



Karl Thomson Holdings Limited

(incorporated in Bermuda with limited liability)



INTERIM REPORT 2004



INTERIM RESULTS

The Board of Directors (the "Board") of Karl Thomson Holdings Limited (the "Company") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2004 together with the comparative figures for the corresponding period in 2003 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2004

		Six months ended 30 September	
	NOTES	2004 HK\$'000 (unaudited)	2003 HK\$'000 (unaudited)
Turnover	3	20,302	21,939
Other operating income		495	619
Gain on trading securities		36	1,443
Allowance for bad and doubtful debts		(1,089)	(2,056)
Amortisation of intangible assets		(3)	(3)
Depreciation		(1,056)	(1,198)
Finance costs		(7)	(14)
Other operating expenses		(14,078)	(14,675)
Staff costs		(5,076)	(4,638)
Discount on acquisition of an associate		41,728	—
Share of results of an associate		10,478	—
Profit before taxation		51,730	1,417
Taxation	4	—	—
Profit before minority interests		51,730	1,417
Minority interests		(188)	(137)
Net profit for the period		51,542	1,280
Basic and diluted earnings per share	5	HK11.20 cents	HK0.28 cents

CONDENSED CONSOLIDATED BALANCE SHEET
AT 30 SEPTEMBER 2004

	NOTES	30 September 2004 HK\$'000 (unaudited)	31 March 2004 HK\$'000 (audited)
NON-CURRENT ASSETS			
Fixed assets	6	2,629	3,600
Intangible assets	7	30	33
Interest in an associate	8	82,206	—
Other assets		4,152	4,078
Loans receivable	9	1,051	1,076
		<u>90,068</u>	<u>8,787</u>
CURRENT ASSETS			
Accounts receivable	10	47,111	44,482
Investments in securities		61	156
Loans receivable	9	2,797	5,792
Other receivables, prepayments and deposits		1,468	2,023
Pledged fixed deposits - general accounts	11	7,623	7,598
Bank balances - trust and segregated accounts		34,874	70,641
Bank balances (general accounts) and cash		33,737	58,928
		<u>127,671</u>	<u>189,620</u>
CURRENT LIABILITIES			
Accounts payable	12	45,560	76,068
Accrued expenses and other payables		3,750	5,607
Obligations under finance leases - amounts due within one year		—	33
		<u>49,310</u>	<u>81,708</u>
NET CURRENT ASSETS		<u>78,361</u>	<u>107,912</u>
NET ASSETS		<u>168,429</u>	<u>116,699</u>
CAPITAL AND RESERVES			
Share capital	13	46,000	46,000
Reserves		121,819	70,277
TOTAL CAPITAL AND RESERVES		<u>167,819</u>	<u>116,277</u>
MINORITY INTERESTS		610	422
		<u>168,429</u>	<u>116,699</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2004

	Share capital HK\$'000	Share premium HK\$'000	Special reserve HK\$'000 (Note 1)	Goodwill reserve HK\$'000	Accumulated (losses) profits HK\$'000	Total HK\$'000
At 1 April 2003	46,000	76,589	29,140	(13,950)	(29,650)	108,129
Net profit for the period	—	—	—	—	1,280	1,280
At 30 September 2003 and 1 October 2003	46,000	76,589	29,140	(13,950)	(28,370)	109,409
Net profit for the period	—	—	—	—	6,868	6,868
At 31 March 2004 and 1 April 2004	46,000	76,589	29,140	(13,950)	(21,502)	116,277
Impairment on goodwill reserve (Note 2)	—	—	—	13,950	(13,950)	—
Net profit for the period	—	—	—	—	51,542	51,542
At 30 September 2004	46,000	76,589	29,140	—	16,090	167,819

Notes:

1. The special reserve of the Group represents the difference between the nominal value of shares of the acquired subsidiaries and the nominal value of the shares of the Company issued for the acquisition at the time of the group reorganisation.
2. During the period, the directors assess the recoverability of goodwill reserve and recognised an impairment loss of HK\$13,950,000. With the application of Hong Kong Financial Reporting Standards ("HKFRS") 3 "Business Combinations", when the goodwill previously recognised as a deduction from equity became impaired, the goodwill should not be recognised in the income statement.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2004

	Six months ended 30 September	
	2004	2003
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
NET CASH FROM OPERATING ACTIVITIES	5,026	2,702
NET CASH USED IN INVESTING ACTIVITIES	(30,159)	(1,269)
NET CASH USED IN FINANCING ACTIVITIES	<u>(33)</u>	<u>(363)</u>
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(25,166)	1,070
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	<u>66,526</u>	<u>49,959</u>
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	<u><u>41,360</u></u>	<u><u>51,029</u></u>
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances (general accounts) and cash	33,737	43,456
Pledged fixed deposits - general accounts	<u>7,623</u>	<u>7,573</u>
	<u><u>41,360</u></u>	<u><u>51,029</u></u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2004

1. BASIS OF PREPARATION

The Company is an investment holding company. The principal activities of the Group are the provision of financial services, including stockbroking, futures and options broking, mutual funds and insurance-linked investment plans and products broking, securities margin financing services and corporate finance advisory services.

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost convention as modified for the revaluation of investments in securities.

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2004 except for the early application of the following HKFRS and Hong Kong Accounting Standards ("HKAS") issued by the HKICPA with effective from 29 July 2004:

HKFRS 3	Business Combinations
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets

The early application of HKFRS 3, HKAS 36 and HKAS 38 resulted in a change in the accounting policy for goodwill, discount on acquisition, impairment of assets and intangible assets.

In accordance with the transition provision of HKFRS 3, goodwill arising on acquisition previously recognised in equity shall not be recognised in profit and loss upon disposal of all or part of the business to which that goodwill relates or when a cash-generating unit to which the goodwill relates becomes impaired.

Goodwill/discount on acquisition

Any excess of the cost of acquisition over the Group's share of the fair values of the identifiable assets, liabilities and contingent liabilities of the associate at the date of acquisition is recognised as goodwill. Any deficiency of the cost of acquisition below the Group's share of the fair values of the assets, liabilities and contingent liabilities of the associate at the date of acquisition (i.e. discount on acquisition) is credited to the income statement in the period of acquisition.

Impairment of assets

In accordance with the provisions of HKAS 36, from the year ended 31 March 2004 onwards, goodwill is tested annually for impairment, and whenever there is an indication that the unit may be impaired, by comparing the carrying amount of the unit, including the goodwill, with the recoverable amount of the unit.

Intangible assets

The Group has reassessed the useful lives of its intangible assets in accordance with the provisions of HKAS 38. No adjustment resulted from this reassessment.

3. SEGMENT INFORMATION

The Group's primary format for reporting segment information is business segment.

The turnover and segment results of the Group, analysed by principal activity, were as follows:

	Broking		Securities margin financing		Others		Total	
	Six months ended	Six months ended	Six months ended	Six months ended	Six months ended	Six months ended	Six months ended	
	30.9.2004	30.9.2003	30.9.2004	30.9.2003	30.9.2004	30.9.2003	30.9.2004	30.9.2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment turnover	<u>17,680</u>	<u>17,892</u>	<u>1,617</u>	<u>2,066</u>	<u>1,005</u>	<u>1,981</u>	<u>20,302</u>	<u>21,939</u>
Segment (loss) profit	<u>(364)</u>	<u>3,862</u>	<u>(188)</u>	<u>(1,995)</u>	<u>318</u>	<u>(67)</u>	<u>(234)</u>	<u>1,800</u>
Unallocated expenses							<u>(242)</u>	<u>(383)</u>
Discount on acquisition of an associate							<u>41,728</u>	<u>—</u>
Share of results of an associate							<u>10,478</u>	<u>—</u>
Profit before taxation							<u>51,730</u>	<u>1,417</u>

4. TAXATION

No provision for Hong Kong Profits Tax has been made in the financial statements for the six months ended 30 September 2004 and 30 September 2003 as the companies within the Group had no assessable profits for both periods.

A deferred tax asset has not been recognised in the financial statements in respect of estimated tax losses due to the unpredictability of future profit streams.

5. BASIC AND DILUTED EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	Six months ended 30 September	
	2004	2003
	HK\$'000	HK\$'000
Net profit for the period attributable to shareholders	<u>51,542</u>	<u>1,280</u>
	Number of shares	
	'000	'000
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	<u>460,000</u>	<u>460,000</u>

The computation of the diluted earnings per share for both periods do not assume the exercise of the Company's options as their exercise prices were higher than the average market price of the Company's shares during both periods.

6. FIXED ASSETS

During the period, the Group acquired computer equipment and furniture and fixtures at an aggregate cost of approximately HK\$85,000 (six months ended 30 September 2003: HK\$1,269,000).

7. INTANGIBLE ASSETS

	Trading rights HK\$'000	License and right to use a website and trademark HK\$'000	License to use technical knowhow and Webtrade products HK\$'000	Total HK\$'000
COST				
At 1 April 2004 and 30 September 2004	50	120,978	7,420	128,448
AMORTISATION AND IMPAIRMENT				
At 1 April 2004	17	120,978	7,420	128,415
Provided for the period	3	—	—	3
At 30 September 2004	20	120,978	7,420	128,418
CARRYING VALUES				
At 30 September 2004	30	—	—	30
At 31 March 2004	33	—	—	33

Trading rights represent two trading rights in The Stock Exchange of Hong Kong Limited (the "SEHK") and one trading right in the Hong Kong Futures Exchange Limited (the "HKFE"). Trading rights are amortised over 9 years.

8. INTEREST IN AN ASSOCIATE

The amount represents 35.17% shareholding in an associate, Asia Tele-Net and Technology Corporation Limited ("ATNT"), a company incorporated in Bermuda with its shares listed on the SEHK. On 6 February 2004, Karfun Investments Limited ("Karfun"), a wholly owned subsidiary of the Company, entered into a conditional subscription agreement (the "CN Subscription Agreement") with ATNT. Pursuant to the CN Subscription Agreement, Karfun would subscribe a convertible note in principal amount of HK\$30,000,000 to be issued by ATNT. On 19 May 2004 the subscription of the convertible note issued by ATNT under the CN Subscription Agreement was completed.

On 29 July 2004, Karfun exercised its right to convert in full the HK\$30,000,000 convertible note into 150,000,000 new ATNT shares at a conversion price of HK\$0.20 per ATNT share. Thereafter, ATNT becomes the associate of the Group.

9. LOANS RECEIVABLE

The maturity of the loans receivable is as follows:

	30 September 2004 HK\$'000	31 March 2004 HK\$'000
Matured within 90 days	2,708	5,734
Matured between 91 days to 180 days	32	33
Matured between 181 days to 365 days	57	25
	<hr/>	<hr/>
	2,797	5,792
Matured over 1 year	1,051	1,076
	<hr/>	<hr/>
	3,848	6,868
	<hr/> <hr/>	<hr/> <hr/>

10. ACCOUNTS RECEIVABLE

	30 September 2004 HK\$'000	31 March 2004 HK\$'000
Accounts receivable arising from the business of dealing in securities:		
- Cash clients	13,724	15,117
- Hong Kong Securities Clearing Company Limited ("HKSCC")	2,653	2,158
Accounts receivable from HKFE Clearing Corporation Limited ("HKFECC") arising from the business of dealing in futures contracts	4,817	4,128
Loans to securities margin clients	25,172	22,456
Accounts receivable arising from the business of providing corporate advisory services	745	623
	<hr/>	<hr/>
	47,111	44,482
	<hr/> <hr/>	<hr/> <hr/>

The settlement terms of accounts receivable from cash clients, HKSCC and HKFECC are one to four days after the trade date.

Loans to securities margin clients are secured by clients' pledged securities, repayable on demand and bear interest at prevailing market rates. In the opinion of the Directors, no aged analysis is disclosed as the aged analysis does not give additional value.

The Group does not provide any credit term to its corporate advisory clients. The age of accounts receivable arising from the business of providing corporate advisory services is as follows:

	30 September 2004 <i>HK\$'000</i>	31 March 2004 <i>HK\$'000</i>
0 to 90 days	312	318
91 to 180 days	218	305
181 to 365 days	215	—
	<u>745</u>	<u>623</u>

11. PLEDGED FIXED DEPOSITS

The Group had pledged fixed deposits of approximately HK\$7,623,000 (31 March 2004: HK\$7,598,000) to banks to secure general banking facilities granted to the Group.

12. ACCOUNTS PAYABLE

	30 September 2004 <i>HK\$'000</i>	31 March 2004 <i>HK\$'000</i>
Accounts payable to cash clients arising from the business of dealing in securities	38,895	67,781
Accounts payable to clients arising from the business of dealing in futures contracts	4,820	5,165
Amounts due to securities margin clients	1,845	3,122
	<u>45,560</u>	<u>76,068</u>

The settlement terms of accounts payable to cash clients are two to four days after the trade date.

Accounts payable to clients arising from the business of dealing in futures contracts are margin deposits received from clients for their tradings of futures contracts on the HKFE. The excesses of the outstanding amounts over the required margin deposits stipulated by the HKFE are repayable to clients on demand. In the opinion of the Directors, no aged analysis is disclosed as the aged analysis does not give additional value.

Amounts due to securities margin clients are repayable on demand. In the opinion of the Directors, no aged analysis is disclosed as the aged analysis does not give additional value.

13. SHARE CAPITAL

	Number of shares '000	HK\$'000
Ordinary shares of HK\$0.10 each		
Authorised:		
At 1 April 2003, 31 March 2004 and 30 September 2004	<u>1,000,000</u>	<u>100,000</u>
Issued and fully paid:		
At 1 April 2003, 31 March 2004 and 30 September 2004	<u>460,000</u>	<u>46,000</u>

14. RELATED PARTY TRANSACTION

On 29 July 2004, the Group acquired 35.17% equity interest in ATNT, a company in which Mr. Lam Kwok Hing has a beneficial interest and Messrs. Lam Kwok Hing and Ng Chi Kin David are also directors, by the conversion of HK\$30,000,000 convertible notes into 150,000,000 new ATNT shares at a conversion price of HK\$0.20 per ATNT share.

15. POST BALANCE SHEET EVENTS

- (i) Pursuant to a director's meeting held on 15 December 2004, the Company changed its financial year end date from 31 March to 31 December, accordingly, the next financial year end date will be for the nine months period ended 31 December 2004.
- (ii) On 25 November 2004, Karfun entered into a conditional agreement with ATNT, in relation to the acquisition of an additional 12.20% interest in ATNT for an aggregate consideration of approximately HK\$23,398,000.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 September 2004 (2003: Nil).

CHAIRMAN'S STATEMENT

I am pleased to announce to the shareholders the unaudited consolidated results of the Group for the six months ended 30 September 2004.

The Group recorded an unaudited net profit for the six months ended 30 September 2004 of HK\$51,542,000 (2003: HK\$1,280,000), equivalent to earnings per share of HK11.20cents (2003: earnings per share HK0.28cents), mainly attributing to the additional contribution from the share of investment profit from its new associate company, ATNT, a company listed on the SEHK, after converting its convertible note into ordinary shares of ATNT on 29 July 2004. The result reflected the achievements of its commitment in diversifying the earning bases, improving profitability and looking for attractive investments to bring valuable return for the shareholders.

On the back of the global cyclical economy recovery, various favourable China policies towards Hong Kong and low interest rate, Hong Kong continued its strong V-shaped rebound from the downturn after the outbreak of SARS in 2003. The gradual implementation of the Closer Economic Partnership Arrangement (the "CEPA") and the Pan-Pearl River Delta regional development project (the "PPRD") attracted additional investments to tap the business opportunities in China through the bases in Hong Kong. The expansion of the "Individual Travel Scheme" to cover more China provinces relaxed more tourists from other provinces to Hong Kong and effected in bringing tremendous tourist increase. Coupled with the return of other overseas tourists, the total tourist visits reached a historic high of more than 15.7 millions for the first three quarters of 2004, already exceeding that of the whole 2003 and representing over 52% growth over the same corresponding period of 2003. Both hotel occupancy and rents improved significantly. Unemployment rate also continued to fall to 6.7% for the August-October period of 2004 from the peak of 8.5% in 2003 with the total employment already marking a new record of nearly 3.3 million. External trade kept encouraging double-digit growth. Property market reacted positively to the clearer government housing policy with both developer and buyers aggressively chasing higher prices to enter the market. Consecutive land auctions produced impressive transaction prices far above market expectation. Prices in sales and rentals market shot up rapidly, indicating a full return of confidence to the property business. In the light of economic recovery, the return of investment confidence, low interest rate, the inflow of hot money driven by the weak US Dollar and speculations of Rumenbi (RMB) appreciation, the stock market went up sharply with Hang Seng Index breaching 14,000 level. Domestic consumption was impacted positively with advance in both retail value and prices. Composite Price Index, an inflation indicator, reported the first rise of 0.9% in July 2004 since November 1999, putting an end to 57-month deflation and hopefully mild inflation will be kept on in period ahead. GDP growth achieved higher than expected at 7.2% for the third quarter partly due to the lower base in the last correspondent period but still pointed to above 7% for the whole year. Hong Kong shall be riding on the cycle of persistent economic recovery.

OUTLOOK

The Hong Kong economy maintains its solid growth and the worry over the external uncertainties is gradually faded away. The successful extension of Bush Presidency in USA for another term consolidates a consistent economic policy in favour of free trade business and investment environment. Sino-US relationship as well as Taiwan Strait situation is expected to be steady. Tensions in Middle East shall still breed potential terror threats to the global stability but the case is neither deteriorating. Oil price eased off to the level of US\$42 per barrel, drastically down from the peak at US\$55. The FED did raise interest rates to curb inflation but the extent and speed were not radical as expected. After the implementation of credit tightening policy, the China economy is on right track to land softly. The sudden raise of interest rate in RMB in October 2004 may signal a shift of adjusting economy by from rigid administrative measures to more dynamic monetary policies.

The China government is anticipated to introduce more favourable policies for Hong Kong including the "Business Travel Scheme" to enable China enterprises to set offices in Hong Kong. At the moment, the China financial market is still in the stage of undergoing in-depth reforms. Comparatively, both regulatory control and rules in Hong Kong are more mature and impeccable than that in China and therefore Hong Kong remains to be a good fund raising market for the main Chinese enterprises in the foreseeable future. The important position of Hong Kong financial market is believed to maintain its competitiveness. More sizable Chinese enterprises will continue to get listings in Hong Kong. The recent return of market expectation on the appreciation of RMB power huge liquidity inflow to Hong Kong. Though the FED made the fourth interest rate rise this year, the Hong Kong banks surprisingly cut their interest rate in November. In view of the robust economy and the abundant liquidity, we expect investment sentiment to pick up solidly and stock market to become buoyant for the rest of the fiscal year.

Over the past few years, the Group endeavored to diversify the business profile, enrich the product and services and enhance the quality to consolidate its full-scale financial service platform for the Greater China Region. It is now making great efforts in extending our strategic network in China through the existing clients and partners. The closer integration of China with international market stimulates fast growing demand for financial services from both Chinese enterprises and individuals and the Group is well equipped with necessary expertise and comprehensive financial products and services range to explore this vast business opportunities. In the local market, we also completed a tough exercise to streamline the business operation and minimize the cost to match the fierce competition especially from the banks. The Group has been diversifying its business coverage. Encouraging contribution growth was registered in the newly developed business. We are still striking hard to expand our client base, increase our investment products and improve our service quality. Although the financial industry inevitably faces cyclical fluctuations, the Group will continue to optimize the business development, search solid and suitable investment opportunities, expand revenue source to order to generate stable return in the long run.

APPRECIATION

I would like to thank my fellow directors for their guidance and support and to express my appreciation to the management team and diligent employees for their commitment and loyal service. I also wish to thank my customers and shareholders for their continued support.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the six months ended 30 September 2004, the Group managed to sustain another impressive profit growth after a solid progress last year. As compared to the corresponding period for year 2003, total turnover for the Group retreated slightly by 7.46% to approximately HK\$20,302,000 (2003: HK\$21,939,000). Net profit attributable to shareholders was approximately HK\$51,542,000, representing a leap of 39 folds over that of HK\$1,280,000 during the previous corresponding period. This encouraging result was mainly attributed to our investment in ATNT.

Market Overview

Market experienced a wide and volatile trading pattern during the period under review. Investment sentiment has been fragile and vulnerable to the concerns of external uncertainties including the credit tightening policy of China in cracking down the overheating economy, the soaring oil price to a high of US\$55 per barrel, the cycle of interest rate hike in US and the potential terrorist attacks ahead of US Presidential Election. Market was severely dampened by the emergence of heavy profit takings after the unadjusted strong rally since mid-2003 and the renewed worry of the various uncertainties with Hang Seng Index sliding from 13,919 at 1 March 2004 to 10,968 at 17 May 2004. Due to the weak investment confidence and the absence of sizable new listings, both primary and secondary trading activities decreased drastically from that of the precedent six months. Daily turnover average on the Main Board and GEM Board dropped by 26% to about HK\$11.17 billion as compared to the precedent six months though it was still 25.2% over the level of previous corresponding period. During the period under review, the Hang Seng Index ended with 438 points gain at 13,120 up to 30 September 2004 after a wide 2,200 points range movement. Total fund raisings from both new listing and secondary market placement were HK\$57.2 billion, 33.5% down from the precedent six months. Total market capitalization edged up marginally by 3.7% to HK\$5,898 billion during the period under review.

Despite a correction in the Hong Kong stock market during the period under review, the economy maintained growth momentum. As unemployment was improved particularly by the increase in demand for new recruitments from the booming tourist industry, the unemployment rate fell to 6.7% from the peak of 8.5% in 2003. With the improved unemployment rate and the speeding-up of Chinese enterprises in opening registered bases in Hong Kong, the property market was impacted positively. Individual A-grade office sales prices went up more than 30% as compared to early 2004. Luxury residential market was reported similar strong appreciation of asset value. The persistent economy recovery, reduction of unemployment rate, prosperous property market, the return of investment confidence, low interest rate environment, coupled with the inflow of hot money driven by the weak US Dollar policy and speculation of RMB appreciation, all produced positive stimulations on the stock market. The market started to pick up cautiously and Hang Seng Index ended at 14,060 further boosting the investment sentiment and bringing the daily turnover well above HK\$20 billion for consecutive trading days by 30 November 2004. Following the development of entertainment related business and economic take-off in Macau, the listed Macau concept stocks performed strongly on tremendous turnover increase. Our brokerage business was also benefited from the increase in the trading volume of the whole market. In the prevailing improving investment environment, the Group is cautiously optimistic on the future financial business development and believes to achieve better result for the rest of the fiscal year.

Securities, futures and options brokerage business

During the period under review, the Group's performance in its stockbroking, futures and options broking and dealing businesses was adversely affected by the poor investment sentiment and the reduced trading participation from clients during the review period amid the sharp corrections in the second quarter of 2004 following various uncertainties. Hang Seng Index dived to its year low at 10,968 in May 2004 and daily market turnover average shrank by 25%. Turnover for the Group's securities broking business and futures broking business as well as underwriting commission which accounted for 35.02% of total operating revenue depressed by 30.61% to HK\$7,110,000 (2003: HK\$10,247,000). The Group intends to increase investment in other business and to structure a more solid and healthy profit distribution pattern in order to level off the industrial fluctuations of the brokerage business.

Securities Margin Financing

Interest income generated from securities margin loan portfolio accounted for 7.96% of the Group's turnover further declined by 21.73% to HK\$1,617,000 (2003: HK\$2,066,000). The Group maintained consistently prudent and flexible margin credit policy to minimize the risk exposure in the unstable market to achieve best profitability for our shareholders.

Financial Management and Advisory Business

The Group sustained its impressive progress in financial management and advisory business since the establishment of our subsidiary, Karl Thomson Investment Consultants Limited in 2002. Turnover for the division (which accounted for 52.06% of the Group's operating revenue) advanced by 38.26% to HK\$10,570,000 (2003: HK\$7,645,000). The continuous growth was the successful result of our aggressive recruitment of high caliber and competent advisers and enrichment of our products to provide personalized and tailor-made service to meet the investment needs of clients. In the light of economic recovery, improved employment situation, low interest rate scenario and possible further liberalization of China financial market, the demand for more sophisticated investment advisory services still sees fast growing and prospect looks promising. The Group will continue to expand our professional sales team, improve quality and enrich product range in order to provide superb financial advisory services for our clients.

Investment Banking

The Group operates its investment banking business through our subsidiary, Karl Thomson Financial Advisory Limited, which contributed an operating revenue of HK\$965,000 to the Group during the period. The result is considered satisfactory in the face of very fierce capital-intensive competition. The investment banking business continues to benefit from the persistent in-depth reforms of the financial industry in China. The Group geared most of the efforts and resources to provide financial consultancy and advisory services for both listed and unlisted companies in the Greater China region in restructuring their capital and business formation and making alternate cost-effective funding arrangements in addition to traditional fund raising activities. Progress is considered encouraging and the Group is striking hard to expand the network in China through the existing clients and strategic partners. The drive of China enterprises to match and integrate with international financial market standard underpins an optimistic growth in this area.

Material Acquisitions and Disposals of Businesses or Companies

Subsequent to the subscription of HK\$30,000,000 convertible note issued by ATNT, the Group has exercised the option to convert the said note into 150,000,000 ATNT ordinary shares at HK\$0.20 per share on 29 July 2004 and is thereafter effectively holding 35.17% of ATNT which became an associate of the Group. In the absence of changes of controlling interests of ATNT, the conversion was exempted from the requirement of making general offer. The business of ATNT includes electroplating equipment manufacturing, timber trading and entertainment production services business. The Group is accounted to share an investment income of HK\$10,478,000 from the profit of ATNT during the review period. This investment effectively brought an encouraging return for this interim and is considered to be extremely attractive in the prevailing low interest rate environment. The contribution of ATNT helps to diversify the earning bases of the Group and offers an opportunity to enjoy the strong cyclical recovery of semi-conductor industry. The conversion of convertible note also contribute the discount of acquisition of HK\$41,728,000 to the income statement during the review period as the subscription of HK\$30,000,000 ATNT's convertible note was below the Group's share of the fair values of the net assets and contingent liabilities of ATNT at the date of acquisition.

Apart from this, there is no other material acquisition and disposal of businesses or companies during the period under review.

Liquidity, Financial Resources and Funding

Despite the cash commitment of subscribing HK\$30,000,000 convertible note of ATNT during the review period, the financial position of the Group remained sound and healthy as cash inflow was replenished from operation, the loan repayment from clients and the reduction of margin loan exposure. As at 30 September 2004, the Group has cash and cash equivalent of HK\$33,737,000 (2003: HK\$43,456,000) (excluding the pledged fixed deposits of general accounts).

The Group generally finances its operation with internally generated cash flows. The Group has no bank borrowings apart from occasional utilization of overdraft facilities.

Human Resources

At 30 September 2004, the Group employed a total of 132 staff (2003:135) of which 82 were commissioned based (2003: 90) and the total related staff cost amounting to HK\$5,076,000 (2003: HK\$4,638,000). The Group maintained minimum operating expenses to support the basic operation and dynamic expansion of its business, enabling the Group to respond flexibly with the changes of business environment.

ADDITIONAL INFORMATION

Directors' and Chief Executives' Interests or Short Positions in Shares and Underlying Shares

At 30 September 2004, the Directors and chief executives of the Company had the following interests or short positions in the shares and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the SEHK pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") under Appendix 10 to the Listing Rules:

Name of Directors	Type of interest	Long Positions in Ordinary Shares of the Company	
		Number of ordinary shares of HK\$0.10 each in the Company	Percentage of total issued shares
Mr. Lam Kwok Hing (<i>Note</i>)	Corporate	311,718,000	67.76%
Mr. Nam Kwok Lun (<i>Note</i>)	Corporate	311,718,000	67.76%

Note: The shares are registered in the name of and beneficially owned by J&A Investment Limited ("J&A"). The entire issued share capital of J&A is beneficially owned as to 80% by Mr. Lam Kwok Hing and 20% by Mr. Nam Kwok Lun.

In addition to the above, one of the Directors has non-beneficial personal equity interests in certain subsidiaries held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

Save as disclosed above, none of the Directors or the chief executives of the Company had an interest or a short position in the shares and underlying shares of the Company or its associated corporations (within the meaning of the SFO) that was required to be recorded under Section 352 of the SFO or as otherwise notified to the Company and the SEHK pursuant to the Model Code.

Directors' and Chief Executives' Rights to Acquire Shares

Apart from as disclosed under the heading "Share Option Scheme" below, at no time during the period was the Company or any of its subsidiaries a party to any arrangement to enable the Company's Directors or chief executives or their respective spouses or children under 18 years of age to acquire benefits by means of the acquisition of shares of the Company or any other body corporate.

Share Option Scheme

At the annual general meeting held on 7 September 2004, an ordinary resolution had been passed to terminate the share option scheme of the Company approved by the written resolution of the sole shareholder of the Company on 16 August 2000 (the "Old Option Scheme") and adopt of the new share option scheme (the "New Option Scheme"). Pursuant to the New Option Scheme, the Board may at its discretion, invite any employees (whether full-time or part-time), executives or officers of the Company and any of its subsidiaries (including executive and non-executive Directors) and any business consultants, agents, financial or legal advisers who the Board considers will contribute or have contributed to the Company or any of its subsidiaries (the "Eligible Participants"), to take up options to subscribe for shares in the Company. The purpose of the New Option Scheme is to provide incentives to the Eligible Participants. The New Option Scheme will expire on 6 September 2014.

At 30 September 2004, all options granted under the Old Option Scheme were lapsed and no options were outstanding under the Old Option Scheme. No options have been granted to the Eligible Participants under the New Options Scheme during the period under review.

Save as disclosed above, as at 30 September 2004, none of the Directors or chief executives, nor their associates had any interests or short positions in any securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), and none of the Directors or chief executives, nor their spouses or children under the age 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

SUBSTANTIAL SHAREHOLDERS

At 30 September 2004, the following persons (other than the Directors and chief executives of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Name of shareholder	Long Position in Ordinary Shares of the Company	
	Number of ordinary shares held	Percentage of total issued shares
J&A (Note)	311,718,000	67.76%

Note: J&A is a company incorporated in the British Virgin Islands with limited liability and is beneficially owned as to 80% by Mr. Lam Kwok Hing and 20% by Mr. Nam Kwok Lun.

Save as disclosed above, no person (other than the Directors and chief executives of the Company whose interests are set out under the heading "Directors' and Chief Executives' Interests or Short Positions in Shares and Underlying Shares" above) had an interest or a short position in the shares and underlying shares of the Company that was required to be recorded under Section 336 of the SFO.

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

During the six months ended 30 September 2004, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed shares of the Company.

AUDIT COMMITTEE

The audit committee comprises the three independent non-executive Directors of the Company. On 7 September 2004, Mr. Kwan Wang Wai, Alan was appointed as an independent non-executive Director and member of the audit committee of the Company. The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including the review of the unaudited interim results for the six months ended 30 September 2004.

CODE OF BEST PRACTICE

The Company was in compliance with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Listing Rules throughout the period, except that the non-executive Directors of the Company are not appointed for specific terms but are subject to retirement by rotation in accordance with the Company's bye-laws.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

During the six-month period ended 30 September 2004, the Company has adopted the Model Code under Appendix 10 to the Listing Rules as its code of conduct regarding directors' securities transaction. All directors of the Company have confirmed, following specific enquiry by the Company that they have complied with the required standard set out in the Model Code and the Code during the period under review.

By Order of the Board
Lam Kwok Hing
Chairman

15 December 2004