REPORT FROM CHIEF EXECUTIVE OFFICER

Dear Friends and Fellow Shareholders

THE MARKET

During the financial year ended 30 June 2003 (the "Financial Year"), Hong Kong experienced its most difficult time in recent decades. Our economy was badly hit by the recession in Hong Kong, which was the result of a lack of consumer and investor confidence, declining property prices, uncertainties over the US economy due to the wars in the Middle East, and the outbreak of atypical pneumonia ("SARS") in Hong Kong and the surrounding region.

Obviously, the financial market was adversely affected by the economic and political problems that continued to dog Hong Kong. The Hang Seng Index fell from 10,599 (closing on 28 June 2002) to the lowest at 8,409 on 25 April 2003 and closed at 9,577 on 30 June 2003. Total market turnover on the Hong Kong Stock Exchange shrank from HK$1,756 billion for the previous financial year to HK$1,588 billion for the current Financial Year, representing a 10% decline.

BUSINESS ACTIVITIES

Our Financial Highlights

With a depressed equity market and the weak investment sentiment, our Group posted its first ever loss attributable to shareholders of approximately HK$276 million for the Financial Year. This was due largely to the substantial devaluation of our investment portfolio caused by weak investment sentiment. Excluding this element and goodwill impairment, our core business, i.e. Brokerage and Equity Capital Market, and Corporate Finance, remained profitable, albeit marginally given the overall poor market environment. Despite the external adversities, the Group continued to focus on strengthening our core business and expanding our sales teams to maximise revenues while at the same time streamlining our operations to achieve maximum cost-savings. As a result, the adverse effects of poor market conditions on our Group were kept to a minimum.

Brokerage and Equity Capital Market ("ECM")

With the unfavourable investment sentiments prevailing in the global markets during the Financial Year, our brokerage income dropped from HK$16 million to HK$11 million and the fee earned from the ECM decreased from HK$25 million to HK$12 million. The operating profit of the Division thus declined from HK$26 million to HK$2 million.

In the face of such difficult times, it is easy to lose sight of our long-term goal to strengthen our core business and to instead mindlessly cut costs in order to improve our bottom line in the short-term. We, however, believe that the key to success in the long term is to widen our revenue base. We, therefore, in tandem with a concerted group effort to streamline our operations to improve cost efficiency, have continued to develop and expand our Institutional Sales, Research and ECM teams. We are convinced that strengthening our revenue earning power is the best strategy to enable the Group to withstand the existing weak market sentiments and to pave the way for promising growth in the time of economic recovery.

During the Financial Year, the Group had more than 30 ECM deals, and the Brokerage and ECM divisions contributed HK$2 million to the profit before taxation of the Group.

BUSINESS ACTIVITIES (Continued)

Corporate Finance

Despite the gloomy equity market, our strategy to strengthen our Corporate Finance division has helped the team to maintain its competitiveness in the market. Fee income of the Division dropped by slightly less than 16% from HK$25 million to HK$21 million, an exceptionally satisfactory performance given the difficult market conditions. During the Financial Year, we were engaged in 6 IPOs, 3 rights issues, 2 mergers and acquisitions and 21 corporate advisory works. However, due to the squeeze on margins caused by intense competition in the depressed market, the operating profit of the Corporate Finance division dropped from HK$7 million to HK$1 million.

Future performance will obviously depend on market conditions and our ability to strengthen or increase our market share. While we have no control over market conditions, we will maintain a strong Corporate Finance team and focus on providing quality services to small and medium-sized enterprises which, we believe, is our niche market.

Asset and Fund Management

The Division posted an operating loss of HK$4 million before an impairment of goodwill of HK$7 million, which was made in view of the sustained poor investment sentiments and economic uncertainties in Hong Kong affecting our business development, against an operating profit of HK$10 million in last financial year.

Despite unfavourable market conditions, our dedication to providing our customers with quality services has not wavered. The team continued its excellent work whilst at the same time re-doubled its efforts to acquire new clients. As at 30 June 2003, our Kingsway Korea Fund was ranked 1st while our Kingsway Asia Pacific (ex-Hong Kong) Fund was ranked 4th among all 76 MPF equity funds in Hong Kong since inception. Also, our Kingsway Hong Kong SAR Fund was ranked 3rd among 16 Hong Kong equity funds over the same period (source: Standard & Poor's Micropal). As a result, our client base of Mandatory Provident Fund ("MPF") contributors grew by 96% and the total contribution increased by 135% compared with the previous year.

We strongly believe that our client-centric services, market performance and business strategy to focus on the small and medium-sized enterprises will enhance our competitiveness in the Hong Kong MPF arena. Although the contribution of the MPF to the Division is relatively small at the moment, in the long term, the development of a sizeable customer base for our MPF service will fuel a steady growth in fund size and provide a stable source of revenue for the Group.

In the longer term, we have started to look beyond Hong Kong into Greater China as the key driver for potential growth for our Fund Management operation. To this end, we are exploring opportunities in China to establish joint venture partnerships with reputable financial institutions to enable the Group to expand its business into this market.

BUSINESS ACTIVITIES (Continued)

Investment in Securities

During the Financial Year, the Hong Kong equity market was affected by a series of unfavourable factors and events: the penny stock crisis in July 2002, the continuing dispirited sentiment of negative networth caused by asset devaluation, the gloomy U.S. equity market clouded by continuing corporate governance issues, corporate failures, intensifying international political tensions in the Middle East, the Iraq War and the outbreak of SARS in Hong Kong and surrounding region. During the entire year, there was no significant fresh capital coming from overseas; as a result, the Hong Kong market witnessed a declining liquidity trap, leading to depressed stock prices for both our portfolio and the market in general. For most of the Financial Year, the Hong Kong stock market moved downwards and the Hang Seng Index reached its low at 8,409 on 25 April 2003 before commencing a rally towards the end of the Financial Year.

Under such unfavourable market conditions, the Division posted an operating loss of HK$258 million against an operating profit of HK$51 million in the last financial year. In addition, we closely monitored and reviewed our long term investments and, during the Financial Year, provided for an impairment loss of HK$37.9 million for our long term convertible bonds and equity investments.

Despite the uncertainties ahead, we are cautiously optimistic about our prospects for resuming profitability in the coming fiscal year.

CHINA OPERATION

After a good start, during which we took the lion's share of the H-share market (participating in six of the seventeen H-shares coming to Hong Kong market last year), our China strategy had, unfortunately, experienced some setback due to SARS and the poor market conditions prevailing at the time in Hong Kong.

Similar to Hong Kong, the negative impact of SARS on the people, business and economy of China effectively put a halt on a broad range of business activities until the epidemic disappeared. These caused a number of the companies we were taking to the market this year to postpone their listing plans. Likewise, discussions and negotiations with potential partners were postponed. Despite these conditions, the China market has continued to grow and we anticipate China's economic growth in the medium to long term will continue to be very significant. We have commenced a review of our China strategy to ensure better focus of our efforts in light of existing market conditions and to better leverage our strengths.

The establishment of our Beijing and Shanghai offices (with the possible addition of a Shenzhen office in the foreseeable future) to work in collaboration with our Hong Kong professionals has not only shortened the geographical distance between our team and our clients, but it has also helped to bridge the cultural gap between the people in these places. This has allowed us to provide better and faster services to our clients.

IMPORTANT APPOINTMENTS

To strengthen our Board and our business development in China, we made several key appointments to our Board during the Financial Year. On 1 December 2002, the Board appointed Dr. Raymond Wai Yung Wu as independent non-executive director and Mr. Michael Wai Chung Wu (who was previously an independent non-executive director) as executive director to oversee our strategic development in China.

LIQUIDITY AND FINANCING RESOURCES

Total assets as at 30th June 2003 were HK$651 million, of which approximately 85% were current in nature. Net current assets were HK$381 million and accounted for approximately 80% of the net assets of the Group as at 30th June 2003. The Group’s assets are mainly located in Hong Kong and most of the monetary assets of the Group are denominated in the Hong Kong dollar. The Group does not have material exposure to fluctuations in exchange rates.

The Group generally finances its operations from internal resources. Out of the total banking facilities of some HK$250 million available to the Group, only HK$43.5 million was utilised as at 30th June 2003, mainly to finance the increased margin financing business of the Group. All of the bank borrowings as at 30th June 2003 were short term in nature and were denominated in Hong Kong dollar to match the funding requirements of our business operations. As at 30th June 2003, the Group's gearing ratio, calculated as a percentage of bank borrowings over shareholder's funds was approximately 9%.

As at 30th June 2003, the Group’s investment property and marketable securities with a carrying value of HK$7 million and HK$7.4 million respectively were pledged as security against bank overdraft and short term loan granted to the Group.

EMPLOYMENT, TRAINING AND DEVELOPMENT POLICIES

As a result of our efforts to continue streamlining operations, the number of full time employees decreased during the Financial Year from 132 to 125.

Remunerations and bonus are based on performance and are reviewed annually in conjunction with the annual employee performance appraisal and with consideration to the results of the Group as a whole. The Group provides full induction program and in-house training courses to all staff, in particular, those members who are registered with relevant regulatory bodies, and must meet the mandatory continuous professional training requirements.

The Group also runs an employee share option scheme. The scheme is available to all full time employees of the Group. Details of the scheme are set out in the Report of the Directors under the section “Share Options”.

REPORT FROM CHIEF EXECUTIVE OFFICER

CORPORATE GOVERNANCE

Under the governance of an independent and effective board, our Group has always been committed to conduct our business ethically and in a way that is transparent, accountable to shareholders and the community.

We believe our corporate governance practices, as a regulated entity and also as a listed company, are appropriately rigorous and of high standard.

In November 2002, our Board of Directors was awarded the Directors Of The Year Award 2002 in the category of Listed Company Boards by The Hong Kong Institute of Directors for our full commitment to best practices in corporate governance and for operating with transparency and a published statement on corporate governance. The panel also applauded the Legal and Compliance team as well as the Committees of the Board. “A strong legal and compliance team has been set up to review adherence to defined procedures and guidelines. Board committees include Nomination and Remuneration Committees involving the Non-Executive Directors.” In addition, the panel of judges appreciated our commitment to social responsibility. “Its corporate giving spirit is assimilated into the Board and staff, as a designated percentage of profit is donated to charity.”

Even though it is not a current requirement, in order to promote greater transparency, the Board has taken the initiative to disclose individual directors’ remuneration in the Financial Statements (please refer to Note 11 to the Accounts).

As in previous years, we have included a separate and detailed statement on our corporate governance practices under the heading "Statement of Corporate Governance".

COMMUNITY

In line with our business philosophy of giving to the needy and to demonstrate our care for the community, we have contributed HK$562,000 to charitable organisations during the current financial year. Please refer to our Statement of Social Responsibility for further details.

OUTLOOK

The Group recognises that its short term performance will continue to be subjected to market and economic conditions of the markets and countries we operate in. Given the market rebound which started at the end of the Financial Year and the gradual restoration of investor confidence, we are cautiously optimistic about the Group's performance in the coming financial year.

Moreover, with the healthy growth of China's economy and the expanding business opportunities following its accession to the WTO, we are confident that our China strategy will enable us to be well-positioned for medium and long term growth. For this reason, we aim to expand our business operations in China significantly. In addition to our Beijing and Shanghai offices, we plan to open other offices in China to enhance our market share. We see great potential in developing our Corporate Finance and Asset and Fund Management business in China, and are actively exploring opportunities in China through joint venture and strategic alliance partnerships with reputable financial institutions in China.

As for Hong Kong, we will continue to expand and re-direct resources to strengthen our Corporate Finance, Research and Institutional Sales teams with a view to capture market share in the short and medium term, when most of our competitors are shrinking their operations. We believe that we are well-positioned to benefit from the recent recovery of market sentiments, which we expect will continue in the ensuing year.

Despite the difficult and trying operating environment, our staff has demonstrated a remarkable capacity for achievement, working together with the management team to achieve a more cost-efficient at highly effective operation. On behalf of the Board, I thank our employees for their hard work and dedication.

On a personal level, I would like to take this opportunity to express my deepest appreciation to the Board for their continuing guidance.

More importantly, on behalf of the Group, I wish to thank our customers, stakeholders, business partners and collaborators and you, our shareholders, for your unwavering and invaluable support.

William Ka Chung Lam
Chief Executive Officer

14th October 2003