MANAGEMENT DISCUSSION AND ANALYSIS

MARKET

The overall impact of the outbreak of atypical pneumonia ("SARS") in Hong Kong on the securities market proved short-lived. The Hang Sang Index began its steady climb from its lowest point at 8,409 on 25th April 2003 to 12,576 as at 31st December 2003. Riding on a bullish market sentiment, market activity intensified. Total market turnover of the Stock Exchange of Hong Kong increased to HK$1,729.77 billion, up 136% from the last corresponding period. Furthermore, activity in the primary market picked up sharply towards the end of the six-month period ended 31st December 2003 ("Interim Period"). Total funds raised from the initial public offering of newly listed stocks on the Main Board for the Interim Period totalled to HK$50.4 billion and on the GEM Board to HK$1.5 billion.

FINANCIAL HIGHLIGHTS

The Board is pleased to announce that the Group has substantially improved its operating performance for the Interim Period. Profit attributable to shareholders was HK$105 million as compared to a loss of HK$131 million in the same period last year. The Group recorded a gain of HK$123 million from investment in securities for the Interim Period against a loss of HK$125 million in the corresponding period last year. Commission and fee income increased by 20% to HK$36 million from HK$30 million last year. Interest and dividend income dropped by 33% from HK$15 million to HK$10 million due mainly to the reduced level of loans receivable during the Interim Period. The increase in general and administrative expenses by 10% to HK$46 million was mainly attributable to the increase in staff-related costs.

The new accounting standard on deferred tax that the Group adopted during the period provides that tax assets can be recognised in the financial statements to the extent that it is probable that future taxable profit will be available against which the temporary difference can be utilised. However, as market sentiment has a strong influence over the performance of the Group, management believes it is appropriate not to recognise a tax asset, amounting to HK$41 million as at 31st December 2003, in the current interim account.

The Board declared the payment of an interim dividend of 0.33 HK cents per share.

BROKERAGE & EQUITY CAPITAL MARKETS ("ECM")

The Group is committed to developing a stable and strong revenue base for investment banking as its long-term strategic focus. The short-to-medium term goal for its Brokerage & ECM division is to harness the synergistic value created by the service-mix offered by its Retail and Institutional Sales, ECM and Research teams.

Our strategy in developing and expanding our Institutional Sales, Research and ECM teams, in spite of adverse market conditions, proves to be effective. This effort has led to significant increase in fee income for the division during the Interim Period. Total brokerage income rose by approximately 174% to HK$14 million, as compared to HK$5 million in the same period last year. The ECM team participated in 15 placing and underwriting deals and acted as the sole placing agent in 7 out of the 15 deals. Placing and underwriting fees increased by 101% to HK$14 million, as compared to HK$7 million last year.

BROKERAGE & EQUITY CAPITAL MARKETS ("ECM") (Continued)

We are pleased to report that our Brokerage and ECM division was rated one of the top three HK/China-based Brokerage Houses by The Asset Magazine, in their November 2003 issue, in a survey conducted over 54 brokers across Asia.

For this Interim Period, the Brokerage and ECM division contributed HK$8.7 million to profit before taxation of the Group.

CORPORATE FINANCE

As previously reported, the progress of a number of Corporate Finance projects sourced from China was hindered as a result of the impact of SARS. While the dampening effect of SARS on the investment confidence was temporary, its adverse impact on business enterprises continued. Several IPO applications were deferred to 2004. Still facing the after-effects of SARS, the fee income of the Corporate Finance division dropped 53% to HK$6 million from HK$14 million in the corresponding period last year. Despite the drop in revenue, the Corporate Finance division still managed to record a small profit before taxation of HK$0.1 million against a profit of HK$3 million in the corresponding period last year.

During the Interim Period, the division completed 1 IPO, 1 general offer, 1 rights issue and 18 financial advisory assignments. As at 31st December 2003, there were 8 IPOs, 2 general offers and 8 financial advisory assignments on-going. The Corporate Finance division will continue to provide value-added services to small-to-medium sized enterprises, with a particular focus on China-based clientele.

ASSET & FUND MANAGEMENT

As at 31st December 2003, our Asset & Fund Management division increased its MPF customer base by 159% coupled with an increase in the MPF contribution by 216%, both on a year-on-year basis.

As at 31st December 2003, our Kingsway Korea Fund and Kingsway Asia Pacific (ex-Hong Kong) Fund continued to rank 1st overall and 4th respectively amongst all 74 MPF equity funds in Hong Kong since their inception in January 2001. Our other equity funds have also performed satisfactorily in 2003. Kingsway Hong Kong SAR Fund ranked 2nd amongst 20 MPF Hong Kong equity funds in 2003, delivering a year-on-year return of 51% [Source: Standard & Poor's Micropal].

As for our unit trust business, amongst all the Kingsway unit trust funds, Kingsway China Fund delivered the best year-on-year return of 74%. The remaining four Asia Pacific (ex-Japan) funds delivered an average year-on-year return of 39%. As the only ethical unit trust fund in the Ethical Asia Pacific Funds sector according to Standard and Poor Fund Services, our Kingsway SRI Asia Fund achieved a year-on-year return of 34% [Source: Standard & Poor's Micropal].

Aligning with the Government initiative to attract foreign investment, Kingsway Middle Kingdom Fund was approved by the Hong Kong Immigration Department as one of the Eligible Collective Investment Schemes under the Capital Investment Entrant Scheme.

ASSET & FUND MANAGEMENT (Continued)

We strongly believe that our client focused services and market performance will sharpen our competitive edge, enabling us to capitalise on opportunities to expand our fund size and revenue base. As shall be discussed later, the Group has entered into an agreement with two state-owned enterprises in the PRC to form a fund management joint venture in China.

The total fee income for the division increased by 32% to HK$16 million from HK$12 million in the corresponding period last year. This included inter-segment income for investment advisory and consultancy services provided by the division to other group companies of HK$15 million, as compared to HK$10 million recorded in the same period last year. The rise in inter-segment income was mainly due to an increase in performance-based fee income amid improved market sentiment.

Upon the Securities and Futures Ordinance coming into effect, the division initiated a streamlining process in the second half of the last financial year, which involved the consolidation of four licensed operations under this division into one. This streamlining effort has resulted in cost savings of inter-segment charges of HK$6 million in the Interim Period.

Overall, the division recorded a profit of HK$11 million for the Interim Period against a loss of HK$1 million in the corresponding period last year.

INVESTMENT IN SECURITIES

Investor confidence and market sentiment have an obvious correlation to the profitability of this division. During the Interim Period, returned investor confidence, intensified market activities and bullish sentiment all contributed to the substantial increase in the value of our investment portfolio. Successful IPO listings of two pre-IPO investments during this Interim Period also contributed to the strong performance of this division.

The contribution to profit from this division turned from a loss of HK$137 million to a profit of HK$92 million. Our investment portfolio increased by 21% from HK$283 million as at 30th June 2003 to HK$342 million as at 31st December 2003.

CHINA OPERATION

Leaving the worst impact of SARS behind, the economy of China steadily gathered pace during the second half of 2003, and is gradually returning to the pre-SARS level. As a result, the Group's PRC-related IPO business resumed in earnest during the last quarter of 2003. Our Shanghai and Beijing Offices are playing a pivotal role in the Group's future business plans, serving as a launch-pad for our China-focused strategy.

As previously reported, the Group is actively exploring opportunities in China through joint venture and strategic alliance partnerships with reputable financial institutions in China. To capture the tremendous market opportunities in the PRC, the Group entered into an agreement with Shanxi Securities Company Limited and China Gaoxin Investment Group Corporation in November 2003 to establish a fund management business in the PRC market. Pursuant to the agreement, an application has been submitted to China Securities Regulatory Commission to set up a joint venture fund management company ("JV Company") based in Shanghai. The Group is committed to inject an equivalent of RMB33 million for a 33% equity interest in the JV Company.

OUTLOOK

Traditionally, we gain market share and increase our profits while our competitors are rationalising their businesses. The current period offers no exception.

The signing of the CEPA between Hong Kong and the Mainland and the relaxation of inbound visitors from selected Mainland cities gave Hong Kong a needed boost onto the road of economic recovery towards the end of the Interim Period. Further, the recovering global economy, favourable investment sentiment, low interest rates and the sharp rebound of the local real estate market are all signs of promising growth for the second half of the financial year. It is expected that the sum of these factors will no doubt have a positive knock-on effect on our financial services businesses. Against this backdrop, we are cautiously optimistic that the favourable market conditions will continue for the remaining period of our financial year. While our short-term performance will continue to be subject to market and economic conditions, we are confident that all our operating units will continue to deliver strong performances in the second half of the financial year.

Seizing the opportunity for significant growth in the PRC market, we shall expedite the expansion of our Investment Banking and Fund Management businesses in China to enhance our market share in this region. We see our teams in the Beijing and Shanghai offices playing an increasingly important role in aiding our strategy.

LIQUIDITY AND FINANCING RESOURCES

Total assets as at 31st December 2003 were HK$685 million, up 5% as compared with HK$651 million as at 30th June 2003. The net assets of the Group were HK$568 million, increasing by 20% as compared with HK$472 million as at 30th June 2003. Approximately 89% of the total assets or HK$612 million were current in nature. Net current assets were approximately HK$495 million and accounted for approximately 87% of the net assets of the Group as at 31st December 2003.

The Group's assets and liabilities are mainly denominated in Hong Kong dollar. Therefore, the Group does not have material exposure to fluctuations in exchange rates.

The Group principally finances its operations from internal resources. As at 31st December 2003, the Group's net cash balance increased to HK$49 million. There were no bank borrowings as at 31st December 2003. Therefore, the Group's gearing ratio, calculated as a percentage of bank borrowings over shareholders' funds, was zero as at 31st December 2003.

PLEDGE OF GROUP ASSETS

As at 31st December 2003, the Group's investment property and marketable securities, with a carrying value of HK$7 million (30th June 2003: HK$7 million) and HK$27.9 million (30th June 2003: HK$7.4 million) respectively, were pledged as security against bank facilities granted to the Group.