th June 2000 and had no results for the period or assets or liabilities as at 30th June 2000. Accordingly, no balance sheet has been presented for the Company for last year.

Although the current group structure resulting from the Reorganisation as detailed in note 1(a) did not legally exist until 10th August 2000, the directors consider that it is more appropriate and meaningful to treat the Group as a continuing entity and the Company as the holding company of the Group as if the current group structure had been in existence throughout the years/period presented.

In the opinion of the directors, the comparative figures prepared on the above proforma basis present more fairly the results and state of affairs of the Group as a whole in light of the Reorganisation and subsequent listing of the shares of the Company.

2 PRINCIPAL ACCOUNTING POLICIES

(a) Basis of consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 30th June. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Goodwill arising on the acquisition of subsidiaries, being the excess of the costs of investments in these companies over the fair values of the Group's share of the separable net assets acquired, is taken to capital reserve in the year of acquisition.

NOTES TO THE ACCOUNTS

2 PRINCIPAL ACCOUNTING POLICIES (Continued)

(a) Basis of consolidation (Continued)

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill or capital reserve which was not previously charged or recognised in the consolidated profit and loss account.

Minority interests represent the interests of the third parties outside the Group in the results and net assets of the Group.

(b) Subsidiaries

A subsidiary is a company in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors.

Investments in subsidiaries in the Company's balance sheet are stated at cost less any provisions for diminution in value which is other than temporary as determined by the directors for each subsidiary individually. Any such provisions are recognised as an expense in the profit and loss account. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(c) Associated companies

An associated company is a company, not being a subsidiary, in which an equity interest is held for the long-term and significant influence is exercised in its management.

Investment in an associated company is accounted for in the consolidated accounts under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associated company's net assets. The consolidated profit and loss account reflects the Group's share of the post-acquisition results of the associated company for the year.

Unrealised profits and losses resulting from transactions between the Group and its associated company are eliminated to the extent of the Group's interest in the associated company, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the profit and loss account.

(d) Revenue recognition

Brokerage and commission income is recognised on a trade date basis. Underwriting and sub-underwriting commission is recognised once the corresponding underwriting exposure has ceased. Financial advisory, consultancy, documentation and secretarial services fees are recognised upon services rendered. Transactions of investment in marketable securities and related revenues are recorded on a trade date basis. Other fees are recognised when the related services are rendered.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Dividend income is recognised when the right to receive payment is established.

Operating lease rental income is recognised on a straight-line basis.

NOTES TO THE ACCOUNTS

2 PRINCIPAL ACCOUNTING POLICIES (Continued)

(e) Fixed assets

Fixed assets other than land and building are stated at cost less accumulated depreciation and are depreciated at rates sufficient to write off their costs over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Leasehold improvements	20%
Furniture and fixtures	20%
Office equipment	20%
Motor vehicles	20%

Land and building is stated in the balance sheet at the directors' valuation by reference to open market value on the basis of its existing use at the date of revaluation less subsequent accumulated depreciation. Depreciation is calculated on a straight-line basis over the unexpired lease term.

Revaluation is performed with sufficient regularity to ensure that the carrying amount of the asset does not differ materially from that which would be determined using fair value at the balance sheet date. Increase in valuation is credited to the property revaluation reserve. Decrease in valuation is firstly offset against increase on earlier valuations in respect of the same property and is thereafter debited to the operating profit. Any subsequent increase is credited to the operating profit up to the amount previously debited. Upon the disposal of the property, the relevant portion of the realised revaluation reserve in respect of previous valuations is transferred from the revaluation reserve to the retained profits.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

The carrying amounts of fixed assets are reviewed regularly to assess whether their recoverable amounts have declined below their carrying amounts. Expected future cash flows have not been discounted in determining the recoverable amount.

(f) Investment in securities

(i) Long term investments

Long term investments include overseas exchange associateship, club debentures, equity securities and held-to-maturity debt securities which are intended to be held on a continuing basis for identified long term purposes.

Long term investments other than held-to-maturity debt securities are stated at cost less any provision for diminution in value. The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amounts of such investments will be reduced to their fair value. The amount of all the reduction is recognised as an expense in the profit and loss account.

NOTES TO THE ACCOUNTS

2 PRINCIPAL ACCOUNTING POLICIES (Continued)

(f) Investment in securities (Continued)

(i) Long term investments (Continued)

Held-to-maturity securities are stated in the balance sheet at cost plus/less any discount/premium amortised to date. The discount or premium is amortised over the period to maturity and included as interest income/expense in the profit and loss account. Provision is made when there is a diminution in value other than temporary.

The carrying amounts of individual held-to-maturity securities are reviewed at the balance sheet date in order to assess the credit risk and whether the carrying amounts are expected to be recovered. Provisions are made when carrying amounts are not expected to be recovered and are recognised in the profit and loss account.

(ii) Investment in marketable securities

Investment in marketable securities is carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of marketable securities are recognised in the profit and loss account. Profits or losses on disposal of marketable securities, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

(iii) Other investments

Other investments represent the investment in listed shares of Hong Kong Exchanges and Clearing Limited ("HKEx") and are held for capital gain. The investment is stated at the quoted market price which represents its fair value.

At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of other investments are recognised in the profit and loss account. Profits or losses on disposal of other investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

(g) Amortisation of HKEx trading rights

HKEx trading rights are amortised over ten years from 6th March 2000, the effective day of the merger of The Stock Exchange of Hong Kong Limited, The Hong Kong Futures Exchange Limited and Hong Kong Securities and Clearing Corporation Limited, on a straight-line basis.

(h) Provisions for bad and doubtful debts

Provision is made against brokerage clients' accounts and loans receivable to the extent their recoverability are considered to be doubtful by the directors. Brokerage clients' accounts and loans receivable in the balance sheet are stated net of such provisions.

(i) Deferred taxation

Deferred taxation is accounted for at the current tax rate in respect of timing differences between profit as computed for taxation purpose and profit as stated in the accounts to the extent that a liability or asset is expected to be payable or receivable in the foreseeable future.

NOTES TO THE ACCOUNTS

2 PRINCIPAL ACCOUNTING POLICIES (Continued)

(j) Translation of foreign currencies

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

The accounts of subsidiaries expressed in foreign currency are translated at the rates of exchange ruling at the balance sheet date. Exchange differences are dealt with as a movement in reserves.

(k) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease term.

(l) Related parties

For the purposes of these accounts, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operation decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

(m) Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year. Clients' trust accounts are no longer recognised in the consolidated accounts for the Group. The effect of the change on the comparative balance sheet is that the caption "Bank balances and cash - trust accounts" appeared in the audited proforma accounts for the year ended 30th June 2000 was removed completely from this year's presentation and its carrying value HK\$139,557,869 was set off against "Clients' accounts payable". The corresponding effect on the comparative profit and loss account is that interest expenses of HK\$5,165,705 were set off against interest income included in the turnover. Comparatives shown on Five year financial summary have also been adjusted to reflect this modification.

NOTES TO THE ACCOUNTS

3 TURNOVER AND TOTAL INCOME

The Company is an investment holding company. The Group is principally engaged in investment in securities, securities brokerage, provision of financial advisory services, margin and other financing, asset and fund management, and other securities related financial services. The activities of its principal subsidiaries are set out in note 29 to the accounts.

	2001 HK\$	Proforma 2000 HK\$
TURNOVER		
Gain on investment in marketable securities	195,151,644	144,455,865
Gain on other investments	7,509,469	22,389,753
Gain on disposal of long term investments	485,538	–
Commission and fee income on		
– stockbroking	42,780,573	41,275,726
– underwriting and placement in equity capital market	31,781,563	34,082,971
– corporate finance	25,496,531	21,340,315
– asset and fund management	2,253,744	360,205
– loan arrangement	30,000	837,000
Interest income from		
– bank deposits	10,285,340	2,778,520
– financing	13,981,887	7,788,398
– others	1,557,367	213,843
Dividend income from listed securities	1,467,116	1,789,925
Miscellaneous fee income	2,997,005	6,524,370
	335,777,777	283,836,891
OTHER INCOME		
Rental income from land and building	1,419,050	717,155
Gain on disposal of a subsidiary	165,107	–
Other revenue	478,598	–
	2,062,755	717,155
Total	337,840,532	284,554,046

NOTES TO THE ACCOUNTS

4 OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	2001 HK\$	Proforma 2000 HK\$
CREDITING		
Interest income from held-to-maturity securities	69,128	–
Net gain on disposal of fixed assets	3,433	–
CHARGING		
Staff costs	52,956,352	26,080,463
Amortisation of HKEx trading rights	926,590	153,845
Provision for doubtful debts	829,312	8,359,554
Operating leases – land and building	5,152,834	3,014,986
Depreciation	2,751,911	1,232,378
Net loss on disposal of fixed assets	–	506,430
Auditors' remuneration	1,090,535	491,350
Deficit on revaluation of land and building	1,300,000	2,400,000

5 FINANCE COSTS

	2001 HK\$	Proforma 2000 HK\$
Interest on:		
– short term bank loans and overdrafts	314,798	1,188,399
– others	–	395,562
	314,798	1,583,961

6 TAXATION

Hong Kong profits tax has been provided at the rate of 16% (Proforma 2000: 16%) on the estimated assessable profits for the year.

	2001 HK\$	Proforma 2000 HK\$
Hong Kong profits tax for the year	27,779,919	29,431,240
(Over)/underprovisions in prior years	(3,345,037)	1,145,395
Transfer to deferred taxation (<i>note 23</i>)	–	491,779
	24,434,882	31,068,414

There is no material unprovided deferred taxation for both the current and prior years.

NOTES TO THE ACCOUNTS

7 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders includes a profit of HK\$40,411,676 (Proforma 2000: HK\$Nil) which has been dealt with in the accounts of the Company.

8 DIVIDENDS

	2001 HK\$	Proforma 2000 HK\$
Interim dividend (<i>Note</i>)	10,291,380	80,000,000
Final dividend proposed of HK\$0.02 (Proforma 2000: HK\$ Nil) per share	20,649,800	–
Total	30,941,180	80,000,000

Note:

For the year ended 30th June 2001, the Company paid an interim dividend of HK\$0.01 per ordinary share on 17th April 2001.

For the year ended 30th June 2000, a wholly owned subsidiary of the Company, SW Kingsway Capital Group Limited, paid an interim dividend of HK\$64 per ordinary shares to its then holding company out of its profits.

9 EARNINGS PER SHARE

The calculation of basic and diluted earnings per share are based on the Group's profit attributable to shareholders of HK\$201,087,216 (Proforma 2000: HK\$173,807,816).

The basic earnings per share is based on the weighted average of 969,121,500 (Proforma 2000: 750,000,000) ordinary shares in issue during the year.

The diluted earnings per share for current year is based on 976,349,252 ordinary shares which is the weighted average number of ordinary shares in issue during the year plus the weighted average of 7,227,752 ordinary shares deemed to be issued at no consideration if all outstanding options had been exercised. There is no diluted earnings per share for last year as the share options to acquire ordinary shares of the Company are exercisable between 28th March 2001 and 27th March 2005.

10 DIRECTORS' AND MANAGEMENT'S EMOLUMENTS

(a) Directors' remuneration

The aggregate amounts of emoluments paid and payable to directors of the Company during the year are as follows:

	2001 HK\$	Proforma 2000 HK\$
Fees	3,335,000	–
Salaries, commissions and other allowances	13,614,026	16,048,127
Bonuses	8,400,000	3,000,000
Retirement scheme contributions	28,000	–
	25,377,026	19,048,127

NOTES TO THE ACCOUNTS

10 DIRECTORS' AND MANAGEMENT'S EMOLUMENTS (Continued)

(a) Directors' remuneration (Continued)

Directors' fee disclosed above include HK\$535,000 (Proforma 2000: Nil) paid to independent non-executive directors.

In addition to the above emoluments, certain directors were granted share options under the Company's share option scheme. The details of these benefits in kind are disclosed under the paragraph "Directors' interests in shares" in the Report of the directors.

The emoluments of the directors fell within the following bands:

Emolument bands	Number of directors	
	2001	Proforma 2000
HK\$Nil - HK\$1,000,000	4	4
HK\$1,000,001 - HK\$1,500,000	–	2
HK\$1,500,001 - HK\$2,000,000	–	1
HK\$3,500,001 - HK\$4,000,000	3	–
HK\$13,000,001 - HK\$13,500,000	1	–
HK\$14,000,001 - HK\$14,500,000	–	1

(b) Management's emoluments

The five individuals whose emoluments were the highest in the Group for the year include 4 (Proforma 2000: 2) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining 1 (Proforma 2000: 3) individual during the year are as follows:

	2001 HK\$'000	Proforma 2000 HK\$'000
Salaries, other allowances and benefits in kind	3,303,388	3,825,760
Bonuses	77,729	2,074,486
Retirement scheme contributions	7,000	–
	3,388,117	5,900,246

The emoluments fell within the following bands:

Emolument bands	Number of individuals	
	2001	Proforma 2000
HK\$1,500,001 - HK\$2,000,000	–	2
HK\$2,500,001 - HK\$3,000,000	–	1
HK\$3,000,001 - HK\$3,500,000	1	–

NOTES TO THE ACCOUNTS

11 FIXED ASSETS

	Group					
	Land and building HK\$	Leasehold improvements HK\$	Furniture and fixtures HK\$	Office equipment HK\$	Motor vehicles HK\$	Total HK\$
Cost or valuation						
At 1st July 2000, Proforma	13,600,000	2,704,955	1,357,373	4,858,374	1,647,001	24,167,703
Additions						
- through acquisition of subsidiaries (note 26(c))	-	-	-	830,490	-	830,490
- others	-	1,245,833	369,668	2,435,816	-	4,051,317
Disposals						
- through disposal of a subsidiary (note 26(e))	-	(140,767)	(1,800)	(192,800)	-	(335,367)
- others	-	-	-	(91,557)	-	(91,557)
Deficit on revaluation	(1,300,000)	-	-	-	-	(1,300,000)
At 30th June 2001	12,300,000	3,810,021	1,725,241	7,840,323	1,647,001	27,322,586
Accumulated depreciation						
At 1st July 2000, Proforma	-	266,181	124,492	835,866	967,467	2,194,006
Through acquisition of subsidiaries (note 26(c))	-	-	-	114,944	-	114,944
Charge for the year	255,799	599,616	308,863	1,258,233	329,400	2,751,911
Disposals						
- through disposal of a subsidiary (note 26(e))	-	(5,865)	(120)	(10,125)	-	(16,110)
- others	-	-	-	(7,261)	-	(7,261)
At 30th June 2001	255,799	859,932	433,235	2,191,657	1,296,867	5,037,490
Net book value						
At 30th June 2001	12,044,201	2,950,089	1,292,006	5,648,666	350,134	22,285,096
At 30th June 2000, Proforma	13,600,000	2,438,774	1,232,881	4,022,508	679,534	21,973,697
The analysis of cost or valuation at 30th June 2001 of the above assets is as follows:						
At cost	-	3,810,021	1,725,241	7,840,323	1,647,001	15,022,586
At 2001 valuation	12,300,000	-	-	-	-	12,300,000
	12,300,000	3,810,021	1,725,241	7,840,323	1,647,001	27,322,586

NOTES TO THE ACCOUNTS

11 FIXED ASSETS (Continued)

The Group's interest in land and building, a property located in Hong Kong, is held on long lease (not less than 50 years). The property was revalued at 30th June 2001 by the directors based on their valuation by reference to external market quotation.

The carrying amount of the land and building of the Group at 30th June 2001 would have been HK\$15,699,060 (Proforma 2000: HK\$16,000,000) had the land and building been carried at cost less accumulated depreciation.

As at 30th June 2001, the property was pledged as security for the Group's bank overdraft facilities amounted to HK\$60,000,000 (Proforma 2000: HK\$60,000,000).

12 OTHER ASSETS

	Group	
	2001 HK\$	Proforma 2000 HK\$
Deposits for equity investments	–	3,309,376
Statutory deposits	3,285,000	2,545,000
Other deposits	50,000	2,582,000
B-Shares Special Seat of Shenzhen Stock Exchange, at cost	1,000,000	–
HKEx trading rights (<i>Note</i>)	8,036,068	5,014,060
	12,371,068	13,450,436
<i>Note:</i>		
Cost		
At 1st July	5,167,905	–
Additions	6,932,000	5,167,905
Disposal of a subsidiary	(3,388,600)	–
At 30th June	8,711,305	5,167,905
Accumulated amortisation		
At 1st July	153,845	–
Amortisation for the year	926,590	153,845
Disposal of a subsidiary	(405,198)	–
At 30th June	675,237	153,845
Net book value at 30th June	8,036,068	5,014,060

NOTES TO THE ACCOUNTS

13 INVESTMENT IN A SUBSIDIARY

	Company 2001 HK\$
Investment at cost:	
Unlisted shares	271,222,350
Amount due from a subsidiary	261,475,462
	532,697,812

The amount due from a subsidiary is unsecured, interest free and repayable on demand.

Particulars of principal subsidiaries of the Group have been set out in note 29.

14 INTERESTS IN AN ASSOCIATED COMPANY

	Group 2001 HK\$	Proforma 2000 HK\$
Share of net assets	5,918,800	–

Name	Place of incorporation and operation	Principal activities	Particulars of issued shares held	Interest held indirectly
KCG Securities Asia Limited	Hong Kong	Securities brokerage	20,000,000 ordinary unlisted shares of HK\$1 each	30%

15 LONG TERM INVESTMENTS

	Group 2001 HK\$	Proforma 2000 HK\$
Unlisted held-to-maturity convertible bonds, at amortised cost	50,070,000	–
Listed equity shares in Hong Kong, at cost (<i>Note</i>)	13,660,000	–
Unlisted equity shares, at cost	13,532	13,532
Club debentures, at cost	694,000	694,000
Canadian Venture Exchange international associateship, at cost	56,198	56,198
	64,493,730	763,730
Market value of listed securities	9,827,500	–

NOTES TO THE ACCOUNTS

15 LONG TERM INVESTMENTS (Continued)

Note:

During the current year, certain marketable securities that were previously included in the current assets, were subsequently identified to be strategically held on a long-term basis. Accordingly, they were transferred at their fair values on the date of transfer to long term investments.

16 BANK BALANCES AND CASH

(a) As at 30th June 2001, the Group's bank balances of HK\$30,000,000 (Proforma 2000: HK\$Nil) was pledged to a bank for a temporary standby loan facilities in relation to a general offer done on behalf of a client. This charge was released upon the completion of the deal in August 2001.

(b) Trust accounts

The Group maintains segregated clients' trust accounts with a licensed bank to hold clients' deposits arising from normal business transactions. As at 30th June 2001, trust accounts not otherwise dealt with in these accounts amounted to HK\$99,658,622 (Proforma 2000: HK\$139,557,869).

17 MARKETABLE SECURITIES

	Group	
	2001 HK\$	Proforma 2000 HK\$
Listed equity securities in Hong Kong, at market value	271,738,372	103,597,958
Unlisted debt securities	3,000,000	–
	274,738,372	103,597,958

18 ACCOUNTS RECEIVABLE

	Group		Company
	2001 HK\$	Proforma 2000 HK\$	2001 HK\$
Trade receivable			
Amounts due from brokers and clearing houses	72,806,652	27,580,665	–
Clients' accounts receivable, net of provisions	42,218,547	88,239,474	–
Loans receivable, net of provisions	7,309,171	18,803,148	–
Others	11,059,812	8,974,850	–
	133,394,182	143,598,137	–
Prepayments, deposits and other receivables	13,160,589	7,228,445	86,000
	146,554,771	150,826,582	86,000

NOTES TO THE ACCOUNTS

18 ACCOUNTS RECEIVABLE (Continued)

	Group		Company
	2001 HK\$	Proforma 2000 HK\$	2001 HK\$
Ageing analysis for trade receivable is prepared based on the overdue period, which is detailed as follows:			
Within one month	120,966,907	139,154,082	–
More than one month and less than three months	39,155	1,087,467	–
More than three months	12,388,120	3,356,588	–
	133,394,182	143,598,137	–

The margin clients of the stock brokerage division are required to pledge their shares to the Group in order to get the credit facilities for securities trading. The amount of credit facilities granted to them is determined by the discounted value of shares acceptable by the Group.

There is no credit facilities granted to the cash clients of the stock brokerage division. They are required to settle their securities trading balances on the settlement day.

Regarding the Group's financing division, credit terms are granted to individual clients in accordance with their financial background and the value and nature of collaterals received from them.

19 AMOUNTS DUE FROM RELATED COMPANIES AND ULTIMATE HOLDING COMPANY

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

20 ACCOUNTS PAYABLE

	Group		Company
	2001 HK\$	Proforma 2000 HK\$	2001 HK\$
Trade payable			
Amounts due to brokers and clearing houses within one month	2,504,061	2,134,975	–
Clients' accounts payable within one month (net of bank balances and cash in trust accounts)	70,152,593	21,526,623	–
	72,656,654	23,661,598	–
Other creditors and accruals	76,459,340	12,419,785	385,047
Proposed final dividend	20,649,800	–	20,649,800
	169,765,794	36,081,383	21,034,847

NOTES TO THE ACCOUNTS

21 SHARE CAPITAL

Authorised	Ordinary shares of HK\$0.1 each	
	No. of shares	HK\$
At 1st July 2000	1,000,000	100,000
– Increase in authorised ordinary share capital pursuant to resolution passed on 10th August 2000	1,999,000,000	199,900,000
At 30th June 2001	2,000,000,000	200,000,000
Issued and fully paid		
At 1st July 2000	–	–
– Increase in share capital pursuant to resolution passed on 10th August 2000	2,000,000	200,000
– Capitalisation issue pursuant to resolution passed on 23rd August 2000	748,000,000	74,800,000
– Public issue on 15th September 2000	275,000,000	27,500,000
– Exercise of share options	7,490,000	749,000
At 30th June 2001	1,032,490,000	103,249,000

The changes in the Company's share capital during the period from date of incorporation to 30th June 2001 are as follows:

- (i) Upon incorporation on 17th May 2000, the Company's authorised share capital was HK\$100,000 divided into 1,000,000 ordinary shares of HK\$0.1 each, all of which were allotted and issued nil paid on 26th May 2000.
- (ii) Pursuant to the written resolution passed on 10th August 2000:
 - (a) the authorised share capital of the Company was increased from HK\$100,000 to HK\$200,000,000 by the creation of 1,999,000,000 ordinary shares of HK\$0.1 each; and
 - (b) 1,000,000 ordinary shares of HK\$0.1 each at par were issued and credited as fully paid, and the existing 1,000,000 nil paid shares of HK\$0.1 each issued on 26th May 2000 were credited as fully paid at par, in exchange and as consideration for the acquisition of the entire share capital of SW Kingsway Capital Group Limited under the Reorganisation.

NOTES TO THE ACCOUNTS

21 SHARE CAPITAL (Continued)

- (iii) Pursuant to the written resolution passed on 23rd August 2000 and conditional upon the listing of the shares on the Stock Exchange, 748,000,000 shares of HK\$0.1 each were allotted and issued, credited as fully paid at par, to the sole holder of the shares on the register of members of the Company at the close of business on 10th August 2000, by way of capitalisation of a sum of HK\$74,800,000 standing to the credit of the Company's share premium account.
- (iv) On 15th September 2000, 275,000,000 shares of HK\$0.1 each were issued to the public and institutional investors at HK\$1 each for cash. The excess of the issue proceeds at par value of the shares issued was credited to the share premium account.

Had the Reorganisation taken place on 30th June 2000, the share capital of the Company on that date would have been HK\$200,000.

Share options

On 23rd August 2000, the shareholders of the Company approved and adopted a share option scheme (the "Scheme"). Under the Scheme, the board of directors (the "Board") may, at its discretion, grant to any full time employees of the Group, including any executive director of any company in the Group, to subscribe for the Company's shares. The subscription price for the Company's shares under the Scheme is determined by the Board and will not less than 80% of the average closing prices of the Company's shares on the Stock Exchange on the five trading days immediately preceding the date of offer of the option or the nominal value of the Company's shares, whichever is higher. The maximum number of the Company's shares in respect of which options may be granted under the Scheme and any other share scheme of the Company may not exceed 10% of the issued share capital of the Company from time to time.

Details of movements in share options during the year and share options remaining outstanding as at 30th June 2001 are as follows:

Exercise price per share	Exercise period	Date of share options granted	Granted during the year	Exercised during the year	Cancelled during the year	At 30th June 2001
HK\$0.7	28/3/01 – 27/03/05	28/9/00	83,250,000	(7,490,000)	(3,735,000)	72,025,000
HK\$1.03	22/12/01 – 21/12/05	22/6/01	2,265,000	–	–	2,265,000
Total			85,515,000	(7,490,000)	(3,735,000)	74,290,000

During the year, an aggregate of 7,490,000 share options were exercised to subscribe for 7,490,000 ordinary shares of the Company at exercise price of HK\$0.7 per share. The total cash proceeds received by the Company was HK\$5,243,000.

NOTES TO THE ACCOUNTS

22 RESERVES

	Share premium of SW Kingsway Capital Group Limited		Group Capital reserve on consolidation		Exchange reserve	Retained profit	Total
	Share premium HK\$	HK\$	Special reserve HK\$ <i>Note (a)</i>	HK\$ <i>Note (c)</i>	HK\$	HK\$	HK\$
At 1st July 1999, Proforma	-	30,000,000	9,800,000	63,391,540	-	74,402,351	177,593,891
Transfer of share premium to special reserve upon Reorganisation	-	(30,000,000)	30,000,000	-	-	-	-
Profit for the year	-	-	-	-	-	173,807,816	173,807,816
Dividend	-	-	-	-	-	(80,000,000)	(80,000,000)
Goodwill arising on consolidation of a subsidiary	-	-	-	(179,357)	-	-	(179,357)
At 30th June 2000 and 1st July 2000, Proforma	-	-	39,800,000	63,212,183	-	168,210,167	271,222,350
Share premium arising on							
- public issue (note 21)	247,500,000	-	-	-	-	-	247,500,000
- exercise of share options	4,494,000	-	-	-	-	-	4,494,000
Listing expenses	(16,580,050)	-	-	-	-	-	(16,580,050)
Capitalisation issue (note 21)	(74,800,000)	-	-	-	-	-	(74,800,000)
Goodwill arising on consolidation of subsidiaries	-	-	-	(7,835,411)	-	-	(7,835,411)
Exchange differences on translation of accounts of overseas subsidiary	-	-	-	-	9,352	-	9,352
Profit for the year	-	-	-	-	-	201,087,216	201,087,216
Dividends (note 8)	-	-	-	-	-	(30,941,180)	(30,941,180)
At 30th June 2001	160,613,950	-	39,800,000	55,376,772	9,352	338,356,203	594,156,277

NOTES TO THE ACCOUNTS

22 RESERVES (Continued)

	Contributed surplus HK\$ <i>Note (b)</i>	Company Share premium HK\$	Retained profits HK\$	Total HK\$
At 1st July 1999 and 30th June 2000	-	-	-	-
Contributed surplus arising on Reorganisation	271,022,350	-	-	271,022,350
Share premium arising on				
– public issue	-	247,500,000	-	247,500,000
– exercise of share options	-	4,494,000	-	4,494,000
Listing expenses	-	(16,580,050)	-	(16,580,050)
Capitalisation issue (<i>note 21</i>)	-	(74,800,000)	-	(74,800,000)
Profit for the year	-	-	40,411,676	40,411,676
Dividends (<i>note 8</i>)	-	-	(30,941,180)	(30,941,180)
At 30th June 2001	271,022,350	160,613,950	9,470,496	441,106,796

Notes:

- (a) The special reserve of the Group of HK\$9,800,000 represents the difference between the nominal value of the shares of SW Kingsway Capital Group Limited at the date of acquisition by the Company and the nominal value of the shares of the Company issued for the acquisition at the time of the Reorganisation described in note 1.
- (b) The contributed surplus of the Company represents the difference between the fair value of the shares of the subsidiary acquired pursuant to the Reorganisation on 10th August 2000 over the nominal value of the Company's shares issued in exchange for.
- Under the Companies Act 1981 of Bermuda, a company may make distributions to its shareholders out of contributed surplus under certain circumstances prescribed by Section 54 thereof.
- (c) The capital reserve of the Group represents the shortfall on the cost of investment in subsidiaries over the Group's share of the fair value of the net assets at the date of acquisition.
- (d) The Company's reserves available for distribution to shareholders as at 30th June 2001 consisted of contributed surplus of HK\$271,022,350 and retained profits of HK\$9,470,496. As the Reorganisation was completed on 10th August 2000 and the Company remained inactive during last year, there was no distributable reserve as at 30th June 2000.
- (e) For the year ended 30th June 2001, retained profit attributable to the associated company is nil (Proforma 2000: HK\$Nil).

23 DEFERRED TAXATION

	Group 2001 HK\$	Proforma 2000 HK\$
At 1st July	652,779	161,000
Transfer from profit and loss account (<i>note 6</i>)	-	491,779
At 30th June	652,779	652,779
Provided in the accounts in respect of accelerated depreciation allowances	652,779	652,779

NOTES TO THE ACCOUNTS

23 DEFERRED TAXATION (Continued)

No provision for deferred taxation has been made in respect of the revaluation deficit arising on land and building as the disposal of this asset at its carrying value would result in capital gain or loss which the directors consider is not subject to any tax liability or asset.

24 CONTINGENT LIABILITIES

	Group		Company
	2001 HK\$	Proforma 2000 HK\$	2001 HK\$
Guarantees for banking facilities to subsidiaries	–	–	55,000,000
Guarantees for banking facilities to an associated company	2,000,000	–	–
	2,000,000	–	55,000,000

25 COMMITMENTS

(a) Commitments under operating leases

As at 30th June 2001, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Group	
	2001 HK\$	Proforma and restated 2000 HK\$
Land and buildings		
Within one year	4,967,905	4,374,818
In the second to fifth year inclusive	20,053,518	18,183,640
After the fifth year	–	5,250,000
	25,021,423	27,808,458

Lease terms for business properties held by the Group under non-cancellable operating leases range from two to six years. Longer leases usually contain escalation clauses allowing rent reviews after the lapse of certain initial periods to reflect market rentals.

The sublease agreement exists between the ultimate holding company and a subsidiary will expire on 30th June 2006. The future minimum sublease payments that were expected to be received under the non-cancellable sublease as at 30th June 2001 amounted to HK\$7,995,000 (Proforma 2000: HK\$9,225,000). For the year ended 30th June 2001, HK\$1,023,756 (Proforma 2000: HK\$511,878) was recognised as income in the profit and loss account in respect of sublease.

NOTES TO THE ACCOUNTS

25 COMMITMENTS (Continued)

(b) Capital commitment for fixed assets

	Group	Proforma
	2001 HK\$	2000 HK\$
Contracted but not provided for	175,000	175,000

(c) Other commitments

As at 30th June 2001, a subsidiary had underwriting commitments of HK\$86,130,000 in relation to a general offer in Hong Kong (Proforma 2000: HK\$9,450,000 in relation to a right issue in Hong Kong). The commitments were released subsequently in August 2001 after the successful completion of the deal.

26 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit before taxation to net cash inflow from operating activities

	2001 HK\$	Proforma 2000 HK\$
Profit before taxation	224,507,578	205,013,422
Amortisation of HKEx trading rights	926,590	153,845
Depreciation charges	2,751,911	1,232,378
Deficit on revaluation of land and building	1,300,000	2,400,000
Dividends paid to minority interest	–	224,256
Gain on disposal of a subsidiary	(165,107)	–
(Gain)/loss on disposal of fixed assets	(3,433)	506,430
Gain on disposal of long term investments	(485,538)	–
Gain on disposal of trading right	(478,598)	–
Gain on other investments	(7,509,469)	(22,389,753)
Interest income	(11,842,707)	(2,992,363)
Interest expenses	314,798	1,583,961
Provision for doubtful debts	829,312	8,359,554
Increase in other assets	(740,000)	(4,227,000)
Increase in marketable securities	(185,556,414)	(11,346,466)
Decrease/(increase) in accounts receivable	3,338,141	(129,478,293)
Decrease in amount due from related companies	59,618	125,646,753
Decrease in amount due from ultimate holding company	34,236	–
Increase in accounts payable	124,483,632	7,765,871
Decrease in amount due to related companies	–	(101,275,165)
Decrease in amount due to ultimate holding company	–	(9,978,525)
Foreign exchange	18,337	–
Net cash inflow from operating activities	151,782,887	71,198,905

NOTES TO THE ACCOUNTS

26 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Analysis of changes in financing during the year

	Share capital (including share premium) HK\$	Minority interests HK\$
At 1st July 1999, Proforma	200,000	432,271
Share of results by minority interests	–	137,192
Return on surplus assets distributed in liquidating a subsidiary	–	(208,015)
Dividend to minority shareholders	–	(224,256)
Acquisition of a subsidiary	–	1,000,000
Capital contribution from a minority shareholder	–	1,000,000
At 30th June 2000 and 1st July 2001, Proforma	200,000	2,137,192
Issue of ordinary shares	280,243,000	–
Shares issue expenses	(16,580,050)	–
Share of results by minority interests	–	(1,014,520)
Capital contribution from minority shareholders	–	5,136,402
Piecemeal acquisition of subsidiaries	–	(1,715,739)
Disposal of a subsidiary	–	(875,639)
Effect of foreign exchange rates	–	8,985
At 30th June 2001	263,862,950	3,676,681

NOTES TO THE ACCOUNTS

26 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(c) Acquisition of subsidiaries

	Group	Proforma
	2001 HK\$	2000 HK\$
Net assets acquired:		
Fixed assets	715,546	16,855,769
HKEx membership share	–	3,123,400
HKEx trading rights	–	3,376,600
Cash and bank balances	174,950	11,983,510
Debtors and prepayments	146,813	2,137,643
Amount due from brokers and clearing house	–	5,058,210
Amounts due from group companies	–	15,000,026
Amount due to brokers and clearing house	–	(4,836,427)
Creditors and accruals	(549,629)	(43,111)
Taxation	–	(1,000,000)
Amount due to group companies	–	(33,741,329)
Minority interests	–	(1,000,000)
Net assets acquired	487,680	16,914,291
Goodwill	7,111,150	179,357
	7,598,830	17,093,648
Satisfied by:		
Cash	7,598,830	10,609,814
Intercompany balance	–	6,483,834
	7,598,830	17,093,648

The subsidiaries acquired during the year contributed HK\$7,673,669 to the Group's net operating cash flows and utilised HK\$175,663 for investing activities.

(d) Analysis of the net cash (outflow)/inflow in respect of the acquisition of subsidiaries

	Group	Proforma
	2001 HK\$	2000 HK\$
Consideration paid in cash	(7,598,830)	(10,609,814)
Cash and bank balances acquired	174,950	11,983,510
Net cash (outflow)/inflow in respect of the acquisition of subsidiaries	(7,423,880)	1,373,696

NOTES TO THE ACCOUNTS

26 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(e) Disposal of a subsidiary

	Group 2001 HK\$
Cash consideration received	3,100,000
Less: Net assets disposed of:	
Fixed assets	319,257
Other assets	3,462,000
Accounts receivable	2,128,049
Cash	15,818,676
Accounts payable	(11,998,650)
	9,729,332
Add: Minority interest	875,639
Interest in an associated company	5,918,800
	6,794,439
Gain on disposal of a subsidiary	165,107

The subsidiary disposed of during the year contributed HK\$9,616,731 in respect of net operating cash flows, paid HK\$688 in respect of the net returns on investments and servicing of finance and utilised HK\$3,797,367 for investing activities.

(f) Analysis of net cash outflow in respect of the disposal of a subsidiary

	Group 2001 HK\$
Consideration received in cash	3,100,000
Cash and bank balances disposed of	(15,818,676)
Net cash outflow in respect of the disposal of a subsidiary	(12,718,676)

NOTES TO THE ACCOUNTS

27 RELATED PARTY TRANSACTIONS

The following is a summary of significant related party transactions, which were carried out in the normal course of the Group's business:

		Group	
	Note	2001 HK\$	Proforma 2000 HK\$
Transactions with directors and their associates:			
Brokerage commissions earned on securities dealing	(a)	207,163	176,104
Financial advisory, placing and underwriting fees received	(b)	984,955	5,000,000
Transactions with the ultimate holding company and its related companies:			
Advisory fees and commissions earned	(c)	766,425	693,538
Common office expenses reimbursed by related parties	(d)	2,043,050	312,000
Purchase consideration for acquiring subsidiaries	(e)	–	(28,619,811)
Purchase of marketable securities	(f)	–	(1,592,192)

Notes:

- (a) Brokerage commissions arose in the ordinary course of business of dealing in securities. Commission rates are set at the same as those normally offered to third party clients.
- (b) Financial advisory, placing and underwriting fees were received from a director and his associates. The fees are charged at a rate which is the same as that charged to third party clients.
- (c) The advisory fees and commissions represented fees earned from the provision of advisory services and from securities dealing. The advisory fee is generally calculated based on time costs incurred and/or a rate mutually agreed between the parties involved. The basis of commission charges is the same as that mentioned in note (a) above.
- (d) Subsidiaries received reimbursement of office overheads and rental expenses from the ultimate holding company and its related companies. The allocation of general office expenses and rental is based on the percentage of floor area occupied.
- (e) For the year ended 30th June 2000, two subsidiaries Billion On Development Limited and Kingsway E-Services Limited were acquired from the related companies, Kingsway Securities Holdings Limited and Kingsway Online Limited, at HK\$16,386,598 and HK\$14,905,114 respectively. The excess of the purchase consideration over net asset value on the date of acquisition of Billion On Development Limited was HK\$179,357 which was taken to capital reserve, while there was no such difference arising in the acquisition of Kingsway E-Services Limited.
- (f) An affiliated jointly controlled company sold its marketable securities at quoted market value to a subsidiary prior to the last year-end.

NOTES TO THE ACCOUNTS

28 SUBSEQUENT EVENTS

(a) Acquisition of Sinochem Investment Management Limited ("SIML")

The Group has acquired a 50% interest in SIML on 19th September 2001 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. SIML will change its name to Sinochem Kingsway Asset Management Limited.

(b) Impact to the Group as a result of recent market downturn

The recent terrorists' events in the U.S. have resulted in significant uncertainties over the global economic outlook and hence the deterioration and volatility in the global and local financial markets. The Group's portfolio of marketable securities held as at year end has likewise been affected.

29 PARTICULARS OF SUBSIDIARIES

The following list contains only the particulars of subsidiaries which principally affected the results, assets and liabilities of the Group as at 30th June 2001.

Name	Place of incorporation/ operations	Issued and fully paid share capital	Principal activities	% of ordinary shares held by the Company	
				Directly	Indirectly
Bill Lam & Associates Limited *	Hong Kong	Ordinary shares HK\$20	Provision of corporate services	-	100%
Billion On Development Limited *	Hong Kong	Ordinary shares HK\$10,000	Property holding	-	100%
Kingsway Asia Capital Limited (formerly known as GEM IPO Limited)	Hong Kong	Ordinary shares HK\$10,000,000	Provision of financial advisory services	-	100%
Kingsway Asset Management Limited	British Virgin Islands	Ordinary share US\$1	Provision of consultancy and asset management services	-	100%
Kingsway Brokerage Limited	Hong Kong	Ordinary shares HK\$8,000,000	Securities brokerage	-	100%
Kingsway Capital Limited	Hong Kong	Ordinary shares HK\$10,779,002	Provision of financial advisory services	-	100%
Kingsway E-Services Limited	Hong Kong	Ordinary shares HK\$10,000,000	Electronic securities brokerage	-	100%
Kingsway Financial Network Limited	Hong Kong	Ordinary shares HK\$5,000,000	Not yet commenced business	-	100%

NOTES TO THE ACCOUNTS

29 PARTICULARS OF SUBSIDIARIES (Continued)

Name	Place of incorporation/ operations	Issued and fully paid share capital	Principal activities	% of ordinary shares held by the Company	
				Directly	Indirectly
Kingsway Lion Spur Technology Limited	British Virgin Islands/ Hong Kong	Ordinary share US\$1	Securities investment	-	100%
Kingsway SW Asset Management Limited	British Virgin Islands/ Hong Kong	Ordinary shares US\$375,000	Provision of investment advisory services	-	100%
Kingsway SW Finance Limited *	Hong Kong	Ordinary shares HK\$50,000	Provision of loan services and financing	-	100%
Kingsway SW Fund Management Limited	Hong Kong	Ordinary shares HK\$5,500,000	Consultancy and fund management	-	100%
Kingsway SW Futures Limited	Hong Kong	Ordinary shares HK\$8,000,000	Futures and commodities brokerage	-	100%
Kingsway SW Securities Limited	Hong Kong	Ordinary shares HK\$120,000,000	Securities brokerage	-	100%
SW Kingsway Capital Group Limited	British Virgin Islands	Ordinary shares US\$1,250,000	Investment holding	100%	-
Opal Dragon Investments Limited #	British Virgin Island	Ordinary share US\$1	Securities investment	-	100%
Kingsway Creanex Limited #	British Virgin Island	Ordinary shares US\$100	Securities investment	-	100%
Multi-Rich Assets Limited #	British Virgin Island	Ordinary share US\$1	Investment holding	-	100%
Marketgate Assets Limited #	British Virgin Island	Ordinary share US\$1	Securities investment	-	100%
Joyful Gain Limited #	British Virgin Island	Ordinary share US\$1	Investment holding	-	100%
Kingsway Rica Financial Services Limited #	Hong Kong	Ordinary shares HK\$6,000,000	Not yet commenced business	-	80%
Kingsway China Investments Limited #	Hong Kong	Ordinary shares HK\$2	Investment holding	-	100%
Kingsway Fund Management Limited +	Hong Kong	Ordinary shares HK\$32,000,000	Fund management	-	100%
Kingsway Unit Trust Managers Limited +	Hong Kong	Ordinary shares HK\$2,000,000	Fund management	-	100%
On-Year Profits Limited #	British Virgin Island	Ordinary share US\$1	Investment holding	-	100%

NOTES TO THE ACCOUNTS

29 PARTICULARS OF SUBSIDIARIES (Continued)

Name	Place of incorporation/ operations	Issued and fully paid share capital	Principal activities	% of ordinary shares held by the Company	
				Directly	Indirectly
Kingsway Northern Investment Advisory Company Limited # *	People's of Republic of China	Ordinary shares RMB3,000,000	Investment advisory	–	51%

+ Acquired on 16th May 2001

Newly incorporated during the year

* Companies not audited by PricewaterhouseCoopers. The aggregate net assets and turnover of the subsidiaries not audited by PricewaterhouseCoopers amounted to approximately 3% and 1% of the Group's total net assets and turnover respectively.

30 ULTIMATE HOLDING COMPANY

The directors regard Kingsway International Holdings Limited, a company incorporated in Bermuda and listed on the Canadian Venture Exchange, as being the ultimate holding company.

31 APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 8th October 2001.