

### OPERATION REVIEW

During the financial year under review, the Group recorded a decrease in consolidated turnover by 25.10% to approximately HK\$32,385,000 (2001: HK\$43,235,000). Loss attributable to shareholders for the year was amounted to approximately HK\$73,404,000 and loss per share of HK16.10 cents. The corresponding figures for the previous financial year were a profit of HK\$34,116,000 and earnings per share of HK9.10 cents respectively. Included in last year's profit were gains arising from the disposal of shares in the Hong Kong Exchanges and Clearing Limited (the "HKEx") amounted to HK\$23,534,000.

### PROVISION FOR IMPAIRMENT LOSS

During the financial year under review, Karl Thomson (B.V.I.) Limited, a subsidiary of the Company, has agreed to acquire 57.14% of the issued share capital of LuckySurfAsia.com Inc. via the purchase of the entire share capital of LuckySurf International Limited for a consideration of HK\$60,000,000 on 18 May 2001. The Directors of the Company (the "Directors") anticipated LuckySurfAsia.com Inc. to take full advantage of business opportunities generated from advertising, sponsorship and partnerships at the time of acquisition. Through the provision of an efficient advertising distribution platform, revenue could be generated from electronic commerce referral fees and direct marketing expertise from the collection of rich demographic data. The decision was based on the successful business model of Luckysurf.com after careful examination by the Directors on market trend and was supported by a valuation report. The acquisition constituted a discloseable transaction and the consideration was satisfied by the Company issuing and allotting to the Vendor 20,000,000 new shares.

In view of the drastic economic slowdown which led to a general decline in corporate expenditure on advertisement, while the Group foresees improvement in the short run as remote under the prevailing economic condition, the Directors revised the business plan of the operation of distribution platforms for online advertising after examination on the future economic benefits to the Group generated from the license and right to use the respective website and trademark. Therefore, a provision for an impairment loss of approximately HK\$86,897,000 in value of investment in respect of the Group's investment in an online marketing platform, LuckySurfAsia.com, has been identified and recognized in the consolidated income statement.



## BROKERAGE BUSINESS

Under the adverse market condition, our brokerage commission income from stockbroking, and futures and options broking services as well as underwriting commission which accounted for 77.72% of total operating income dropped approximately by 29.98% to HK\$25,171,000 (2001: HK\$35,948,000). The decline in operating income was mainly a consequent of the prolonged depression of market sentiment during the financial year under review.

## SECURITIES MARGIN FINANCING

Interest income generated from securities margin financing accounted for 19.81% of the Group's turnover. The repetitive reduction in interest rate for 9 times during the financial year under review led to a substantial reduction for almost 4% in our prime lending rate. Our interest income received during the period dropped by approximately 11.97% to HK\$6,415,000 (2001: HK\$7,287,000).

## FINANCIAL ADVISORY SERVICES

As part of the Group's development strategy in diversifying range of service and product for our clients, it has successfully expanded its business through a subsidiary which has been registered as an investment adviser under the Securities Ordinance with the Securities and Futures Commission (the "SFC") in Hong Kong during the year.

Our high-calibre and competent advisers will dedicate their best effort to assist our clients to achieve their financial goals by tapping into our network with the world's best-known asset management houses on funds distribution and insurance brokerage business. We will act on our clients' best interest via active and cautious search for the most suitable plans to meet their financial goals.

## INVESTMENT BANKING

The Group extended its arm in corporate finance and structured finance business via acquisition of an active local investment advisory company in March 2002. We are ready to provide a wide range of financial consultancy services and fund-raising services for corporate clients. With our experienced and competent management, we are ready to offer a wide range of investment advisory services.



## STRATEGIC DEVELOPMENTS

On 29 June 2001, Karl Thomson (B.V.I.) Limited, a subsidiary of the Company, has also entered into an agreement with GL Trade SA for the formation of a joint venture company, KTG Trade Limited, for the development, operation and promotion of an online securities trading platform for the provision of online brokerage services and other value-added services to our clients. Of the US\$4,000,000 (equivalent to HK\$31,200,000) the subsidiary has agreed to subscribe for 81% of the JV's shares, HK\$16,500,000 was funded by the proceeds from the offering as mentioned in the prospectus. The remaining balance of HK\$14,700,000 was funded by internal resources.

The Company has also put extra effort to sharpen its competitive edge via development and broadening of its range of services and products. We also seek to form strategic alliance with internationally renowned corporations and work for the introduction of innovative investment products. The Group has entered into a cooperation agreement with a pioneer in CMC Group Plc of the United Kingdom as a first step to develop and promote its 24-hour real time on-line stock and index CFD products in the Greater China Region. Capitalizing on the state-of-art networking security technology, the Group has also allied with AudioSmartCard SA in France in an attempt to widen its product base and enhance its competitiveness in the market.

Taking a step forward in building up its "Asian Value", Karl-Thomson Securities Company Limited, the wholly-owned subsidiary of the Company, has signed a Letter of Intent with Chung Hsing Securities Corporation, a subsidiary of Chung Hsing Bills Finance Group in Taiwan for the formation of a strategic alliance to broaden its focus and enhance its presence in the Greater China Region. The Company will act as a marketing gateway to Asia, creating a synergistic way to propel our goal towards global linkage.

## FINANCIAL POSITION

Despite the depressed economic environment, the financial position of the Group remained sound and healthy. As at 31 March 2002, total shareholders' funds were HK\$150,860,000 (2001: HK\$143,634,000). The Group had cash deposits of HK\$53,748,000 at 31 March 2002 (2001: HK\$100,349,000). The decline of the cash deposits is attributed to the significant increase of loans to securities margin clients.

## LIQUIDITY, FINANCIAL RESOURCES AND FUNDING

The Group generally finances its operation with internally generated cash flows. As at 31 March 2002, the Group has cash and cash equivalent of approximately HK\$53,748,000 (2001: HK\$100,349,000). The Group has no bank borrowings apart from occasional utilization of overdraft facilities and a fixed deposit of approximately HK\$7,411,000 pledged to a bank to secure general banking facilities during the period. The Group has obtained facilities which are renewable annually from several banks. The capital required for daily operations are generally satisfied by utilization of internal resources.

The facilities required for the securities margin finance operations are secured by securities of margin clients and the Group. The interest effect on the proceeds received from share offer has been insignificant.

## USE OF PROCEEDS FROM INITIAL PUBLIC OFFER

Pursuant to the successful listing of the Company's shares on the Stock Exchange in September 2000, the proceeds after deducting the listing related expenses of approximately HK\$53,869,000 raised from the issue of 52,500,000 new shares of HK\$0.10 per share at a price of HK\$1.20 per new share has been applied as follows:

|  | Intended<br>Purpose<br>HK\$'000 | Actual<br>Application<br>HK\$'000 | Unutilized<br>Proceeds<br>HK\$'000 |
|--|---------------------------------|-----------------------------------|------------------------------------|
| 1. Expansion of the sales team and promotion   | 1,500                           | 304                               | 1,196                              |
| 2. Setting up of additional branch offices   | 9,000                           | —                                 | 9,000                              |
| 3. Expansion of securities margin financing business   | 10,000                          | 10,000                            | —                                  |
| 4. Development, promotion and operation of<br>online securities trading business and other<br>value-added services | 16,500                          | 16,500                            | —                                  |
| 5. General working capital of the Group  | 16,869                          | 16,869                            | —                                  |
| Total  | <u>53,869</u>                   | <u>43,673</u>                     | <u>10,196</u>                      |

The balance of the net unutilized proceeds as at 31 March 2002 of approximately HK\$10,196,000 was placed on Hong Kong dollars short-term deposits with local financial institutions and will be used for the expansion of the Group's margin financing business, investment in technology-related areas and development of the Group's corporate finance business.

As mentioned in our prospectus, part of the net proceeds from the share offer would be used for the expansion of branch network. The Group will continue to evaluate the feasibility of setting up more new branch offices upon cautious review of market condition and improvement of sentiment. During the year, the Group has consolidated two of its branch offices in Kwun Tong to improve the operating efficiency.

Application of the Proceeds will be disclosed in the Company's accounts for the year ending 31st March, 2002 and in subsequent years until it has been substantially applied.

## HUMAN RESOURCES

The Group attempted to expand its sales workforce so as to increase its retail market share. As at 31 March 2002, the Group has approximately 106 employees (2001: 79). Remuneration packages for its employees are based on industry practice and performance of individual employees. The Group also adopts a share option scheme for its staff of senior level. None of the grantees exercised their options under the scheme during the year.

The Group will continue to emphasize on staff training and total quality management to better prepare its staff for the upcoming changes and challenges in the market and industry.

## PROSPECTS

Notwithstanding the US economic recession, the enduring and flourishing development in Mainland China have created a new economic horizon in the Far East. Indeed, the vibrant evolution of the China economy and the remarkable business opportunities generated from China's triumphant admission to the World Trade Organization has produced a boost of sentiment for the region. The aggressive regulatory reform China's triumphant accession into the World Trade Organisation will continue to attract both local and foreign market practitioners to tap into the advantages offered by the brightening prospect. Leveraged on Hong Kong's well-established status as an international financial center, we believe Hong Kong companies are among the first movers to benefit from the collaboration of the two economic structures. With China's long-term economic growth target being set at a Compound Annual Growth Rate of 7-8% for the next decade, we anticipate more foreign enterprises from different industries will seek to float or raise funds in both Hong Kong and Mainland China, which will further boost the growth of financial strength of the region. Looking ahead, we expect the gradual deregulations and opening up of the financial market will continue to attract liquidity. With the liberalization on various arenas of the financial market in Mainland China in the near future, the way is well paved for more cooperation and synergy between Hong Kong and its Mainland counterparts. We expect the imminent approval for the issuance of China Depository Receipts ("CDR") by selected Hong Kong-listed red-chips companies and permission granted to qualified domestic and foreign institutional investors in China to invest in the Hong Kong market ("QDII", "QFII") will further strengthen Hong Kong's position as a leading fund-raising venue in the Greater China Region.

We are confident that the investment sentiment in the stock market will pick up in the near future and will strive our objective to consolidate our base in Hong Kong while extending our network in the Greater China Region extend our foothold throughout Asia. Leveraging on our significantly stronger foundation, we are well prepared to take full advantage of the potential enormous inflow of funds and will maintain our focus to enhance efficiency via stringent cost control measures to preserve financial strength amidst the challenging market conditions. The Group will devote its attention to the expansion of a highly motivated and sales-oriented sales force to explore innovative products and enhance quality of service. To capture the opportunities created by the increasingly sophisticated demand from our clients, we will commit to develop the market for personal financial and wealth management services. In view of the intense market competition, we will seek to increase our immunity against the adverse effect via adoption of a prudent but progressive development strategy in maintaining high standard via technology innovation and quality service. We believe our commitment to provide high quality and efficient services to our clients can reinforce our market position as one of the most reputable market participants in the industry.