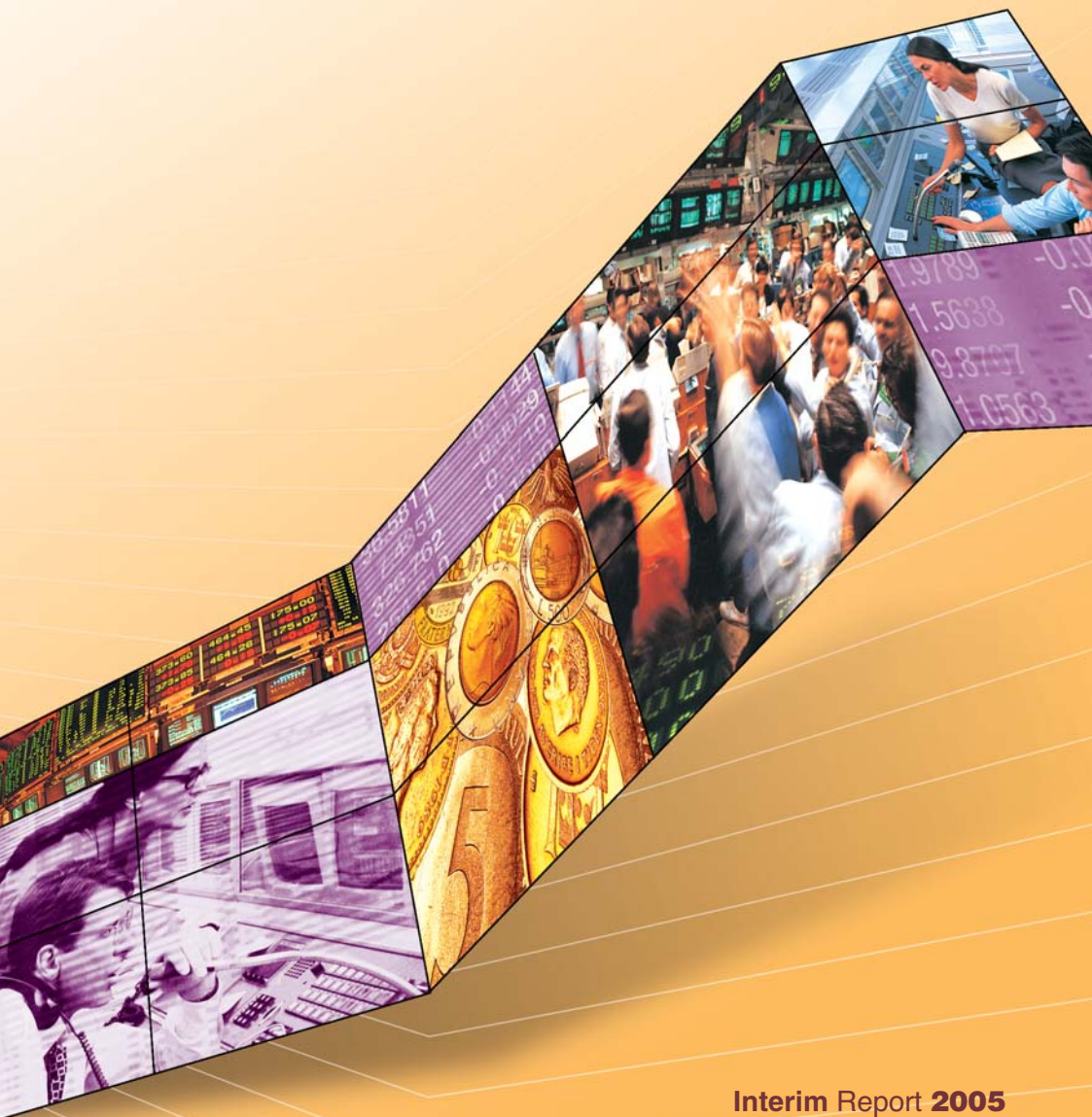




Karl Thomson Holdings Limited

高信集團控股有限公司

(incorporated in Bermuda with limited liability)



Interim Report 2005



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CORPORATE INFORMATION

Board of Directors

Executive Directors:

LAM Kwok Hing (*Chairman*)

NAM Kwok Lun

(*Deputy Chairman and Managing Director*)

Independent Non-executive Directors:

CHEN Wei-Ming Eric

KWAN Wang Wai Alan

NG Chi Kin David

Audit Committee

CHEN Wei-Ming Eric

KWAN Wang Wai Alan

NG Chi Kin David

Remuneration Committee

LAM Kwok Hing

NAM Kwok Lun

CHEN Wei-Ming Eric

KWAN Wang Wai Alan

NG Chi Kin David

Qualified Accountant and Company Secretary

LUI Choi Yiu Angela

Authorised Representatives

LAM Kwok Hing

NAM Kwok Lun

Resident Representative and Assistant Secretary

Appleby Corporate Services (Bermuda) Limited

Registered Office

Canon's Court

22 Victoria Street

Hamilton HM12

Bermuda

Head Office and Principal Place of Business

Unit 801, Tower One

Lippo Centre

89 Queensway

Hong Kong

Principal Share Registrar and Transfer Office

Reid Management Limited

Argyle House

41A Cedar Avenue

Hamilton HM12

Bermuda

Hong Kong Branch Share Registrar and Transfer Office

Standard Registrars Limited

Ground Floor, BEA Harbour View Centre

56 Gloucester Road

Wan Chai

Hong Kong

Principal Bankers

Wing Hang Bank, Limited

Hang Seng Bank Limited

Liu Chong Hing Bank Limited

Chiyu Banking Corporation Limited

Solicitors

Sidley Austin Brown & Wood *International Law Firm*

Auditors

Deloitte Touche Tohmatsu

Certified Public Accountants

Stock Code

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Contacts

Telephone: (852) 2877 9266

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CHAIRMAN'S STATEMENT

I am pleased to announce to the shareholders the unaudited consolidated results of Karl Thomson Holdings Limited (the "Company") together with its subsidiaries (the "Group") for the six months ended 30 June 2005.

For the six months ended 30 June 2005, profit attributable to shareholders amounted to HK\$8,255,000 (six months ended 30 September 2004: HK\$51,542,000), equivalent to earnings per share of HK1.79 cents (six months ended 30 September 2004: HK1.20 cents).

The domestic economy for the first half of 2005 remained resilient despite higher growth and base in 2004. Various reputable financial institutions raised their full year forecast for the GDP growth for 2005 to over 5% after the latest economic indicators beat expectation. Employment figures continued to hit a record of 3,364,000 and unemployment rate has further dropped to 5.7% in the period from April to June 2005. There were strong signs that enterprises would expand their business and provide more job opportunities and that employees would get salary increments and bonus in 2005, creating positive impacts on the domestic consumption and the local property market. The tourist industry maintained growth momentum at 9.6% in the number of visitors for the first half of 2005 over the same period last year, though at a slower pace as a considerable number of tourists postpone their visit to September when the Disney theme park opens. Hotel occupancy softened slightly due to the increase in the supply of new hotels and the average room rates rose impressively by 18.2%. Export sustained double-digits growth amid the continued recovery in overseas markets and the export competitive advantage as a result of the weak US Dollar. The property market was underpinned by increasing domestic consumption, improving affordability, recovery of investment confidence and the firm government housing policy of selling land at no lower than the market price. There were jumps on the transaction values and rents for commercial and office property whilst the sales of super luxury flats reported fantastic sales result at amazing prices with one record sales case at over HK\$30,000 per square feet. Consequently, the number of homeowners with negative equity dived to 8,738 in the second quarter of 2005, about 92% down from the peak of 106,000 in mid-2003 and is expected to disappear one year later. Unfortunately, the strong domestic economy faced increasing challenges from the negative external environment. The oil price soared up again from the level of US\$42 per barrel and stood firmly above US\$56 after hitting a record high of US\$61.38. The scaring high oil price is a major concern as it would revive inflation and disrupt the global economic recovery. The Federal Reserve of USA persisted in its gradual increase of interest rate and has forced the domestic interest rate in Hong Kong to follow closely. The financial cost for the business activities has subsequently increased. The strong export growth of Chinese products also stirred up hostility from the producers and workers in major overseas markets. Great political pressure caused many of those governments to impose anti-dumping duties, countervailing duties and quota restrictions on the Chinese products, creating serious uncertainties in the export business.

The stock market lagged behind the strong domestic economy forming a sluggish trading pattern of 13,600 to 14,200 for the Hang Seng Index during the period under review. The investment sentiment was basically sandwiched by the favorable domestic economic figures and the adverse external environment at both ends. Though the average daily turnover still matched that of last corresponding period, the majority volume was contributed by the trading activities of derivative products and the related hedging. Hong Kong now safely topped the most active derivative market in the world. The fund investors basically stood neutral on the market movement and focused their activities in restructuring the portfolio. Retail participation was limited and short lived in the absence of clear direction. New fund raising activities were also disappointing and contracted substantially by 41.59% to HK\$123.18 billion against the same period of 2004. Almost half of the fund raisings took place in the last month of the review period and many initial public offer applicants have postponed their schedules due to the weak market confidence.

OUTLOOK

The outlook for the rest of 2005 remains cautiously optimistic on the signs of improvement in both domestic and external environment. Though the negative external factors still prevail, the worst appears to be over. The high oil price at the level of US\$60 per barrel has become a reality and has gradually been adapted by the economies. The series of latest economic figures confirmed that the US economy was not seriously affected and grew well at a low inflation rate. In the absence of inflation fear, the interest rate in USA may not be too far from the peak and the interest hike cycle may hopefully be ended though the Federal Reserve of USA will still make a few more interest hikes of about 0.75% in total. Recently China indicated its willingness to give concessions and have adopted more flexible policies in trade and currency areas. Hopefully this would prevent further trade protectionism and the outbreak of massive destructive trade retaliations. On the other hand, there were encouraging positive developments in political and economic fronts for Hong Kong and the Greater China Region. The major opposition parties of Taiwan, typically represented by Kuomintang and People First Party, have made revolutionary friendly visits to China and opened an informal dialogue between China and Taiwan. In return, China is offering favourable economic policies to Taiwan. This has effectively put public pressure on the Taiwan government to restrict them from implementing radical policy towards China. More follow-through bilateral interactions across the Taiwan Strait will likely go on and the geo-politic risk will hence be substantially reduced in the Greater China Region. Being the only qualified candidate, Mr. Donald Tsang automatically took up the post of Chief Executive of Hong Kong SAR. The overwhelming public acceptance of the new Chief Executive would help to ease the domestic political tensions and increase social harmony. The subsequent improvement of the administrative efficiency would also result in higher poll rating and public respect for the government. Instead of endless political disputes, more efforts and resources would be diverted to the economic development. The judgments by the Court of Final Appeal in favour of government on the issues of civil servants pay cut and the listing of Link REITS would lead to a balanced budget and greater tax cuts in future. The tourist industry remains to be the star performer. The Disney theme park is on schedule to open in September and will definitely attract many overseas tourists from the Asia Pacific Region. The hosting of World Trade Organization



Ministerial Conference in Hong Kong at the year end upholds Hong Kong as an important international tourist center and would improve the tourist mix in the higher end category. The winning of the joint-organizer for the equestrian events for the 2008 Beijing Olympic Game will enable Hong Kong to share the Olympic fever and capture global attention right up to 2008. Hong Kong's unique position as a financial platform and gateway to China was further consolidated by the first significant decision of Chinese Government to reform its currency system by depegging its linkage with US Currency and effectively revaluing the Renminbi by 2%. The Chinese Government subsequently also released its foreign currency control by allowing more foreign currency bring-along for the outbound tourists and greater offshore maintenance of foreign exchange for the trading companies. The moves were perceived as part of the Chinese strategy to alleviate the growing trade conflicts in the major overseas markets. In view of the small initial appreciation, more hot money has been flowing into China and Hong Kong for speculation in further revaluation of Renminbi in near future. Investment sentiment was solidly boosted up as part of the funds was believed to park into the stock market. Both Indexes and trading volume jumped sharply with Hang Seng Index hitting a four years' record at 15,509 on 16 August 2005 and daily turnover returning to HK\$20 billion level thereafter. The full revival of investment confidence encourages the listing of more sizable H shares in the later period and produces positive chain effects for the financial markets. Hong Kong now moves one step further to become a significant international offshore Renminbi center since the Renminbi savings in Hong Kong are reported to reach 20.9 billion by the end of June 2005 and they are expected to increase tremendously in future, stimulating greater demand for more related services. The stock market will likely be buoyant for the rest of 2005.

Having completed a well-balanced business profile for a steady growth in the future, the Group enters into a period of business consolidation. Being one of the key drivers, the asset management division is still expanding its sales team and widening its services to achieve more cross selling business for the Group. Facing the harsh market condition, the core securities, futures and options broking division achieved breakeven after minimizing the cost and is now striving hard to strengthen its online trading platforms to break the geographic restrictions to capture more distant clients of higher quality. The on-line futures trading platform has technically been completed and will be launched in the second half of the year. The investment bank division has strengthened its work in providing more value-add services to the clients and in extending its network in China. The Group now turns its focus on searching strategic regional partners to widen its geographical coverage in the regions. In light of a promising macro prospect of the industry and the launch of a comprehensive and intact financial platform for The Greater China Region, I feel confident that the Group will achieve a stable and balanced growth in the periods ahead and is ready to make another leap forward after the strategic plans are fully implemented.

APPRECIATION

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



MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS

During the six months ended 30 June 2005, the Group entered a period of consolidation after a sharp recovery last year. As compared to the corresponding period for year 2004, total turnover for the Group retreated by 19.15% to approximately HK\$16,414,000 (six months ended 30 September 2004: HK\$20,302,000). Net profit attributable to shareholders was approximately HK\$8,255,000 (six months ended 30 September 2004: HK\$51,542,000).

MARKET OVERVIEW

The market fell in a very narrow and featureless trading range during the period under review with the Hang Seng Index fluctuating between 13,600 and 14,200. The stock market movement was influenced by the strong domestic performance and the negative external factors. The Hang Seng Index ended marginally lower by 29 points to close at 14,201 and total market capitalization increased by 5% to HK\$6,963 billion for the review period. Average daily turnover on the Main Board and GEM Board amounted to HK\$16.77 billion, on a par with that of the corresponding period of 2004. Trading for most of the days was extremely stagnant and tightly locked within 100 points. Activities were dominated by the trading of derivative products and the related hedging. Fund institutions did not take any meaningful direction position and restricted their activities to stock reallocations. There was one-way increasing weighting in favour of oil stocks amid the soaring oil prices at the expense of other H shares. Except for those resources counters, most H shares were hard hit for different reasons. The H shares of car and property business suffered setback as the domestic spending was severely curtailed by the austerity measures. The high resource costs eroded the profit of manufacturing sectors and subsequently resulted in more profit warnings for those marginal players. In-depth financial reforms in China have unearthed more financial problems and scandals for the China enterprises surfaced as a result. This had seriously dampened the investors' confidence and triggered clear selling in some poorly managed companies. The concept frenzy in Macau stocks faded away very rapidly. The over-optimism on the earning prospect of the sector was soon shadowed by the worry of over-investment and the shrinking profit margin as a result of intensified competitions. The image and quality of the Macau counters were further spoiled by the widespread of purely speculative companies many of which did not possess any solid and transparent business plans. A lot of investors were caught on the steep slide of these counters and had to reduce their trading activities. Coupled with the absence of clear market direction and theme, retail investors sidelined for most of the time and only took limited and occasional participation in the stock market. Many fund raising and listing exercises had to be deferred because of the weak market sentiment. Total fund raising



amount from both new listings and secondary market placement dropped by 41.59% to HK\$123.18 billion as compared to the previous corresponding period of 2004 and almost half of the new fund raisings can only be implemented during the last month of the first half. Post listing performance was also disappointing since many new listed stocks fell below the issue prices and struggled around those levels.

The activities of the derivative products and the related hedging, typically sourced from the Group A brokers, continued to capture the majority of the trading volume and have further corroded the market shares of the local operators. The market share of Group C brokers further declined from 17.79% at 2004 year end to 11.16% on 31 July 2005. The hostile competition from the banks and the abolition of minimum commission charge put additional pressure on the volume and profit margin of the local operators. The increasing stringent regulatory requirements inevitably added cost to the compliance work and increased the legal liability for the operation. The difficult situation for the local operators will unlikely be reversed and more weak operators are expected to withdraw from the market. We would see more consolidations in the form of merger and acquisition among the operators in the near future. In fact, the Exchange Participants in trading operation have already decreased by 14.8% to 427 on 31 July 2005 from the peak of 502 in 2000 and are still on the downward trend.

The latest positive political and economic development in the Greater China Region provides good support for the stock market. The improvement of the Taiwan Strait Relationships and the increasing acceptance of the new Hong Kong SAR Government create a favourable atmosphere for business and reduce the geo-political risk for the region. The Grand Opening of the Disney theme park will definitely produce another climax for the tourist industries and bring rub-effects to the rest of the economy. The investment sentiment turned sharply bullish immediately after the Chinese Government took a significant step to reform its currency system by depegging its linkage with US Dollars and effectively revaluing its rate by 2%. Hot money flew into Hong Kong vigorously to speculate for further upside of Renminbi in near future and part of these sizable funds was believed to go into the stock market. Investors aggressively chased quality blue chips across the board and some sizable H shares and interests gradually spilled over to other counters especially those H and Red Chip counters, most of which will be benefited by the Renminbi appreciation on their earning and asset value. The strong and comprehensive rally pushed the Hang Seng Index to break a 4 years record at 15,509 on 16 August 2005 and the H shares Index to almost level off the historic record at 5,541 on 15 August 2005 and amplified the daily trading volume back to the level of HK\$20 billion. The spectacular revival of investment confidence will accelerate the listing of more quality scale H shares. That in turn may attract more international investment interests. As the investment momentum remains positive, the stock market will continue to be active for the rest of 2005.



SECURITIES, FUTURES AND OPTIONS BROKERAGE BUSINESS

During the review period, turnover for the Group's securities broking business and futures broking business as well as underwriting commission which accounted for 40.33% of total operating revenue depressed by 6.89% to HK\$6,620,000 (six months ended 30 September 2004: HK\$7,110,000). The Group's performance and profit margin in its securities, futures and options broking and dealing businesses were still under pressure on the keener competition and the disappointed performance of the overall stock market during the period under review. Since the tough business environment will still last for certain period of time, the division is deepening its efforts in streamlining the operation and minimizing the expenses to maintain a cost advantage against the cut-throat competition in the local market. The division is also devoted to enhance the online trading platforms for both securities and futures and options trading in order to break the geographical constraint to serve the distant clients. As the futures online trading system passes all technical tests, it is ready for launch in the second half. Besides eyeing for breakeven within short period of time, the division also aims at exploring more overseas clients who tend to be more quality conscious and profitable.

SECURITIES MARGIN FINANCING

Interest income generated from securities margin loan portfolio accounted for 7.34% of the Group's turnover further dropped by 25.48% to HK\$1,205,000 (six months ended 30 September 2004: HK\$1,617,000). The Group maintained consistently prudent and flexible margin financing policy to minimize its risk exposure in the unstable market to achieve best profitability for our shareholders.

FINANCIAL MANAGEMENT AND ADVISORY SERVICES

Revenue generated from financial management and advisory services was dropped by 27.85% to HK\$7,626,000 (six months ended 30 September 2004: HK\$10,570,000). Because of the stagnancy of global equity markets as well as fierce competitions from new competitors, the division faced new challenges during the period. In order to overcome every hurdle on the track, the Group determined to revamp the company image including re-development of the website, the first launch of its TV advertisement and so forth. After the launch of its TV advertisement as well as the new website, the response was very positive. This action not only let more people know the Group and understand our strength, but also consolidate our clients' and colleagues' confidence. At the same time, the division also extends its service platform to new asset management business and MPF business in order to keep its leading position in the industry.

INVESTMENT BANKING

The investment banking division continues to report stable growth as the financial market of Hong Kong slowly recovered. It engages in providing financial services for listed as well as private companies in Hong Kong and Mainland China, corporate finance advisory on merger and acquisition and fund raising services via private placement,



share placement and share offering. By keeping an effective cost structure, the division continues to focus its strategy on niche clients and assignments and has been mandated as the financial adviser for a number of listed as well as private companies. The division contributed an operating revenue of HK\$898,000 (six months ended 30 September 2004: HK\$965,000) to the Group during the period under review.

MATERIAL ACQUISITIONS AND DISPOSALS OF ASSOCIATE COMPANIES

Subsequent to the conversion of convertible note issued by Asia Tele-Net and Technology Corporation Limited ("ATNT") on 29 July 2004, the Group acquired 48,520,667 shares and 3,475,167 shares of ATNT at HK\$0.45 per share respectively from Optimist International Limited ("Optimist") and Mr. Lam Kwok Yan for a total consideration of HK\$23,398,125. The acquisition has been completed on 20 April 2005 and the Group's equity in ATNT has increased from 35.17% to 47.37%, which remains an associate of the Group. 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\$3,868,000 from the profit of ATNT during the review period.

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

LIQUIDITY, FINANCIAL RESOURCES AND FUNDING

The Group generally finances its operation with internally generated cash flows. The Group has no bank borrowings apart from occasional utilization of overdraft facilities. As at 30 June 2005, the Group has cash and cash equivalent (excluding the pledged fixed deposits of general accounts) of HK\$14,294,000 (30 September 2004: HK\$33,737,000).

HUMAN RESOURCES

At 30 June 2005, the Group employed a total of 128 staff (30 September 2004: 132) of which 76 were commissioned based (30 September 2004: 82) and the total related staff cost amounting to HK\$5,273,000 (six months ended 30 September 2004: HK\$5,076,000). The Group maintained a minimum overhead expense to support the basic operation and dynamic expansion of its business. The future expense of staff cost will be more directly linked to the performance of business turnover and profit, enabling the Group to respond flexibly with the changes of business environment.

INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2005 (six months ended 30 September 2004: Nil).



DISCLOSURE OF INTERESTS

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS

At 30 June 2005, 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 Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") under Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"):

1. Long positions in the ordinary shares of HK\$0.10 each of the Company

Name of Directors	Capacity	Number of issued ordinary shares held	Percentage of issued share capital of the Company
Mr. Lam Kwok Hing (Note)	Interest of controlled corporation	311,718,000	67.76%
Mr. Nam Kwok Lun (Note)	Interest of controlled corporation	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.

2. Long positions in the ordinary shares of HK\$0.01 each of ATNT

Name of Director	Number of issued ordinary shares held			Percentage of the issued share capital of ATNT
	Personal interests	Corporate interests (Note)	Total	
Mr. Lam Kwok Hing	3,474,667	48,520,666	51,995,333	12.19%

Note: The shares are registered in the name of and beneficially owned by Medusa Group Limited ("Medusa"). The entire issued share capital of Medusa is wholly owned by Mr. Lam Kwok Hing. Also, Karfun Investments Limited ("Karfun"), a wholly-owned subsidiary of the Company, in which Mr. Lam Kwok Hing owns interests through J&A, is interested in 201,995,834 ATNT shares.

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 Stock Exchange 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

1. The Company

Pursuant to the share option scheme of the Company approved at the annual general meeting held on 7 September 2004 (the "Share 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 Share Option Scheme is to provide incentives to the Eligible Participants. The Share Option Scheme will expire on 6 September 2014.

No options have been granted to the Eligible Participants under the Share Option Scheme during the period under review.



2. ATNT

At the annual general meeting held on 13 June 2005, an ordinary resolution had been passed to terminate the share option scheme of ATNT approved by the shareholder of ATNT on 2 January 2001 (the "ATNT Old Option Scheme") and adopt of the new share option scheme (the "ATNT New Option Scheme"). Pursuant to the ATNT New Option Scheme, the Board may at its discretion, invite any employees (whether full-time or part-time), executives or officers of ATNT 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 ATNT or any of its subsidiaries (the "Eligible Participants"), to take up options to subscribe for shares in ATNT. The purpose of the ATNT New Option Scheme is to provide incentives to the Eligible Participants. The ATNT New Option Scheme will expire on 12 June 2015.

During the period, all options granted under the ATNT Old Option Scheme were lapsed and no options were outstanding under the ATNT Old Option Scheme. No options have been granted to the Eligible Participants under the ATNT New Option Scheme since the adoption of ATNT New Option Scheme.

Save as disclosed above, as at 30 June 2005, 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 review period.



SUBSTANTIAL SHAREHOLDERS

At 30 June 2005, 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:

Long position in ordinary shares of HK\$0.10 each of the Company

Name of shareholder	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
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" 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.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

At no time during the period under review was the Company a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.



OTHER INFORMATION

AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") is composed of all of its independent non-executive Directors, namely Messrs. Chen Wei-Ming Eric, Kwan Wang Wai Alan and Ng Chi Kin David. The principal duties of the Audit Committee are to review, together with management and the Company's external auditors, the accounting principles and practices adopted by the Company and discuss internal controls and financial reporting matters.

The international auditors of the Company, Messrs. Deloitte Touche Tohmatsu have reviewed the financial statements for the period under review and have issued an independent review report. In accordance with the requirements of paragraph 39 of Appendix 16 of the Listing Rules, the Audit Committee has reviewed together with management the accounting principles and practices adopted by the Company and discussed auditing, internal control and financial report matters including the review of the unaudited interim financial statements for the period under review.

REMUNERATION COMMITTEE

The remuneration committee of the Company (the "Remuneration Committee") is composed of all of its Directors, namely Messrs. Lam Kwok Hing, Nam Kwok Lun, Chen Wei-Ming Eric, Kwan Wang Wai Alan and Ng Chi Kin David. The principal functions of the Remuneration Committee include reviewing the remuneration policies of the Company, assessing the performance of the directors and senior management of the Company and determining policies in respect to their remuneration packages.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES IN APPENDIX 14 OF THE LISTING RULES

In the opinion of the Directors, save as disclosed below, the Company has complied with the Code on Corporate Governance Practices (the "Code"), as set out in Appendix 14 of the Listing Rules, throughout the accounting period covered by the interim report.

Under the code provisions A.4.1. of the Code, non-executive Directors should be appointed for specific terms and subject to re-election. However, two of the existing non-executive Directors of the Company is not appointed for a specific term. This constitutes a deviation from code provision A.4.1. of the Code. According to Bye-laws of the Company, any Director appointed by the Board during the year shall retire and submit themselves for re-election at the first general meeting immediately following the appointment. Further, at each annual general meeting, one-third of the Directors for the time being, or if their number is not three or multiple of three, then the number nearest to but not exceeding one-third, shall retire from office. The directors to retire by rotation shall be those who have been longest in office since their last re-election or appointment. At such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are similar to those in the Code.



Under the code provisions A.4.2. of the Code, every Director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. However, according to Bye-laws of the Company, the Chairman or Managing Director are not subject to retirement by rotation or taken into account on determining the number of Directors to retire. This constitutes a deviation from code provision A.4.2. of the Code. As continuation is a key factor to the successful long-term implementation of any business plans, the Board believes that the roles of Chairman and Managing Director provides the Group with strong and consistent leadership and allow more effective planning and execution of long-term business strategies, that the present arrangement is most beneficial to the Company and the shareholders as a whole.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

During the six-month period ended 30 June 2005, 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.

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

During the six months ended 30 June 2005, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed shares of the Company.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-Laws or the Laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

By Order of the Board
Lam Kwok Hing
Chairman

28 September 2005



INDEPENDENT REVIEW REPORT

Deloitte.

德勤

TO THE BOARD OF DIRECTORS OF KARL THOMSON HOLDINGS LIMITED

Introduction

We have been instructed by Karl Thomson Holdings Limited to review the interim financial report set out on pages 17 to 28.

Responsibilities

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Review work performed

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of the Group's management and applying analytical procedures to the interim financial report and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2005.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
28 September 2005



CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2005

	NOTES	Six months ended	
		30 June 2005 HK\$'000 (unaudited)	30 September 2004 HK\$'000 (unaudited)
Turnover	3	16,414	20,302
Other operating income		317	531
Write-back of allowance for bad and doubtful debts		4,505	—
Allowance for bad and doubtful debts		(369)	(1,089)
Amortisation of intangible assets		(3)	(3)
Depreciation		(831)	(1,056)
Finance costs		(16)	(7)
Other operating expenses		(11,547)	(14,078)
Staff costs		(5,273)	(5,076)
Discount on acquisition of an associate	8	1,305	41,728
Share of results of an associate		3,868	10,478
Profit before taxation		8,370	51,730
Taxation	4	(19)	—
Profit for the period		<u>8,351</u>	<u>51,730</u>
Attributable to:			
Equity holders of the parent		8,255	51,542
Minority interest		96	188
		<u>8,351</u>	<u>51,730</u>
Basic and diluted earnings per share	5	<u>HK1.79 cents</u>	<u>HK1.20 cents</u>



CONDENSED CONSOLIDATED BALANCE SHEET
AT 30 JUNE 2005

	NOTES	30 June 2005 HK\$'000 (unaudited)	31 December 2004 HK\$'000 (audited)
NON-CURRENT ASSETS			
Fixed assets	6	1,400	2,149
Intangible assets	7	26	29
Interest in an associate	8	105,905	77,333
Other assets		4,180	4,078
Loans receivable	9	1,062	1,061
		<u>112,573</u>	<u>84,650</u>
CURRENT ASSETS			
Accounts receivable	10	41,663	36,938
Investments in securities		—	12
Loans receivable	9	305	1,686
Other receivables, prepayments and deposits		2,283	2,021
Pledged fixed deposits - general accounts	11	7,712	7,647
Bank balances - trust and segregated accounts		43,564	48,402
Bank balances (general accounts) and cash		14,294	40,071
		<u>109,821</u>	<u>136,777</u>
CURRENT LIABILITIES			
Accounts payable	12	48,271	55,355
Accrued expenses and other payables		3,410	3,710
		<u>51,681</u>	<u>59,065</u>
NET CURRENT ASSETS			
		<u>58,140</u>	<u>77,712</u>
NET ASSETS			
		<u>170,713</u>	<u>162,362</u>
CAPITAL AND RESERVES			
Share capital	13	46,000	46,000
Reserves		124,500	116,245
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
		170,500	162,245
MINORITY INTEREST			
		213	117
TOTAL EQUITY			
		<u>170,713</u>	<u>162,362</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2005

	Share capital HK\$'000	Share premium HK\$'000	Special reserve HK\$'000 (Notes 1)	Goodwill reserve HK\$'000	Currency translation reserve HK\$'000	Accumulated (losses) profits HK\$'000	Total HK\$'000	Minority Interest HK\$'000	Total HK\$'000
At 1 April 2004	46,000	76,589	29,140	(13,950)	—	(21,502)	116,277	422	116,699
Impairment on goodwill reserve (Notes 2)	—	—	—	13,950	—	(13,950)	—	—	—
Net profit for the period	—	—	—	—	—	51,542	51,542	188	51,730
At 30 September 2004	46,000	76,589	29,140	—	—	16,090	167,819	610	168,429
At 1 January 2005	46,000	76,589	29,140	—	284	10,232	162,245	117	162,362
Net profit for the period	—	—	—	—	—	8,255	8,255	96	8,351
At 30 June 2005	46,000	76,589	29,140	—	284	18,487	170,500	213	170,713

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 ended 30 September 2004, the directors assessed the recoverability of goodwill reserve and recognised an impairment loss of HK\$13,950,000. With the application of Hong Kong Financial Reporting Standards 3 "Business Combinations", when the goodwill previously recognised as a deduction from equity became impaired, that goodwill should not be recognised in the income statement.



CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2005

	Six months ended	
	30 June 2005 HK\$'000 <i>(unaudited)</i>	30 September 2004 HK\$'000 <i>(unaudited)</i>
NET CASH (USED IN) FROM OPERATING ACTIVITIES	(2,128)	5,026
NET CASH USED IN INVESTING ACTIVITIES	(23,584)	(30,159)
NET CASH USED IN FINANCING ACTIVITIES	—	(33)
DECREASE IN CASH AND CASH EQUIVALENTS	(25,712)	(25,166)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	47,718	66,526
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	22,006	41,360
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances (general accounts) and cash	14,294	33,737
Pledged fixed deposits - general accounts	7,712	7,623
	22,006	41,360



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2005

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 Listing Rules and with Hong Kong Accounting Standard 34 (HKAS 34) "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The condensed consolidated financial statements for the current period cover the six month period from 1 January 2005 to 30 June 2005. The corresponding amounts shown for the income statement, statement of changes in equity and related notes cover a six month period from 1 April 2004 to 30 September 2004 and therefore may not be comparable with amounts shown for the current period. The Directors considered it is appropriate to change the Company's financial year end date to 31 December during the nine months ended 31 December 2004 in order to cope with the financial year end of its principal revenue generating associate.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value, as appropriate.

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the nine months ended 31 December 2004 except as described below.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards (HKFRSs), Hong Kong Accounting Standards (HKASs) and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2005, other than HKFRS 3 "Business Combination", HKAS 36 "Impairment of assets" and HKAS 38 "Intangible Assets" that had been early adopted for the business combinations for which the agreement date is on or after 1 April 2004 and for the year ended 31 December 2004. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. In particular, the presentation of minority interest and share of tax of an associate have been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has had no material effect on how the results for the current or prior accounting periods are prepared.



Share-based payment

In the current period, the Group has applied HKFRS 2 Share-based Payment which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of directors' and employees' share options of the Company determined at the date of grant of the share options over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1 January 2005. The Group has not applied HKFRS 2 to share options granted on or before 7 November 2002. Therefore, comparative figures had not been restated as the share options were granted on 4 June 2001 and lapsed during the period ended 30 September 2004. The Group did not have share options outstanding during the current period.

Potential Impact of New Standards Not Yet Adopted

The Group has not early applied the following new Standards or Interpretations that have been issued but are not yet effective. The Directors of the Company anticipate that the application of these Standards or Interpretations will have no material impact on the financial statements of the Group.

HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 39 (Amendment)	Cash Flow Hedge Accounting for Forecast Intragroup Transactions
	The Fair Value Option
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS - Int 4	Determining whether an Arrangement Contains a Lease
HKFRS - Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds



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	
	30.6.2005 HK\$'000	30.9.2004 HK\$'000	30.6.2005 HK\$'000	30.9.2004 HK\$'000	30.6.2005 HK\$'000	30.9.2004 HK\$'000	30.6.2005 HK\$'000	30.9.2004 HK\$'000
Segment turnover	<u>14,246</u>	<u>17,680</u>	<u>1,205</u>	<u>1,617</u>	<u>963</u>	<u>1,005</u>	<u>16,414</u>	<u>20,302</u>
Segment profit (loss)	<u>364</u>	<u>(364)</u>	<u>3,109</u>	<u>(188)</u>	<u>66</u>	<u>318</u>	<u>3,539</u>	<u>(234)</u>
Unallocated expenses							(342)	(242)
Discount on acquisition of an associate							1,305	41,728
Share of results of an associate							3,868	10,478
Profit before taxation							8,370	51,730
Taxation							(19)	—
Profit for the period							<u>8,351</u>	<u>51,730</u>

4. TAXATION

	Six months ended	
	30 June	30 September
	2005	2004
	HK\$'000	HK\$'000

Hong Kong Profits Tax

Underprovision in prior years

19	—
<u>19</u>	<u>—</u>

No provision for Hong Kong Profits Tax has been made in the financial statements for the six months ended 30 June 2005 and 30 September 2004 as the companies within the Group either had no assessable profits arising in Hong Kong or the assessable profits were wholly absorbed by estimated tax losses brought forward.

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. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the parent is based on the following data:

	Six months ended	
	30 June 2005 HK\$'000	30 September 2004 HK\$'000
Earnings		
Earnings for the purposes of basic and diluted earnings per share (profit for the period attributable to equity holders of the parent)	<u>8,255</u>	<u>51,542</u>
Number of shares	'000	'000
Number of ordinary shares for the purpose of basic and diluted earnings per share	<u>460,000</u>	<u>460,000</u>

The Group did not have share options outstanding during the period.

The computation of the diluted earnings per share for the six months ended 30 September 2004 did not assume the exercise of the Company's share options as the exercise prices were higher than the average market price of the Company's shares during the period.

6. FIXED ASSETS

During the period, the Group acquired computer equipment and furniture and fixtures at an aggregate cost of approximately HK\$82,000 (six months ended 30 September 2004: HK\$85,000).



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 January 2005 and 30 June 2005	50	120,978	7,420	128,448
AMORTISATION AND IMPAIRMENT				
At 1 January 2005	21	120,978	7,420	128,419
Provided for the period	3	—	—	3
At 30 June 2005	24	120,978	7,420	128,422
CARRYING VALUES				
At 30 June 2005	26	—	—	26
At 31 December 2004	29	—	—	29

Trading rights represent two trading rights in the Stock Exchange 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

During the period ended 30 September 2004, the Group subscribed the convertible note of HK\$30,000,000 issued by ATNT, a company incorporated in Bermuda with its shares being listed on the Stock Exchange, and exercised the right to convert in full the convertible note of HK\$30,000,000 into 150,000,000 new shares of ATNT at a conversion price of HK\$0.20 per share of ATNT. As at 30 September 2004, interest in an associate represented the Group's 35.17% equity interest in ATNT.

On 25 November 2004, Karfun, a wholly owned subsidiary of the Company, conditionally agreed to acquire 48,520,667 ATNT shares from Optimist and 3,475,167 ATNT shares from Mr. Lam Kwok Yan for an aggregate cash consideration of approximately HK\$23,398,000. The Group's equity interest in ATNT has increased from 35.17% to 47.37% after the acquisition which was completed on 20 April 2005. The discount on acquisition of ATNT of approximately HK\$1,305,000 (30 September 2004: HK\$41,728,000) was released to the consolidated income statement on the acquisition date.



9. LOANS RECEIVABLE

The maturity of the loans receivable is as follows:

	30 June 2005 HK\$'000	31 December 2004 HK\$'000
Matured within 90 days	86	1,509
Matured between 91 days to 180 days	119	38
Matured between 181 days to 365 days	100	139
	<u>305</u>	<u>1,686</u>
Matured over 1 year	1,062	1,061
	<u>1,367</u>	<u>2,747</u>

10. ACCOUNTS RECEIVABLE

	30 June 2005 HK\$'000	31 December 2004 HK\$'000
Accounts receivable arising from the business of dealing in securities:		
- Cash clients	9,319	10,332
- Hong Kong Securities Clearing Company Limited ("HKSCC")	2,496	409
Accounts receivable from HKFE Clearing Corporation Limited ("HKFECC") arising from the business of dealing in futures contracts	2,868	4,263
Loans to securities margin clients	26,712	21,745
Accounts receivable arising from the business of providing corporate advisory services	268	189
	<u>41,663</u>	<u>36,938</u>

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 June 2005 HK\$'000	31 December 2004 HK\$'000
0 to 90 days	<u>268</u>	<u>189</u>



11. PLEDGED FIXED DEPOSITS

The Group had pledged fixed deposits of approximately HK\$7,712,000 (31 December 2004: HK\$7,647,000) to banks to secure general banking facilities granted to the Group.

12. ACCOUNTS PAYABLE

	30 June 2005 HK\$'000	31 December 2004 HK\$'000
Accounts payable to cash clients arising from the business of dealing in securities	42,038	45,690
Accounts payable to clients arising from the business of dealing in futures contracts	5,079	6,790
Amounts due to securities margin clients	1,154	2,875
	<u>48,271</u>	<u>55,355</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 2004, 31 December 2004 and 30 June 2005	1,000,000	100,000
Issued and fully paid:		
At 1 April 2004, 31 December 2004 and 30 June 2005	460,000	46,000



14. RELATED PARTY TRANSACTION

On 25 November 2004, Karfun conditionally agreed to acquire 48,520,667 shares of ATNT from Optimist for a consideration of HK\$21,834,300 at a price of HK\$0.45 per share of ATNT. Optimist is a wholly-owned subsidiary of Medusa in which Mr. Lam Kwok Hing had a 50% equity interest as at 25 November 2004. Details of this acquisition were disclosed in the circular issued by the Company dated 28 February 2005. This acquisition was approved by the independent shareholders of the Company at a special general meeting on 30 March 2005 and completed on 20 April 2005.