

# Management Discussion and Analysis

(continued)

## Technology Development

The directors anticipate that internet and electronic trading will form part of the securities business in the foreseeable future. The prospect for trading securities via the internet is bright since the investment community can enjoy and benefit from the unique advantages of extreme cost-efficiency, convenience and best execution without being constrained by geographical and physical boundaries. The introduction of low-priced and reliable online trading in Hong Kong targeted at traditional retail clients is a primary goal of the Group. Online securities trading in Hong Kong is a fledgling industry even though the trading mechanism is still in its infancy after the introduction of the third generation of Automatic Order Matching and Execution System (AMS/3). In view of the huge market potential, the Group will employ more resources to upgrade both front and back-end systems as a crucial step in winning clients.

The Group has already introduced pseudo-Internet trading services since April 2000 where orders placed by clients are executed immediately. The Company is anticipating the full implementation of the trading platform to the public in the fourth quarter of 2001. This move by the Company marks its latest steps to keep abreast with the technological revolution. The Company believes that clients will be able to make quick and effective investment decisions with its in-house news broadcast, commentaries, and up-to-date online market reports.

## LATEST DEVELOPMENTS

### Online Trading

The Company's wholly owned subsidiary, Karl Thomson (B.V.I.) Limited has signed an agreement with French technology giant GL Trade SA on 29 June 2001 to form a joint venture company which will be principally engaged in the development, operation and marketing of an online securities trading platform for the provision of online brokerage services to our valued clients.



GL Trade SA is listed on the French Nouveau Marché. It makes a formidable technology partner and was chosen because the company has more than 10 years experience as a provider of online securities trading platforms. At present, GL Trade SA is also the only company in the world that has a global trading network with access to 50 markets in 15 countries.

With the Karl Thomson trading platform linked to the GL Trade SA global trading network, Asian customers can gain direct access to international stock exchanges while it also provides accessibility for European customers to Asian stock exchanges. The joint venture with GL Trade SA will bring the Group a lot of synergy and benefits in its efforts to globalise.

### E-Marketing

The Company's wholly owned subsidiary, Karl Thomson (B.V.I.) Limited, has agreed to acquire 57.1% of the issued share capital of LuckySurfAsia via the purchase of the entire share capital of LuckySurf International for a consideration of HK\$60,000,000 on 18 May 2001 from a third party. The consideration was satisfied by the Company issuing and allotting to the third party 20,000,000 new shares at HK\$3.00 per share.

Based on the successful business model of LuckySurf.com, LuckySurfAsia seeks to provide an efficient advertising distribution platform that can quickly leverage targeted promotions to specific audiences and to establish itself as one of the leading distribution platforms for online advertising and to benefit from the huge amount of advertising dollars that will gradually shift from traditional media to online media.

LuckySurfAsia generates its revenue primarily from advertising, sponsorship and partnerships. Revenue can also be generated through alliances and infrastructural opportunities including accumulating electronic commerce referral fees and direct marketing expertise from the collection of rich demographic data.

The acquisition of LuckySurfAsia will also provide the Group with a cost efficient marketing platform to potential customers from all over Asia for the Group's financial services and any future e-marketing products.

## LOOKING FORWARD

### Prospects

To maintain our success and profits in the competitive financial industry, the strategy of the Group is to take advantage of the advent of the Internet technology and to extend its services beyond the highly saturated local financial market and to diversify and globalise the Group's business activities.

With the gradual launch of AMS/3 by the Exchange, keen competition is foreseen in the industry as players scrap commissions. The Company expects a more aggressive pricing competition will break out once the hurdle of minimum commission requirement no longer exists from 1 April 2002. The Directors believe reductions in broking charges must also be complimented with good services such as an efficient and stable platform and also innovative and interesting financial products, hence the search abroad to find the most experienced online trading technology and financial service providers in order to become a leading player in the online financial market.

The advent of the Internet also creates good opportunities for expansion into businesses leveraged by the Internet. The Group intends to diversify into areas including internet security and e-marketing.

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### Conclusion

With China's imminent accession to the WTO, Hong Kong is moving into a new role as a full-fledged service providing economy. The Directors believe that the Hong Kong economy will be boosted by the positive impact brought by the further liberalization of the economy in the mainland China.

For the coming year, the Directors are cautiously optimistic on the business prospects for the Group's core securities brokerage business performance amidst fierce competition ahead. Market sentiment will improve as a low interest rate environment will persist in the forthcoming year.

## BONUS ISSUE

The Board has recommended the issue of bonus shares ("Bonus Shares") on the basis of one bonus share for every one ordinary share held by members on the register on 31 August 2001. This recommendation is subject to shareholders' approval at the Annual General Meeting to be held on 31 August 2001.

KARL THOMSON HOLDINGS LIMITED