

Management Discussion and Analysis

THE MARKET

Amidst a number of uncertainties in the macro economic environment, the market traded within a narrow range. However, individual stocks, especially resources and financial services companies from the People's Republic of China (the "PRC"), did extremely well and the Hang Seng China Enterprises Index reached a new high in January 2006, following the rally before the end of December. The listing of Bank of Communications in the first half of 2005 and China Construction Bank in the second half of 2005 brought a lot of excitement to the market. The market cooled down a bit in the third calendar quarter when there were a lot of concerns raised on the derivative warrants market. Despite that, Hong Kong has become the world's most active market (based on turnover) for derivative warrants in 2005.

The Hang Seng Index closed at 14,876 for 2005, compared with an end of June figure of 14,201 and 14,230 at the end of 2004. The Index was trading within a narrow range between 13,355 and 15,466 throughout 2005. Though there were no major price movements for the blue chip stocks, 2005 was a record year for the Hong Kong stock market. Both the amount of funds raised from Initial Public Offerings ("IPO") and market turnover reached record highs during 2005. Average monthly turnover on the Main Board during the six months ended 31 December 2005 was HK\$411 billion. Funds raised from IPO on the Main Board in the second half of 2005 amounted to HK\$99.9 billion, which was substantially higher than the HK\$62.6 billion in the first half of 2005.

FINANCIAL HIGHLIGHTS

The Board is pleased to announce that profit before taxation for the six months ended 31 December 2005 (the "Period") was HK\$50.4 million, as compared to HK\$51.9 million for the same period last fiscal year. Profit attributable to shareholders for the Period was HK\$26.2 million, as compared to HK\$60.7 million for the same period last fiscal year. Net gain on disposal of financial assets and remeasurement to fair value was reduced from HK\$60.1 million last fiscal year to HK\$20.6 million this fiscal year. Commission and fee income from the Client Services Group grew healthily from HK\$31.2 million to HK\$39.2 million, capitalising on the strong Hong Kong stock market. Interest income and related finance costs increased as a result of the rising interest rates. The higher general and administrative costs were due to the set up of a new Real Estate Services department, incidental costs in association with the acquisition of the investment properties and disposal of investments, and exchange losses on some foreign assets held. There was a non-recurring tax credit written back of HK\$9.1 million last fiscal year, whilst deferred taxation amounting to HK\$15.9 million was provided this fiscal year on the revaluation gains.

The Group adopted a number of new accounting standards during the Period. A detailed explanation of the impact is included in the notes 2(g) and (h) to the Interim Financial Statements. The new accounting standard on recognition and measurement of financial instruments has a major impact on the Group's financial statements. Under the new standard, the Group ceased to make provisions on investments based on shareholding concentration, market liquidity and lock up period. The cumulative provision was adjusted to the opening retained earnings for the Period. If the Group was able to continue with its previous valuation policy as adopted in prior years, the realised/unrealised gain on investments would have increased by HK\$12.0 million, mainly as a result of the release of a provision upon completion of the lock up period.

The Group invested in a property investment in Beijing earlier this fiscal year and the transaction was effectively completed before the Period end. A valuation gain of HK\$46.4 million was booked. In relation to this, a deferred tax provision of HK\$13.0 million was booked in accordance with the accounting standard on deferred taxation.

Following the completion of the property acquisition, the Group expects to increase its gearing in the future when the mortgage loan is drawn down. The change in gearing will not significantly affect the liquidity of the Group enjoyed in the past as the long term mortgage loan is drawn against a matching long term asset.

Management Discussion and Analysis**BROKERAGE**

Total revenue of the division increased by 40.7% to HK\$30.9 million during the period under review. Contribution to the Group was HK\$4.7 million.

One of the major initiatives of the division is to upgrade its electronic trading platform and significant progress was made during the Period. The futures brokerage business was also transferred from Kingsway SW Futures Limited to Kingsway Financial Services Group Limited to further streamline the Group's operations. The upgrade has proved to be well timed to match the increase in market turnover in Hong Kong and the Group coped with the increase in volume comfortably. The Group will continue with other phases of the upgrade to further improve operating efficiency and enhance our ability to better service our clients.

In addition to the recognitions from The Asset and FinanceAsia announced earlier in the year, Kingsway was named the top second local broker in Hong Kong by Asiamoney in November 2005.

INVESTMENT BANKING

The division contributed HK\$17.1 million in revenue and HK\$8.0 million in divisional profit to the Group.

The successful listing of Ju Teng International Holdings Limited at the end of October was a major achievement for the division. Market sentiment was quite negative at the time and a number of other IPOs were either postponed or cancelled. The transaction was completed successfully due to careful planning and execution by our experienced team.

In 2005, Kingsway was the top bookrunner in Small-Mid Cap IPO (in terms of fund raising size under US\$110 million) and led 4 IPOs taking major roles as Sponsors and/or Bookrunner/Joint Bookrunner, and 6 secondary placements. Total funds raised amounted to approximately HK\$1.5 billion.

WEALTH MANAGEMENT

The division recorded revenues of HK\$6.2 million for the Period and contributed a profit of HK\$0.5 million to the Group.

Our MPF fund's assets under management grew by 28% since the end of June 2005. The number of active members also increased by 6% over the same period. Assets under management for our major authorised unit trusts increased by 12% since the end of June 2005. The MPF sub funds and authorised unit trusts achieved very good investment performance during this fiscal year with a number of them getting top rankings in their respective categories and on an overall basis as shown by Standard & Poor's performance rating.

Kingsway SRI Asia Fund has become a constituent fund of a SRI Asia fund in Japan since November 2005. The division is looking for opportunities to work with other partners to promote our funds.

Management Discussion and Analysis

PRIVATE EQUITY

The division contributed HK\$4.1 million in revenue and HK\$1.1 million in profit to the Group.

Sinochem Kingsway Capital Inc., a private equity fund co-sponsored with Sinochem Group successfully disposed of its investments in the fund during the Period and is now looking for other investment opportunities. Kingsway SBF Investment, another private equity fund co-sponsored with SBI Holdings Inc., invested in a convertible bond issued by a Japanese listed company during the period under review. Kingsway SBF Investment achieved a return of 20.4% during the period under review.

The Real Estate Services department was formed to explore opportunities in this asset class. The department secured agency appointments to assist investors to search and secure high quality property investments in the PRC. It also advises our clients on the best structure and strategy in order to have the maximum return on the investment. The team is also in discussion with a number of interested investors with a view to form a private equity fund focusing on properties in the PRC.

INVESTMENT IN SECURITIES AND MERCHANT BANKING

These divisions contributed HK\$45.5 million to the Group's earnings for the Period.

The major contributor was the property investment in Beijing, which has appreciated in value since acquisition. As explained in the previous period's discussion, the Group planned to diversify its investment portfolio to asset classes other than equity securities and the performance proved that the strategy was working successfully. As funding was allocated to the property investment, return from the equity investment portfolio was affected. In addition, since the market was focused on the large-cap blue chip and red chip companies, returns from our Merchant Banking investments, which are mainly smaller companies with good fundamentals and growth potential, was also reduced during the period under review.

OUTLOOK

2006 will be another challenging year for the Group. We have witnessed higher volatility in January for all major financial markets. The financial markets are all focusing on the policy views of the new Chairman of the US Federal Reserve Board, who assumed duty in February 2006. The fluctuation in oil prices due to developments in Iran and other oil producing countries will affect the financial markets throughout the year. To address these uncertainties, the Group adopted the strategy to allocate part of its house portfolio to property investment in the PRC, which provides a good return with reduced risks and correlation with other asset classes. After taking possession of the property, the Group is now working on the leasing strategy and expects a steady income flow when the property is leased later in this fiscal year. In addition, the diversification of the investment portfolio to include a gold exploration company listed in Canada and a convertible bond on a Japanese listed company is likely to provide satisfactory returns in view of current market trends. With the appropriate strategy in place, our Merchant Banking division is expected to perform well in the first half of 2006.

The Hong Kong market is likely to perform well with the coming IPO of major state owned companies in the PRC. The positive sentiment will help our Brokerage and Investment Banking businesses to develop. With the planned completion of the upgrade of our electronic trading platform, the Group plans to bring our quality services to a bigger client portfolio.

Management Discussion and Analysis**OUTLOOK (Continued)**

The Wealth Management team is very proud of the performance of the funds under management in 2005 and will work harder to achieve better results in 2006. The Group will look for more partners to market our funds so that the growth in assets under management can be accelerated. The Private Equity team will focus on the launch of our real estate fund. The team was involved in advising clients on a number of transactions. It will capitalise on its expertise and focus on the PRC property market.

Overall, the Group is excited about the opportunities in the second half of this fiscal year. Building on the strong revenue of the Client Services Group in the six months ended 31 December 2005, the Group will focus on increasing the revenue from our Proprietary Investments Group to achieve a balanced result.

LIQUIDITY AND FINANCIAL RESOURCES

Total assets as at end of December 2005 were HK\$1,046 million, of which approximately 66.8% was current in nature. Net current assets were HK\$375 million and accounted for approximately 53.7% of the net assets of the Group as at the end of December 2005.

The Group generally finances its operations from internal resources. The Group has drawn approximately HK\$56 million of bank credit facility. The funding was mainly used for the financing business of the Group. All of the borrowings at the end of December 2005 were short term in nature, except two mortgage loans of approximately HK\$6.8 million secured by the Company's office premises at Beijing and Shenzhen. They were mainly denominated in Hong Kong dollar or United States dollar to match the funding requirements of our business operations. At the period end, the Group's gearing ratio, calculated as a percentage of bank borrowings over shareholders' fund, was approximately 8.7%. The Group is in the process of completing the documentation for the mortgage loans for the investment properties in Beijing. The gearing ratio is expected to increase after the loans are drawn in the first calendar quarter of 2006.

The Group's properties with a carrying value of approximately HK\$291.9 million were pledged as security against bank loans and credit 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. For financial assets/liabilities stated at fair value through profit or loss and denominated in foreign currencies, the Group will evaluate the impact of foreign currency exchange rate movements regularly as part of the investment monitoring process and hedging instruments may be used as part of the overall investment strategy if deemed necessary by the investment managers. The Group has purchased properties in the PRC for its own use and investment purposes. These assets are financed by internal resources and loans denominated in either Hong Kong dollar or US dollar. In view of the recent revaluation of the RMB in July and the subsequent stability in the exchange rate against Hong Kong and US dollars, the Group considers that there is no need to hedge these assets denominated in RMB. Management will monitor the situation closely and will introduce suitable hedging measures if there are any adverse changes. The Group does not have other material exposure to fluctuation in exchange rates and no hedging instruments are used.

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RISK MANAGEMENT

Policies and Procedures

The Group has established policies and procedures for risk management which are reviewed regularly by the management, to ensure the proper monitoring and control of all major risks arising from the Group's activities. The Group's Legal & Compliance department ("L&C") (which reports its findings to the Board via the Audit Committee) also performs regular reviews to supplement the various internal control measures adopted by the management and various divisions within the Group, to ensure compliance with policies and procedures.

Operational Risk

Operational risk has been defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

The Board places importance on ensuring that there is an effective operational risk management framework by maintaining strong risk and internal control cultures, including clear lines of responsibility and segregation of duties, effective internal reporting and contingency planning.

Credit Risk

Credit risk arises from a number of areas. These include the possibility that a counter-party in a transaction may default during the settlement process. It also arises from lending, settlement, treasury, market making, proprietary trading, and other activities undertaken by the Group.

The Group's Finance and Credit Committees are responsible for establishing the credit approval and monitoring procedures, which are in accordance with sound business practices, the requirements and provisions of the relevant ordinances, and where applicable, the codes or guidelines issued by the Securities and Futures Commission.

Day-to-day credit management is performed by the Operations department with reference to the aforementioned criteria including creditworthiness, collateral pledged, and risk concentration of the counter-parties. The Finance Committee and Credit Committee are responsible for review of guidelines on credit limits on a regular basis and approval of specific loans or advances if the amount exceeds our pre-set guideline.

Liquidity Risk

The Group manages its liquidity position to ensure the Group maintains a prudent and adequate liquidity ratio, in strict accordance with statutory requirements. This is achieved by the management, comprising the Chief Financial Officer and relevant senior managers monitoring the liquidity position of the Group on a daily basis to ensure the availability of sufficient liquid funds to meet all obligations and compliance with the statutory requirements such as the Financial Resources Rules applying to various licensed subsidiaries.

Capital Risk

The Group maintains a strong capital base to support the development of its businesses and to comply, where necessary, with at least the minimum statutory ratios.

Capital is allocated to the various activities of the Group depending on requirements and the degree of risk appropriate to various activities.

Management Discussion and Analysis**RISK MANAGEMENT (Continued)****Interest Rate Risk**

Interest rate risk primarily results from timing differences in the re-pricing of interest bearing assets, liabilities and commitments. The Group's interest rate risk exposure arises mainly from margin financing and other lending activities undertaken. The Group has the legal capacity to quickly recall such loans or re-price its loans to an appropriate level. Interest rates paid by the Group are managed by the Finance department with the aim of maximising the spread of interest consistent with liquidity and funding obligations.

Foreign Exchange Risk

Foreign exchange risk is the risk to earnings or capital arising from movements of foreign exchange rates.

The Group's foreign exchange risk primarily arises from currency exposures originating from its real estate assets located in the PRC. Foreign exchange risk is managed and monitored by the Finance department. Our principal lending operations are carried out in local currency to obviate foreign exchange risk. Accordingly, the Group has no significant exposure to foreign exchange fluctuations on loan assets.

Market Risk

Proprietary trading activities across the Group are subject to limits approved by management. The Board sets up the Investment Monitoring Committee ("IMC") for the purposes of independently monitoring the positions of its proprietary trading activities involving equities and derivatives. In addition to the IMC, the Group's exposures are closely monitored by the Finance department and senior management on a daily basis and are measured on a "mark-to-market" basis. The Group's various proprietary trading activities are reported monthly to senior management for review.

Reputational Risk

A key factor for businesses in the financial services sector is their reputation for financial probity and prudence. In our case, with our important and valuable "brand", we manage these risks through our strong internal controls and risk management regime, by comprehensive employee training and operational manuals in key areas, and by the strength and independence of our L&C.

EMPLOYEES

As at 31 December 2005, the number of full time employees of the Group was 150 (30 June 2005: 145). There have been no significant changes in the employment, training or development policies of the Group since the publication of the annual report for the year ended 30 June 2005.

INTERIM DIVIDEND

The Board of Directors has declared an interim dividend of 0.33 HK cent (2004: 0.33 HK cent) per ordinary share for the six months ended 31 December 2005. The dividend will be payable on Friday, 17 March 2006 to shareholders whose names appear on the Register of Members at the close of business on Friday, 3 March 2006.

Management Discussion and Analysis

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Wednesday, 1 March 2006 to Friday, 3 March 2006, both days inclusive, during which period no transfers of shares will be effected. To determine entitlement to the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrars, Computershare Hong Kong Investor Services Limited (at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong), for registration not later than 4:00 p.m. on Tuesday, 28 February 2006.

SHARE OPTIONS

As at 31 December 2005, the directors and employees of the Group had the following interests under the share option scheme (the "Scheme") approved by the shareholders of the Company on 23 August 2000:

Date of share options granted	Range of exercise periods	Exercise price per share HK\$	At 1 July 2005	Lapsed during the period	At 31 December 2005
<i>Directors: (Note 1)</i>					
31 August 2001	1 March 2002 to 31 August 2005	0.3233	2,400,000	(2,400,000)	—
4 April 2003	5 October 2003 to 4 April 2007	0.363	24,000,000	—	24,000,000
<i>Employees:</i>					
31 August 2001	1 March 2002 to 28 February 2006	0.3233	21,810,000	(21,810,000)	—
20 December 2002	2 October 2003 to 1 April 2007	0.3833	3,000,000	—	3,000,000
11 March 2004	24 September 2004 to 7 April 2008	0.43	24,740,000	(7,740,000)	17,000,000
Total			75,950,000	(31,950,000)	44,000,000

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SHARE OPTIONS (Continued)

There were no options granted, exercised or cancelled in accordance with the terms of the Scheme during the period. The exercise period for share options granted on a particular date varies for each individual. The range of exercise periods disclosed above indicates the timeframe during which the exercise periods for share options granted on a particular date can fall.

Note:

- (1) For more details of options granted to individual directors, please refer to the section “Directors’ and chief executives’ interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation” on page 30.

DIRECTORS’ AND CHIEF EXECUTIVE’S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 31 December 2005, the interests and/or short positions of each director and chief executive in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV the Hong Kong Securities and Futures Ordinance (“SFO”)), as recorded in the register maintained under Section 352 of the SFO or as notified to the Company were as follows:

(i) Interest in long positions of ordinary shares of the Company

Name of director	Type of interest	* Number of ordinary shares in the Company	* % of total issued shares
Mr Jonathan Koon Shum Choi **	Corporate	2,411,661,327	74.25%
Mr William Ka Chung Lam **	Corporate	2,411,661,327	74.25%
Mr William Ka Chung Lam	Family	7,500,000	0.23%
Ms Rebecca Yuk Fung Lau	Personal	4,200,000	0.13%
Mr Michael Wai Chung Wu	Personal	2,514,000	0.08%
Mr Stanley Kam Chuen Ko	Corporate	1,200,000	0.04%

* Excludes interest in options to acquire ordinary shares of the Company which is disclosed in section (iv) below.

** Mr Jonathan Koon Shum Choi and Mr William Ka Chung Lam are deemed to be interested in 2,411,661,327 ordinary shares by virtue of the SFO. Such interest in shares is also set out under the section “Substantial shareholders’ interests and short positions in the shares and underlying shares of the Company” shown on page 33.

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DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION (Continued)

- (ii) Interest in long positions of common shares of Kingsway International Holdings Limited ("Kingsway International"), the ultimate holding company of the Company

Name of director	Personal interest	Family interest	Corporate interest	Other interest	* Total number of common shares	* % of total issued shares
Mr Jonathan Koon Shum Choi **	10,101,596	—	26,828,055 (Note 1)	—	36,929,651	46.1%
Mr William Ka Chung Lam **	9,726,750	9,790,507 (Note 2)	—	12,915,060 (Note 3)	32,432,317	40.5%
Mr Michael Koon Ming Choi	106,937	—	—	—	106,937	0.1%
Mr Stanley Kam Chuen Ko	20,400	—	—	—	20,400	<0.1%
Ms Rebecca Yuk Fung Lau	100	—	—	—	100	<0.1%

* Excludes interest in options to acquire common shares of Kingsway International which is disclosed in section (v) below.

** By virtue of their interest in Kingsway International, Mr Jonathan Koon Shum Choi and Mr William Ka Chung Lam are deemed to be interested in the shares of the subsidiaries (including the Company as disclosed in section (i) above) of Kingsway International under the SFO.

Notes:

- (1) Of these, 12,750,000 shares are held by Sun Wah Capital Limited. Mr Jonathan Koon Shum Choi is deemed to be interested in these shares as he is entitled to exercise or control the exercise of one third or more of the voting power at general meetings of Sun Wah Capital Limited.

The remaining 14,078,055 shares are held by Scarlet Red Limited. Mr Jonathan Koon Shum Choi is deemed to be interested in these shares as he is entitled to exercise or control the exercise of one third or more of the voting power at general meetings of Scarlet Red Limited.

- (2) These shares are held by Ms Mary Yuk Sin Lam who is the spouse of Mr William Ka Chung Lam.

- (3) Of these, 10,515,060 shares are held by Dynasty International Holdings Limited which is a wholly owned subsidiary of Global Fame Limited. Global Fame Limited is wholly owned by The WKC Lam Family Trust which is a discretionary trust with Mr William Ka Chung Lam and his two children as the beneficiaries.

The remaining 2,400,000 shares are held by Abundant World Limited. Abundant World Limited is wholly owned by The Mary Lam Family Trust which is a discretionary trust with Ms Mary Yuk Sin Lam and her two children as the beneficiaries. Ms Mary Yuk Sin Lam is the spouse of Mr William Ka Chung Lam who is a trustee of The Mary Lam Family Trust.

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DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION (Continued)

- (iii) Interest in long positions of ordinary shares of HK Weaver Group Limited, a fellow subsidiary of the Company

Name of director	Type of interest	Number of ordinary shares	% of total issued shares
Mr William Ka Chung Lam	Personal	59,620	4.6%
Mr William Ka Chung Lam	Family	28,518	2.2%
Mr Michael Wai Chung Wu	Personal	39,474	3.0%
Ms Rebecca Yuk Fung Lau	Personal	5,000	0.4%

- (iv) Interest in options to acquire ordinary shares of the Company

Details of the directors' interests in options under the Scheme are as follows:

Name of Director	Exercise period	Exercise price per share HK\$	At 1 July 2005	Lapsed during the period	At 31 December 2005
Mr Michael Koon Ming Choi	1 March 2002 to 31 August 2005	0.3233	1,500,000	(1,500,000)	—
Ms Rebecca Yuk Fung Lau	1 March 2002 to 31 August 2005	0.3233	900,000	(900,000)	—
	5 October 2003 to 4 April 2007	0.363	24,000,000	—	24,000,000

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DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION (Continued)**(v) Interest in options to acquire common shares of Kingsway International**

Pursuant to a share option plan operated by Kingsway International, certain directors had been granted options to subscribe for the shares of Kingsway International. There were no options outstanding as at 31 December 2005 and no options were granted to the directors during the period.

Save as disclosed above, none of the directors and chief executive of the Company or any of their spouses or children under 18 years of age has interests or short positions in the shares, underlying shares or debentures of the Company and associated corporations as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

Save as disclosed above, as at 31 December 2005, none of the directors and chief executive had any interests or short positions in the shares of the Company and its associated corporations as defined in the SFO, and none of the directors and chief executive or their spouses or children under 18 years of age had been granted any rights to subscribe for the shares of the Company, or had exercised any such rights during the period.

Save as disclosed above, at no time during the period was the Company or any of its holding companies, subsidiaries and fellow subsidiaries a party to any arrangements to enable the directors or chief executive of the Company to hold any interests or short positions in the shares or underlying shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2005, the register of substantial shareholders maintained under Section 336 of the SFO shows that the Company had been notified of the following substantial shareholders' interests, being 5% or more of the Company's issued share capital. These interests represent long positions in the shares of the Company.

Name of shareholders	Country of incorporation	Number of ordinary shares in the Company		Note	% of total issued shares
		Direct interest	Deemed interest		
World Developments Limited	British Virgin Islands	2,411,661,327	—	(a)	74.25%
Innovation Assets Limited	British Virgin Islands	—	2,411,661,327	(a)	74.25%
Kingsway International Holdings Limited	Bermuda	—	2,411,661,327	(a)	74.25%
Ms Mary Yuk Sin Lam	N/A	7,500,000	2,411,661,327	(a)	74.48%

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY (Continued)

Note:

- (a) These shares represent the same interest and are therefore duplicated amongst World Developments Limited, Innovation Assets Limited and Kingsway International. World Developments Limited is a wholly owned subsidiary of Innovation Assets Limited whose entire issued share capital is beneficially owned by Kingsway International. Mr Jonathan Koon Shum Choi beneficially owns or has control of approximately 46.1% of the issued share capital of Kingsway International and therefore is deemed (by virtue of the SFO) to be interested in these 2,411,661,327 shares. Mr William Ka Chung Lam and his spouse, Ms Mary Yuk Sin Lam, beneficially own or have control of approximately 40.5% on a combined basis of the issued share capital of Kingsway International and therefore are deemed (by virtue of the SFO) to be interested in these 2,411,661,327 shares.

Save as disclosed above, the register of substantial shareholders maintained under Section 336 of the SFO shows that the Company had not been notified by any substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 31 December 2005, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

During the six-month period ended 31 December 2005, save as disclosed below, the Company has complied with the provisions of the Code on Corporate Governance Practices (the "Code") as set out by the Stock Exchange of Hong Kong Limited (the "Stock Exchange") in Appendix 14 to the Listing Rules.

1. Under A.4.1 of the Code, non-executive directors should be appointed for a specific term, subject to re-election. During the period from 1 July 2005 to 16 September 2005 two non-executive directors of the Company were not appointed for a specific term but were subject to retirement by rotation according to the provisions of the Company's Bye-laws. At the board meeting held on 16 September 2005, the two non-executive directors were appointed for a specific term, subject to re-election pursuant to the Company's Bye-laws.
2. Under B.1.3 of the Code, the terms of reference of the remuneration committee should include, at a minimum, the specific duties as set out in B.1.3 of the Code. On 16 September 2005, the Company adopted a new set of terms of reference for its remuneration committee, which included those specific duties as set out in B.1.3 of the Code.
3. Under C.3.3 of the Code, the terms of reference of the audit committee should include at least the duties as set out in C.3.3 of the Code. On 16 September 2005, the Company adopted a new set of terms of reference for the Audit Committee, which included those duties set out in C.3.3 of the Code.

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MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the directors (the “Model Code”). Having made specific enquiry of all directors, the Company confirmed that all directors have complied with the required standard set out in the Model Code for the period under review.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the review of the interim report and the unaudited condensed financial statements for the six months ended 31 December 2005. Terms of reference of the Audit Committee are available on request to shareholders of the Company.

On behalf of the Board

William Ka Chung Lam

Chief Executive Officer

Hong Kong, 10 February 2006