MANAGEMENT DISCUSSION AND ANALYSIS

Financial Highlights

Results of operations for the six months ended 31st December 2001 compared to six months ended 31st December 2000:

The Group's net profits after tax attributable to shareholders increased 20% to HK$70 million from HK$58 million and represented a return on shareholders' funds of 9% for the current six months period. Earnings per share increased 6% to HK6.8 cents from HK6.4 cents for the previous corresponding period. Turnover increased from HK$108 million to HK$116 million while total operating costs remained about the level of last corresponding period at HK$45 million as a result of pre-emptive cost controls taken earlier in the period.

The profit was achieved amid the crash of the technology sector in 2000 which continued throughout 2001 when hi-tech companies started to crumble. As a result, many investors got caught in a cash crunch, and the capital market lost its ability to raise funds to keep them afloat. Additionally, the economy took a dive after the terrorists attack in the U.S. on 11th September 2001 as the global recession batters export-reliant industries.

The collapse of the technology bubble followed by the September 11 event has contracted the Hong Kong markets both in terms of liquidity and volatility. These contractions contributed to a decline of profits in some sectors of the Group's operations.

Investment In Securities

Our continued growth in profits has been underpinned once again by the record profit achieved by this division. It performed well under a very difficult investment climate when the global economy is still sluggish. This difficult global investment climate need to be viewed against the backdrop of the Hong Kong economy struggling with its structural fiscal deficit and a 13% drop in the Hang Seng Index to 11,397 during the six months period ended 31st December 2001. The profit was sourced from a diverse range of investments which demonstrates the resilience of this division.

During this period, the division continued to build its investment portfolio, primarily marketable securities listed on the Stock Exchange of Hong Kong, to support its business. We are cautiously confident that this division will continue to perform well during the second half of our fiscal year.

Securities Broking And Equity Capital Market

The Equity Capital Market division achieved a record number of deals done for the half-year to 31st December 2001. Total number of deals transacted was 37 compared to previous corresponding period of 28.

Notwithstanding the record number of transactions, gross revenue was HK$13 million, compared with HK$21 million in the previous corresponding period. This drop in revenue was due to difficult local economic conditions which largely mirrors the shrinkage of Hong Kong IPO fund raising activities. Funds raised from IPOs in the Hong Kong market were HK$9 billion compared to HK$48 billion, a drop of 81% from the corresponding period.

The results were also affected by the shrinkage of turnover in the Hong Kong equities markets. Average daily turnover dropped by 34% from HK$10.3 billion to HK$6.8 billion.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

During the period, our Group strategically redeployed our resources so as to match our branch network to geographical areas that show significant population growth. This redeployment strategy is designed to give key operation areas a better focus and stronger accountability to deliver results.

As a result of the above initiatives, the Group opened a new branch in Sheung Shui, a growth area in the New Territories while closing our Causeway Bay branch. More recently, the Group announced the acquisition of a brokerage house (Hani Securities (H.K.) Ltd.), which has a branch office in Ma On Shan in the New Territories. Together with this acquisition, the Group will have in total four offices in Hong Kong.

During the period, we centralised our research operations and focused our research efforts to provide independent analysis and reports on small and medium sized companies from Hong Kong and China. To achieve this, we have recruited experienced analysts and economist to further expand our research capabilities.

We hope this specialisation will assist us in deepening relationships with existing clients as well as helping us to create new institutional client relationships.

Corporate Finance

Corporate Finance division reported a drop in profit to HK$4 million from HK$16 million, reflecting the significant contraction of capital raising activities in the market during the period. However, during the period, transactions activities in fact increased from 32 to 34. Included in these transactions were 5 IPOs, 17 fund raising assignments, 2 merger and acquisition transactions and 10 corporate advisory works.

Notwithstanding the contraction of the capital raising market and the increasing competition in the Hong Kong corporate finance market, the division remains well placed and expects to make a solid contribution for the full year.

Asset Management

In terms of performance, it was a good first half year for our fund management division, which manages 6 authorised unit trust funds and 5 Mandatory Provident Funds.

According to the latest report, out of over 300 funds under the MPF Schemes, Kingsway Korea Fund was the best performing fund of all MPF funds, giving a return of 25.4% over one year. In addition, our Kingsway Asia Pacific ex-HK Fund ranked first in the Asia Pacific ex-Japan category while our Kingsway Hong Kong SAR Fund ranked in the top quartile.

Other unit trust funds also performed well: Kingsway Pacific Fund ranked first in the Far East & Pacific Equity category according to the HK Investment Funds Association Investment Performance Measurement publication (December 2001). Our Kingsway Middle Kingdom Fund has continued to do well to capture the first quartile position in the Hong Kong Equity category, giving a return of 77.4% over a three year period. It was also ranked in the top quartile over 5 years and 10 years in 2001.

During the period, a private equity fund management business was established in partnership with Sinochem Hong Kong (Holdings) Co. Ltd., in which the Group has a 50% interest. The joint venture business will engage in direct investments in the Greater China region. Good progress was made in a number of areas including fund raising and identification of investments. We expect to launch the fund in the second half of the year.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

China Operation

Our China operation is still at an early stage and its result is, at the moment, immaterial to the Group. We have included the result under our asset management division. As reported in our annual report for the year ended 30th June 2001, we opened our first China office in Beijing and we are now actively in the process of applying to set up an office in Shanghai.

Outlook

Traditionally, we gained market share and increased our profits when our competitors were rationalising their businesses and the current period should, hopefully, be no exception.

Currently, the economy is going through a difficult patch as it witnessed the largest ever foreign debt default, in Argentina, and the biggest ever corporate insolvency, of Enron. However, we believe the worst of the world recession is over; a rebound is widely expected in America this year with Asia's recovery not far off.

However, the Enron affair has created a level of uncertainty which could hamper a sustained recovery and will increase volatility to the market. The ensuing period of volatility will impact on the performances of all divisions. Operationally, the Group has invested in the past two years in building a foundation for growth, demonstrating commitment to deliver services of the highest standard to clients, and to continue to focus on cost management.

While we have every confidence and remain positive on the medium to long term outlook of our Group's businesses, we are not immune to market conditions, and the result for the full year will again be influenced by market and economic conditions in the sectors and the regions that we operate in, which the Group has no control on.

LIQUIDITY AND FINANCING RESOURCES

The Group's net current assets increased by 4% to HK$641 million, compared to HK$617 million at last financial year end. Liquid assets, including bank balances, marketable securities and accounts receivables, decreased from HK$822 million to HK$712 million for the current period while the current liabilities decreased from HK$205 million to HK$71 million at the same time.

PLEDGE OF ASSETS

The Group's interest in land and building in Hong Kong with a carrying value of HK$11.9 million (30th June 2001: HK$12 million) as well as fixed deposits of HK$1.6 million (30th June 2001: Nil) were pledged as securities against bank overdraft facilities and bank loan granted to the Group respectively.

CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities outstanding as at 31st December 2001 (30th June 2001: HK$2 million).

EMPLOYEES

The number of full time employees decreased from 143 to 126. The decrease was primarily due to our cut back in the on-line trading operation. Salaries are reviewed annually in conjunction with employee performance appraisals. Share options, as part of basic remuneration packages, have also been offered to full time employees. Details have been set out in note 11 to these interim accounts.