Report from
Chief Executive Officer

Dear Friends and Fellow Shareholders

THE MARKET

Improvement of market sentiment in the region, coupled with strong support from the Chinese central government through the launch of the "individual visit" scheme for Mainland tourists and new economic ties under the Closer Economic Partnership Arrangement ("CEPA"), led to Hong Kong's strong recovery from the atypical pneumonia ("SARS") epidemic in the second half of 2003. However, concerns over rising interest rates in the United States, the price of crude oil and other natural resources, as well as the anxiety brought about by the macroeconomic austerity measures introduced to adjust the overheated Mainland economy caused the market to retreat in the second quarter of 2004. As a result, both the Hang Seng Index and the market turnover on the Hong Kong Stock Exchange were at a low level close to our financial year end.

The Hang Seng Index increased from 9,577 at the end of June 2003 to 12,576 at the end of December 2003. It rose further to 14,000 in February before falling to 12,286 at the end of June 2004, 2% below the December level. Despite little change in the Hang Seng Index level during this period, higher volatility was noted for individual stocks as investors adjusted their portfolios to reflect the changes in the macroeconomic environment.

Turnover improved substantially during the financial year ended 30 June 2004 (the "Financial Year") compared with last year. The monthly turnover increased from HK$211 billion in July 2003 to peak at HK$443 billion in January 2004 but gradually fell back to HK$263 billion in June 2004. Moreover, the initial public offerings market remained strong in 2004. Total funds raised from Main Board listings increased from HK$50.4 billion in the second half of 2003 to HK$53.6 billion in the first half of 2004 and increased from HK$1.5 billion to HK$2.3 billion in the GEM Board during the same period.

BUSINESS ACTIVITIES

Financial Highlights

The Board of Directors of the Company (the "Board") is pleased to announce that the Group has recovered from the temporary set back in our 2003 financial year. Profit attributable to shareholders was HK$81.4 million in the Financial Year, which is a marked improvement from 2003. Commission and fee income increased by 50% to HK$74.3 million as a result of the more active market while interest and dividend income dropped by 44% to HK$15.6 million as a result of the reduced level of loan receivables and the low interest rate. The increase in general and administrative expenses by 2.7% to HK$98.4 million was mainly due to an increase in staff related costs in line with the increase in business activity, which was partly offset by the tight cost control measures imposed by management.

The Group adopted the new accounting standard on deferred taxation during the Financial Year. The new standard provides that tax assets should be recognized in the financial statements to the extent that it is probable that future taxable profit will be available against which temporary differences can be utilized. However, as market sentiment has a strong influence over the performance of the Group, management believes it is appropriate not to recognize a tax asset amounting to HK$36 million as at 30 June 2004 in the financial statements.

In February 2004, the Board declared an interim dividend of 0.33 HK cents per share, which was paid in March 2004. The Board has recommended paying a final dividend of 0.67 HK cents per share, subject to the approval of the shareholders at the coming Annual General Meeting.

Report from Chief Executive Officer

The subscription for new shares in the Company by Softbank Finance Corporation ("Softbank") for the aggregate subscription price of HK$39 million, which was completed in May 2004, is an important achievement for the Group. The Group will continue to look for more strategic investors to broaden our shareholder base.

Brokerage and Equity Capital Market ("ECM")

Investment banking is the strategic focus of the Group and the Brokerage and ECM division is central to this focus. Our strategy of coherent development of the Retail and Institutional business by the Brokerage team and a more proactive ECM team has resulted in some initial success.

Brokerage income increased by 132% to HK$25.0 million in the Financial Year. The ECM team, in co-operation with the Corporate Finance team, participated in over 40 deals and generated gross commissions of HK$30.2 million, an increase of 149% over the same period last year. The division contributed HK$6.0 million to the profit before taxation of the Group.

During the Financial Year, the Group was rated one of the top three HK/China based brokerage houses by The Asset magazine. This demonstrated the market's recognition of the achievement of the Group's professional team.

Corporate Finance

With the recovery during the post-SARS period, the Corporate Finance team was able to maintain the revenues and net profit at the levels of the last financial year. Fee income of the division reached approximately HK$22.4 million. During the Financial Year, the team completed 1 initial public offering, 2 merger and acquisition transactions, 2 rights issues and 25 advisory transactions. On top of that, with the active participation of the Corporate Finance team, a total of 18 share placement transactions were completed during the Financial Year by the ECM team. Net income was about HK$1.5 million, which was marginally higher than the previous year.

Our strategy is to become the preferred financial solutions provider in the mid-cap market. To this end, we have been actively pursuing transactions in this market segment. By year end, we were engaged in over 10 initial public offerings for companies in various industries within this sector. Deals in the pipeline include a number of sizeable initial public offerings, with fund raising amount ranging from several hundred million dollars to over a billion dollars.

Looking ahead, we will continue our effort to source additional corporate finance transactions, with a primary focus on medium-sized enterprises that offer meaningful deal sizes. We believe that with our experienced Corporate Finance team, we are in a position to react to and take advantage of the opportunities that may arise in this fast-changing financial market.

Asset Management

The division is comprised of two teams. The Wealth Management team focuses on listed securities portfolio management and the Private Equity team focuses on private equity. During the year under review, the division recorded HK$23.4 million in revenue, of which HK$19.9 million was received from group companies for providing investment advisory and consultancy services. Net contribution to the Group's results was HK$11.4 million.

Our MPF funds' assets under management rose 160% on a year-on-year basis. The number of newly signed up MPF scheme participants also increased by 76% over the same period. This tremendous growth was due to the industrious work of the Wealth Management team. At the end of June 2004, the Kingsway Korea Fund, the Kingsway Asia Pacific (ex-Hong Kong) Fund and the Kingsway Hong Kong SAR Fund were all in the first quartile among all 72 MPF equity funds in Hong Kong for the period since inception. In addition, the Kingsway Hong Kong SAR Fund was ranked third among 15 Hong Kong equity funds over the same period (source: Standard & Poor's Micropal).

Report from Chief Executive Officer

Assets under management for our major authorized unit trusts rose by 20% on a year-on-year basis. The Kingsway SRI Asia Fund achieved the highest growth with an increase of 81% in net asset value. With the increased social awareness in the region, we expect the Kingsway SRI Asia Fund, the first socially responsible fund launched by a Hong Kong based manager, to gain increasing acceptance by the investment community.

In line with the Government initiative to attract foreign investment, the 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.

Assets under management for private clients also increased by over 277% on a year-on-year basis. The Wealth Management team will continue to provide high quality dedicated services to its clients to grow the business.

The division is looking beyond Hong Kong into Greater China as the key driver for potential growth. 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.

The Private Equity team saw Sinochem Kingsway Asset Management Limited ("SKAM") achieved respectable returns of approximately 17% on its portfolio under management for the year ended 30 June 2004. SKAM is an associated company jointly established with Sinochem Hong Kong (Holdings) Company Limited. The team also advised a client in acquiring a substantial shareholding of a sino-foreign joint venture steel manufacturing company in China. The team is now reviewing a number of potential projects.

In addition to Softbank's strategic investments in the Group, the Group also set up a joint venture with Softbank Investment Corporation, an associate of Softbank, for the purpose of providing investment project management services. The joint venture is in the process of applying to the Securities and Futures Commission for a license to engage in regulated asset management activities.

Investment in Securities

The performance of the division has a high correlation with the market. Following an impressive upsurge in the second half of 2003, the division suffered from the market retreat in 2004. None of the division's pre-IPO investments was listed in the second half of the Financial Year, which also explained the drop in performance in the second half year. Strong performance in the first half of the Financial Year was partly contributed by the gain from the listing of two pre-IPO investments during that period.

Overall, the division contributed HK$115 million of revenue and HK$57 million of net profit to the Group. This is a marked improvement from the previous year.

Report from Chief Executive Officer

REORGANIZATION FOR THE FUTURE

In order to meet the challenges ahead and better serve our clients, management has decided to re-group the Group's business lines from the new financial year into two business groups, the Client Services Group and the Direct Investment Group. The Client Services Group will be further divided into three major divisions namely Investment Banking, Private Equity and Wealth Management. The Investment Banking division will focus on transaction services as well as execution for all institutional and individual clients. The Private Equity division will focus on structuring deals for investment in private companies. The Wealth Management division will focus on managing portfolios of listed securities. The Direct Investment Group will focus on merchant banking and investment in securities. The China operations will be re-grouped under the above mentioned divisions in the Client Services Group. Management believes the above re-organization will enhance our ability to serve our clients.

IMPORTANT APPOINTMENTS

During the Financial Year, Kingsway International Holdings Limited, the Company's ultimate holding company, appointed Mr. Patrick Sun as Chairman of the Global Strategy Committee effective 9 February 2004, to oversee its strategic development.

To strengthen our Board and our business development, the Group will make several key appointments to our Board.

With effect from 22 September 2004, Mr. Stanley Kam Chuen Ko shall become an Independent Non-Executive Director, the Chairman of the Compensation Committee and a Member of the Audit Committee of the Company. Mr. Ko has extensive experience and network in both Hong Kong and the PRC and he also serves actively in the Hong Kong community including being an Executive Committee Member of the Hong Kong Coalition of Service Industries where he was the Chairman for the past 5 years, a Council Member of the Hong Kong Logistics Council, a Member of Hongkong/Japan Business Cooperation Committee, a Director of the Hong Kong Tourist Board and Harvard Business School Association. Mr. Ko is also the Chairman of the China Committee of the British Chamber of Commerce and the Vice Chairman of The Open University of Hong Kong.

In addition, with effect from 22 September 2004, Ms. Rebecca Yuk Fung Lau and Mr. Patrick Sun shall become Executive Directors of the Company.

Ms. Lau will be responsible for overseeing the development of the Group's wealth management business. In addition to her new role as Executive Director, Ms. Lau remains as the Group's Chief Operating Officer and Company Secretary. Ms. Lau joined the Group as Legal Counsel in 2000 and was promoted to the Head of Legal and Compliance and Company Secretary in 2001 before she took up the role of Chief Operating Officer in 2003.

In his role as Executive Director, Mr. Sun will be responsible for the strategic development of the Group's private equity business. Mr. Sun has more than 18 years of experience in the investment banking industry. From 2000 to 2002, he was the Senior Country Officer of JP Morgan Chase in Hong Kong and also the Head of Investment Banking for Hong Kong. Prior to the merger between JP Morgan, Chase and Jardine Fleming, he was the Group Executive Director and Head of Corporate Finance and Capital Markets for the Greater China region of Jardine Fleming. Mr. Sun is also a qualified accountant in the United Kingdom and Hong Kong.

The appointments resulted from a review on how the Group could further enhance the organization structure and improve operational efficiency for the next stage of growth and development.

Report from Chief Executive Officer

LIQUIDITY AND FINANCIAL RESOURCES

Total assets as at the end of June 2004 were HK$682 million, of which approximately 91% was current in nature. Net current assets were HK$545 million and accounted for approximately 95% of the net assets of the Group as at the end of June 2004.

The Group generally finances its operations from internal resources. The Group has drawn approximately HK$11 million of credit facilities. The funding was mainly used for financing the business of the Group. All of the borrowings at the end of June 2004 were short term in nature and were denominated in Hong Kong dollars to match the funding requirements of our business operations. At the year end, the Group's gearing ratio, calculated as a percentage of bank borrowings over shareholders' fund, was approximately 2%.

The Group's investment property and marketable securities with a carrying value of HK$12 million and HK$15 million respectively were pledged as security against bank overdrafts and short term loan facilities granted to the Group.

FOREIGN EXCHANGE EXPOSURE

The Group's assets are mainly in Hong Kong and most of the monetary assets and liabilities of the Group are denominated in Hong Kong dollars. The Group does not have material exposure to fluctuation in exchange rates.

EMPLOYMENT, TRAINING AND DEVELOPMENT POLICIES

There was a marginal increase in staff resources to match the increased level of activities. The number of full time employees increased from 125 last year to 139 at the end of this Financial Year.

Remuneration and bonuses are based on performance and are reviewed annually in conjunction with the annual employee performance appraisal and with reference to the results of the division to which the employee belongs and the Group as a whole.

The Group provides a full induction program and in-house training courses to all staff and in particular, to professional staff registered with relevant regulatory bodies to meet their mandatory continuous professional training requirements.

The Group also operates 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 section "Share options" of the Report of the directors.

CORPORATE GOVERNANCE

The Group is committed to conducting our business ethically and in a way that is transparent, accountable to shareholders and the community, and under the governance of an independent and effective board.

We believe our corporate governance practices, as a regulated entity and also as a listed company, are appropriately rigorous and of high standard. As an example, the Group has voluntarily disclosed individual directors' remuneration in the Annual Report in 2003, one year ahead of the Stock Exchange's recommendation, to promote greater transparency.

Report from Chief Executive Officer

The Group recognizes that sound corporate governance practices are vital to the effective and transparent operations of the Group and contributes significantly to long term corporate performance. Accordingly, as a new measure, the Group has established a Corporate Governance Committee to review and further develop the Group's corporate governance policies and principles and to supervise the implementation thereof. The committee will initially consist of an executive director, the Chief Operating Officer and an independent non-executive director.

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

COMMUNITY

In line with our philosophy of being a responsible corporate citizen, the Group has contributed HK$1.2 million to charitable organizations during the Financial Year. Please refer to our Statement of Social Responsibility for further details.

OUTLOOK

By virtue of its unrivalled geographic proximity and ties with the Mainland, Hong Kong is well positioned to benefit from the rapidly growing economy of the Mainland. As the economy of Hong Kong is more and more integrated with the Mainland economy, the Group will continue to expand its network to key financial centers in the Mainland. In addition to the established Beijing and Shanghai offices, the Group is setting up a third office in Shenzhen to better serve our clients in Southern China. China is the major source for our corporate advisory and private equity projects and the Group is determined to devote more resources to build up a better service network in China.

At the same time, the Group is aware of the uncertainty and volatility brought to the market by the austerity measures introduced in the Mainland. The Group will exercise a prudent approach in expanding the business to achieve a good balance between growth and stability.

The set up of a fund management joint venture in the PRC which focuses on the wealth management business is an important strategic move of the Group to expand our business in the PRC.

The subscription of new shares by Softbank, which was completed in May 2004, is an important milestone in our strategic development. In addition, the Group also set up a joint venture with Softbank with initial paid up capital of approximately HK$70 million to invest in private equity projects in the PRC. The Group will continue to look for strategic partners and alliances to broaden our customer base and provide additional value-added services to customers across a broader geographical area and become the preferred financial solutions provider that is global in reach and local in execution.

The success of our business is hinged on a dedicated professional team and I am pleased that our core corporate values have helped us to attract and retain such talented people. On behalf of the Board, I would like to thank our staff for their continuous effort and contributions to the Group throughout the whole year. I look forward to working with them closely to bring the Group to a higher level.

Equally important to last year's achievements was the Board's continual guidance and support, and I am honored to have worked with my fellow learned Board members.

Last, but not least, I would like to thank our customers, stakeholders, business partners and you, our shareholders for your unwavering and invaluable support.

William Ka Chung Lam
Chief Executive Officer

21 September 2004